

# NHS Borders

2017/18 Annual Audit Report



 AUDIT SCOTLAND

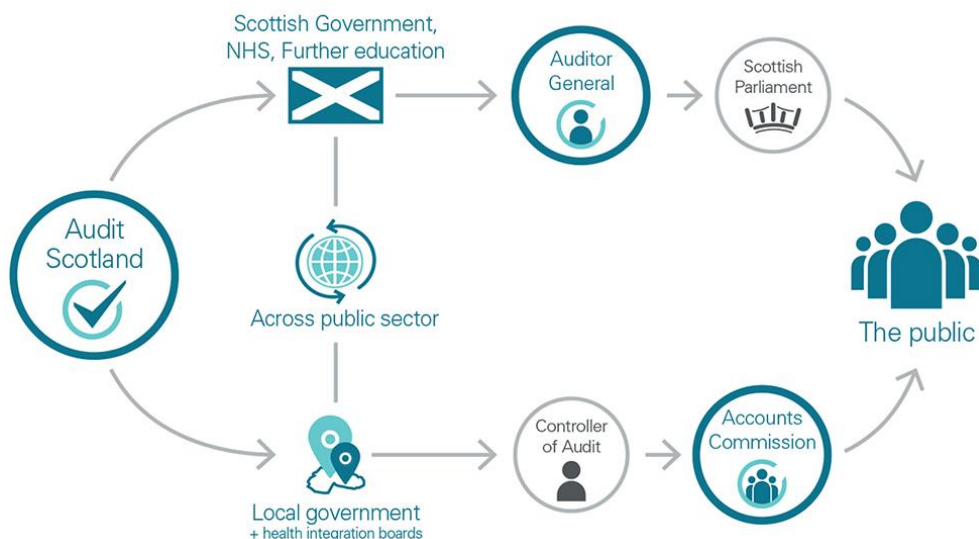
Prepared for the Board of NHS Borders and the Auditor General for Scotland

14 June 2018

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2017/18 annual report and accounts

- 1 In our opinion: NHS Border's financial statements give a true and fair view and were properly prepared; expenditure and income was in accordance with applicable enactments and guidance; and the audited part of the remuneration and staff report, performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the accounts direction.

## Financial management

- 2 NHS Borders did well to achieve its key financial targets for 2017/18 and achieved a small underspend of £41,000 against its Revenue Resource Limit of £223.9 million.
- 3 NHS Borders had adequate systems of internal control in place during the year and these were appropriate and operated satisfactorily.

## Financial sustainability

- 4 NHS Borders' financial sustainability remains a high risk, with the board failing to achieve its full savings target in 2017/18 (shortfall of £7.4 million).
- 5 While the board achieved financial balance in 2017/18 it is facing an extremely challenging position in future. The board's 2018/19 Financial Plan does not demonstrate a break-even position. It sets out that £24.8 million savings will be required, but only £11.6 million of savings are identified to date.
- 6 NHS Borders has made a number of key permanent appointments which has helped to reduce its expenditure on agency staff by £2.2 million in 2017/18. However, the board has seen sickness absence rates rise in recent years and more could be done to improve attendance.

## Governance and transparency

- 7 NHS Borders has appropriate governance arrangements in place that support scrutiny of decisions made by the board. NHS Borders is open and transparent in the way it conducts its business.

## Value for money

- 8 NHS Borders has a performance management framework in place which aims to support continuous improvement. However, the board is reporting variable performance levels against the Local Delivery Plan (LDP) standards and its key performance indicators.

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# Introduction

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1. This report summarises the findings from our 2017/18 audit of Borders Health Board, commonly known as NHS Borders.

2. The scope of our audit was set out in our Annual Audit Plan presented to the 11 December 2017 meeting of the Audit Committee. This report comprises the findings from our:

- audit of the board's annual report and accounts
- consideration of the wider dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1

### Audit dimensions



Source: *Code of Audit Practice 2016*

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3. The main elements of our audit work in 2017/18 have been:

- a review the board's main financial systems
- an audit of the board's 2017/18 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- consideration of the four audit dimensions.

4. NHS Borders has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. The board's annual report and accounts includes the following:

- Performance Report
- Accountability Report (which includes the Directors' Report, Governance Statement and Remuneration and Staff Report)
- Financial statements and supporting notes.

**5.** The board is also responsible for compliance with legislation, putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

**6.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and [the Code of Audit Practice \(2016\)](#), and guided by the auditing profession's ethical guidance.

**7.** As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the board's performance management arrangements, suitability and effectiveness of corporate governance arrangements, financial position and arrangements for securing financial sustainability. In doing this, we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

**8.** This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**9.** Our report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

**10.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £122,790, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

## **Adding value through the audit**

**11.** Our aim is to add value to NHS Borders by providing insight and foresight on financial sustainability, risk and performance and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

**12.** This report is addressed to the board and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**13.** We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2017/18 annual report and accounts



### Main judgements

**NHS Border's financial statements give a true and fair view and were properly prepared.**

**Expenditure and income were in accordance with applicable enactments and guidance.**

**The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.**

### Audit opinions on the annual report and accounts

**14.** The annual report and accounts for the year ended 31 March 2018 are due to be approved by the board on 28 June 2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

The board's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

### Submission of annual report and accounts for audit

**15.** We received the full unaudited annual report and accounts on 7 May 2018, in line with our agreed timetable. The board's group accounts included the financial results of the Endowment Fund and Borders Integration Joint Board (IJB) as required. However, the first draft of the accounts contained several presentational errors, which were amended for the final version. We would recommend a full management review of the draft accounts to be completed prior to submission for audit next year.

**16.** The working papers provided were of a much improved standard as a result of the focused efforts of the Annual Accounts Sub Group. Finance staff provided good support to the audit team which helped ensure the audit process ran smoothly.

### Risks of material misstatement

**17.** [Appendix 2](#) provides a description of areas we assessed as being at risk of material misstatement at the planning stage, how we addressed them and our conclusions thereon. These risks influenced our overall audit strategy, the

allocation of staff resources to the audit and how the efforts of the audit team were directed. Also included within the appendix are wider dimension risks.

## Materiality

**18.** Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**19.** Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual report and accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

**20.** On receipt of the annual report and accounts we reviewed our planning materiality calculations. We concluded that our underlying assessment of risk remained the same. Some minor adjustments to the materiality levels were required, to base materiality on the 2017/18 final outturn.

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## Exhibit 2

### Materiality values

Materiality level	Amount
Overall materiality	£2.4 million
Performance materiality	£1.2 million
Reporting threshold	£36,000

Source: Audit Scotland

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## How we evaluate misstatements

**21.** There were some adjustments to the unaudited financial statements arising from our audit. These adjusted misstatements are set out in [Appendix 3a](#). All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements. For completeness, we have also listed two unadjusted misstatements relating to provisions in [Appendix 3b](#) although these are not considered material.

**22.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on this lies with those charged with governance, considering advice from senior officers and materiality. Management do not propose to adjust for the misstatements in [Appendix 3b](#) as the amounts are not considered material in the context of the financial statements.

## Significant findings from the audit in accordance with ISA 260

**23.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.





## Qualitative aspects


24. The findings below include our views about significant qualitative aspects of the board's accounting practices as follows:

- |   |   |
|---|---|
| • Accounting policies   | • Accounting estimates and judgements   |
| • Significant financial statements disclosures                | • Timing of transactions and the period in which they are recorded              |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements            |
| • Misstatements in the annual report and accounts             | • Disagreement over any accounting treatment or financial statements disclosure |

## Exhibit 3

### Significant findings from the audit of the financial statements

Finding	Resolution
<p><b>1. VAT debtor</b></p> <p>We found that the VAT recoverable amount disclosed in the draft accounts was £203,000, compared to the year-end VAT return which stated VAT recoverable of £65,000. The difference of £138,000 is irrecoverable from HMRC and this balance should therefore not be included within trade receivables.</p> <p>We also found that, although the board receives advice from Liaison (NHS VAT advisors), there are no regular VAT reconciliations completed throughout the year by the finance team.</p> <p>We concluded that the board's VAT debtor balance is overstated by £138,000. We recommend that the finance team carry out a full review of their VAT account in 2018/19 and carry out monthly reconciliations to ensure VAT is accurately accounted for in their ledger system.</p>	<p>Management agree that the board's VAT debtor had been overstated by £138,000 and have corrected for this in the final version of the accounts. This is reflected in the adjusted misstatements schedule in <a href="#">Appendix 3a</a>.</p> <p>The finance team have also agreed to review their VAT account in 2018/19 and implement monthly reconciliations going forward.</p> <p> <a href="#">Recommendation 1 (refer appendix 1, action plan)</a></p>
<p><b>2. Provisions</b></p> <p>Our audit focused on a detailed review of provisions this year, as this is an area subject to estimation and judgement.</p> <p>We found some misstatements and/or inconsistencies in the provisions calculations as follows.</p> <ul style="list-style-type: none"> <li>• Clinical and medical negligence provision: Two claims amounting to £200,000, as advised by the Central Legal Office, were omitted from the draft accounts. These were subsequently added to the revised provisions in the final version of the accounts.</li> <li>• Pensions provision: An inconsistent approach was used for calculating various elements of this pensions provision. This specifically related to the life expectancy tables used in the calculations. Our re-performance of the calculations using the life tables and amended adjustments shows that the provision was overstated by £25,000.</li> </ul>	<p>Management have agreed to carry out a full review of their provisions workings in 2018/19.</p> <p><a href="#">Appendix 3a</a> sets out the adjusted misstatement of £200,000 for the understated clinical and medical negligence provision. Management have decided that the points raised on the pensions provision are not material and therefore these are recorded as unadjusted misstatements in <a href="#">Appendix 3b</a>.</p> <p> <a href="#">Recommendation 2 (refer appendix 1, action plan)</a></p>

Finding	Resolution
<ul style="list-style-type: none"> <li>Pensions provision (personal injury): Our review of the underlying calculations found three life expectancies which were incorrectly calculated and two calculations applied the wrong percentage for adjustments. This results in a cumulative overstatement of £19,000.</li> </ul> <p>We recommend that the finance team carry out a full review of their provisions workings in 2018/19. We would advise that a consistent approach is taken to calculating each provision category, to ensure the board's liabilities are accurately estimated and reflected in the financial statements.</p>	
<h3>3. Stock</h3> <p>Our review of the year-end stock balances in the financial statements found:</p> <ul style="list-style-type: none"> <li>The theatres stock balances did not include fast-moving stock amounting to £74,000. There is no requirement per <i>IAS 2 Inventories</i> or NHS guidance which sets out these deductions to stock are necessary. We therefore concluded that stock is understated by £74,000.</li> <li>A stock provision of £30,000 has been historically applied to account for potential obsolete stock. While we agree that a stock provision is reasonable, management were unable to provide a clear rationale for how this stock provision had been estimated.</li> </ul> <p>We attended the theatres stock count at Borders General Hospital and noted the following:</p> <ul style="list-style-type: none"> <li>Stock is not marked when counted which presents a risk that not all stock is fully included in the stock take. Best practice (per the NHS Borders stock take procedures) is to use coloured markers to stick on trays when counted. This provides additional assurance that all items have been counted at the end of the day.</li> <li>The procedures have been revised in 2018 based on our prior year recommendations. However, they are still dated April 2007, do not state when they are due to be revised or who has approved the procedures. In addition, the procedures do not provide counters with any details of the valuation method to use or any stock items to be excluded.</li> </ul>	<p>Management agreed that £74,000 of fast moving stock should be included in the stock balance. Therefore, this was adjusted for in the final version of the accounts, as set out the adjusted misstatements schedule in <a href="#">Appendix 3a</a>.</p> <p>The finance team have agreed to review the stock provision in 2018/19 applied to the year-end stock balance.</p> <p>Management have agreed that the stock take procedures will be revised further in 2018/19.</p> <p> <a href="#">Recommendation 3 (refer appendix 1, action plan)</a></p>
<h3>4. Capital retentions</h3> <p>We found a year-end accounting adjustment of £64,000 relating to capital retentions. Management have advised that, on review of the board's outstanding retentions, there is no longer a liability to make these payments in 2018/19.</p> <p>We therefore concluded that accruals had been overstated by £64,000.</p>	<p>Management agreed to process an adjustment for £64,000 in the final version of the accounts. This is set out in the adjusted misstatements schedule in <a href="#">Appendix 3a</a>.</p> <p>No further action required.</p>

## Other findings

**25.** We also discussed with management the accounting treatment of deferred income relating to two projects, which total £78,000:

- Modern Outpatient Programme: A Collaborative Approach: 2017-20 (£32,000)
- Veterans First Point: Borders – Future Offer 2018-20 (£46,000)

**26.** In both cases, invoices were raised in 2017/18 but the income deferred into the 2018/19 financial year, as the projects had slipped and no expenditure incurred in 2017/18. This is in accordance with the NHS Accounts Manual<sup>1</sup> which states *'where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred'*.

**27.** As these cases related to income for specific activities we considered it appropriate to defer these amounts into 2018/19 to match expenditure. We concluded that no further action is necessary for these transactions.

## Good practice in financial reporting

**28.** The NHS Borders annual report and accounts reflect an area of good practice as set out in Audit Scotland's good practice note titled *'Improving the quality of NHS annual reports and accounts – reporting financial performance'* issued in November 2017. This relates to the summary included in the Performance Report which provides the reader with a clear overview of the board's financial outturn in 2017/18 in relation to its key financial targets.

## Follow up of prior year recommendations

**29.** We have followed up actions previously reported and assessed progress with implementation. These are reported in [Appendix 1](#) and identified by the prefix 'b/f' (brought forward).

**30.** In total, 11 agreed actions were raised in 2016/17. Of these:

- 4 have been fully implemented
- 2 have been superseded by recommendations raised this year
- 2 have been partly actioned
- 3 points remain outstanding.

**31.** The board has made progress in implementing these actions. For those actions not yet fully implemented, revised responses and timescales have been agreed with management in [Appendix 1](#).

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<sup>1</sup> 2017-18 Manual for the Annual Report and Accounts of NHS Boards, issued by the Scottish Government Health and Social Care Directorates, March 2018.

# Part 2

## Financial management



### Main judgements

**NHS Borders' financial sustainability remains a high risk, with the board failing to achieve its full savings target in 2017/18.**

**NHS Borders has adequate systems of internal control in place during the year and these were appropriate and operated satisfactorily.**

### Financial performance in 2017/18

**32.** NHS Borders, as required by statute, must work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD) annually. As illustrated in [Exhibit 4](#), the board operated within all limits during 2017/18.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

### Exhibit 4

Performance against resource limits in 2017/18

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	223.926	223.885	0.041
Non-core revenue resource limit	7.972	7.972	0
<b>Total revenue resource limit</b>	<b>231.898</b>	<b>231.857</b>	<b>0.041</b>
Core capital resource limit	5.859	5.852	0.07
Non-core capital resource limit	0	0	0
<b>Total capital resource limit</b>	<b>5.859</b>	<b>5.852</b>	<b>0.07</b>
<b>Cash requirement</b>	<b>242.857</b>	<b>242.857</b>	<b>0</b>

Source: NHS Borders Annual Report and Accounts 2017/18

### Revenue position

**33.** NHS Borders achieved a small underspend of £41,000 (0.02%) against its 2017/18 core revenue resource limit (RRL) of £223.9 million. This was achieved despite considerable cost pressures and reflects the Board's focus on tight financial management.

**34.** However, the financial pressures the Board faces continue to grow. The recurring financial stability of the organisation is a cause for concern. The achievement of financial targets in 2017/18 were again as a result of a number of non-recurring measures as follows.

- A transfer (as agreed with the Scottish Government) of £2.1 million was made from the Board's Capital Resource Limit (CRL) to its RRL. This original capital allocation was for theatre ventilation works at Borders General Hospital. These works have now been postponed for two years to support the board's revenue budget.
- Additional funding of £1 million was directed to the board from the Borders IJB. The funding allocated was over the full year to support the use of surge bed capacity.
- Utilisation of contingency funding.

**35.** These short-term measures are unsustainable. In future, the Board will find it extremely challenging to maintain financial balance and there is a real risk that it will not achieve its financial targets in 2018/19. Senior management continue to discuss the board's financial position with the Scottish Government, as the board's 2018/19 Financial Plan<sup>2</sup> does not present a balanced, break-even position. The financial sustainability of the Board is discussed further in the next section of this report.

## Cost Pressures

**36.** The main cost pressures in 2017/18 (as identified in the NHS Borders Financial Performance Returns issued throughout the financial year) were as follows.

- Prescribing costs and drug costs in acute services. Pressures are due to unmet savings targets and lower than anticipated delivery of savings on drugs. This continues to be an area of risk due to the volatility of drug prices, the time-lag in the availability of information and the challenges associated with delivering efficiencies.
- The continuing requirement for surge beds to support delayed discharges is impacting adversely on nursing and medical costs.
- Staffing gaps as well as patient acuity continue to have an adverse impact on pay budgets. The overspend trend in nursing budgets increased at year-end due to the impact of increased hospital activity and high sickness recorded.
- External Healthcare Providers budget pressures, particularly due to pressures seen in Unplanned Activity and Extra Contractual Referrals.

## Capital position

**37.** NHS Borders received a total capital allocation of £5.859m in 2017/18. This was a revised allocation after the transfer of £2.1 million from CRL to RRL budgets as noted above. The revised allocation was almost fully utilised with only a small underspend of £7,000 reported in the financial statements. The Board has prioritised its capital investment for its IM&T Road to Digital Programme this year, with expenditure of £3m allocated for this programme. Other areas of capital expenditure were the completion of the Roxburgh Street Replacement Surgery in Galashiels, as well expansion works at Eyemouth and Knoll Health Centres.

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<sup>2</sup> NHS Borders - 2018/19 Financial Plan, presented by the Director of Finance, Procurement, Estates and Facilities to the Board on 5 April 2018.

## Efficiency savings

**38.** NHS Borders was required to make efficiency savings in 2017/18 of £15.7 million (£12.9 million recurring and £2.8 million non-recurring). Savings of this magnitude are unprecedented. The board did not achieve this target, delivering £8.3 million of savings. This shortfall of £7.4 million included £4.9 million of savings brought forward from the prior year which remain undelivered, cost pressures in prescribing and limited savings achieved to date from the Borders Transformation Programme.

**39.** The 2018/19 Financial Plan does not demonstrate a break-even position. It sets out that £24.8 million savings will be required, but only £11.6 million of savings are identified to date.

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### Recommendation 4

**The Board's efficiency programme will be crucial to achieving the challenging financial targets in 2018/19. The finance department should continue to work closely with budget holders to attempt to identify savings, and work closely with the SGHSCD to identify a suitable course of action.**

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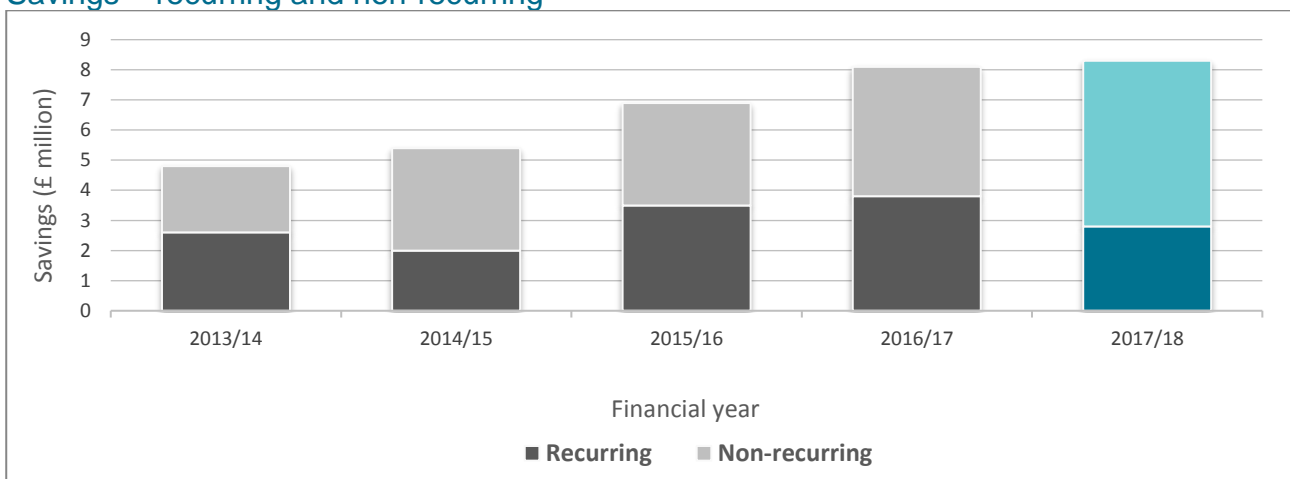
**40.** In 2017/18, there has been a significant reliance on one off or non-recurring savings, with £5.5 million (66%) relating to non-recurring items, and only £2.8 million (34%) of savings achieved on a recurring basis. Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

**41.** As illustrated in [Exhibit 5](#), NHS Borders has been increasingly reliant on non-recurrent savings in recent years. In our opinion, this situation is not sustainable in the longer term.

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## Exhibit 5

### Savings – recurring and non-recurring



Source: Borders Health Board Annual Report and Accounts 2013/14 to 2017/18

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## Budgetary processes

**42.** We reviewed NHS Border's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of board and committee papers and attendance at committees we observed that senior management and members receive regular, timely and up to date financial information on the board's financial position.

**43.** We have also placed assurance on internal audit work in this area, with the PwC report titled '*Budget Management and Financial Reporting*'<sup>3</sup> concluding this a low risk area.

**44.** We have therefore concluded that NHS Borders has appropriate budget monitoring and control arrangements that allow both members and officers to carry out appropriate scrutiny of the board's finances.

## Systems of internal control

**45.** As part of our audit we identify and inspect the key internal controls in the accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that NHS Borders has sound systems of recording and processing transactions which provide the basis for the preparation of the financial statements.

**46.** Our findings were included in a Management Report presented to the Audit Committee on 21 March 2018. We concluded, subject to management addressing the points raised in the report's action plan, that NHS Borders:

- has adequate systems for recording and processing transactions to ensure financial statements are appropriately prepared
- has systems of internal control which provide sufficient means of preventing and detecting material misstatement, error, fraud or corruption
- complies with established policies, procedures, laws and regulation.

## Financial capacity

**47.** The board's finance team is based in Newstead. A small number of senior officers are key to the production of the annual report and accounts. Each year we assess the financial capacity of the board. We conclude that there are suitably qualified and experienced officers leading the board's finance team, with sufficient financial skills to manage the board's day to day resources, and to produce the annual report and accounts in accordance with the accounting framework.

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<sup>3</sup> *Internal Audit Report 2017/18, Budget Management and Financial Reporting*. PwC, published December 2017

# Part 3

## Financial sustainability



### Main judgements

**The board faces significant challenge to achieve efficiency savings in future years.**

**In the medium to longer term there is considerable uncertainty on the board's financial position due to EU withdrawal and the impact of New Financial Powers on budgets.**

**The board has managed to reduce its overall expenditure on temporary staff in 2017/18, but is still facing pressures regarding use of agency nurses.**

**The board has experienced an increased rate of sickness absence this year, which requires to be monitored and addressed by management.**

### Financial planning

**48.** NHS Borders' Local Delivery Plan (LDP) for 2017/18 sets out how the board's financial, workforce and services plans implement its strategic priorities. The LDP was submitted to the Scottish Government in line with required timescales on 3 April 2017.

**49.** The board have since prepared a 2018/19 Financial Plan in April 2018 which provides a detailed plan for 2018/19, and then indicative forecasts for financial years 2019/20 and 2020/21.

**50.** From 2018/19 the Board has a recurring deficit of £17.6 million which is forecast to increase year on year unless this is recurrently met through efficiency savings. The plan also recognises the significant cost pressures facing the board, which include staff pay costs, prescribing costs and IJB pressures.

**51.** There are significant funding pressures over the duration of the plan. The basic funding uplift for 2018/19 is £3 million (1.5%). The board anticipates that further funding will be allocated to meet the cost of the 2018/19 pay award for Agenda for Change Staff if agreed above 1%. However, this additional uplift has not yet been confirmed. It should be noted that across NHS Scotland, boards which are currently below the NHS Scotland Resource Allocation Committee (NRAC) parity levels will receive an additional allocation. However, NHS Borders will not benefit from this as the board remains above parity. In each subsequent year in the financial plan the funding uplift is assumed to be a flat rate of 1.5%.

### Medium to long term efficiency savings

**52.** NHS Borders is required to achieve efficiency savings of 11% of their baseline budget of £229.1 million in 2018/19. This is equivalent to a saving of £24.8 million with the majority (81%) on a recurring basis. This is a significant challenge for the board given that £13.2 million of savings have yet to be identified for 2018/19.

Financial sustainability looks forward to the medium and long term to consider whether the board is planning effectively to continue to deliver its services or the way in which they should be delivered.



53. In each subsequent year of the plan NHS Borders is required to achieve further efficiency savings as illustrated in [Exhibit 6](#). Most of the savings required in 2019/20 and beyond have yet to be identified. In recent years the board has not achieved its total savings targets. In our opinion, the board will struggle to achieve its saving targets in future years with many of the 'easier' savings already made.

## Exhibit 6

### Savings forecast 2018/19 to 2020/21

	2018/19 £m	2019/20 £m	2020/21 £m
Recurring	20.168	*	*
Non-recurring	4.609	*	*
<b>Total</b>	<b>24.777</b>	<b>23.400</b>	<b>27.400</b>

Source: NHS Borders – 2018/19 Financial Plan. \* denotes savings still to be identified

54. The savings identified for 2019/20 and 2020/21 are indicative at this stage, with these levels of savings based on the assumption that the underlying recurring deficit carried forward from 2018/19 remains unresolved. These significant savings challenges are reflected in recommendation 4 in [Appendix 1](#).

## New Financial Powers

55. Proposals have been made to amend the Scottish Budget process likely to be introduced for the 2019/20 budget. As the Scottish Government provides NHS Borders with nearly all its annual funding it is dependent on the outcome of these proposals and has little scope to increase its funding from other means.

56. Overall, we concluded that the board is facing an extremely difficult situation in the short term. Rising costs, ending the public sector pay cap combined with small increases in funding and dependency on efficiency savings will make it difficult to achieve financial balance.

## Workforce planning

57. In July 2017 the Auditor General for Scotland published a data briefing on Scotland's NHS Workforce Planning. This report was presented by members of Audit Scotland's Performance Audit & Best Value group at an extraordinary Audit Committee in January 2018, to discuss issues which were pertinent to NHS Borders. The report highlighted that NHS staff numbers are at their highest ever level, but there are key issues relating to the workforce. These include an ageing workforce, vacancy rates, increased spending on agency staff and sickness absence levels.

58. NHS Borders is facing a number of workforce challenges. The Workforce Plan for 2016-2019 outlines actions to progress the workforce priorities, which include:

- 20% of the workforce is aged over 55, which is most apparent in Nursing & Midwifery
- recruitment challenges for Registered Nurses
- expected impact of EU withdrawal (i.e. Brexit), particularly for Medical and Dental staff

- recruitment and retention strategy for Medical staff.

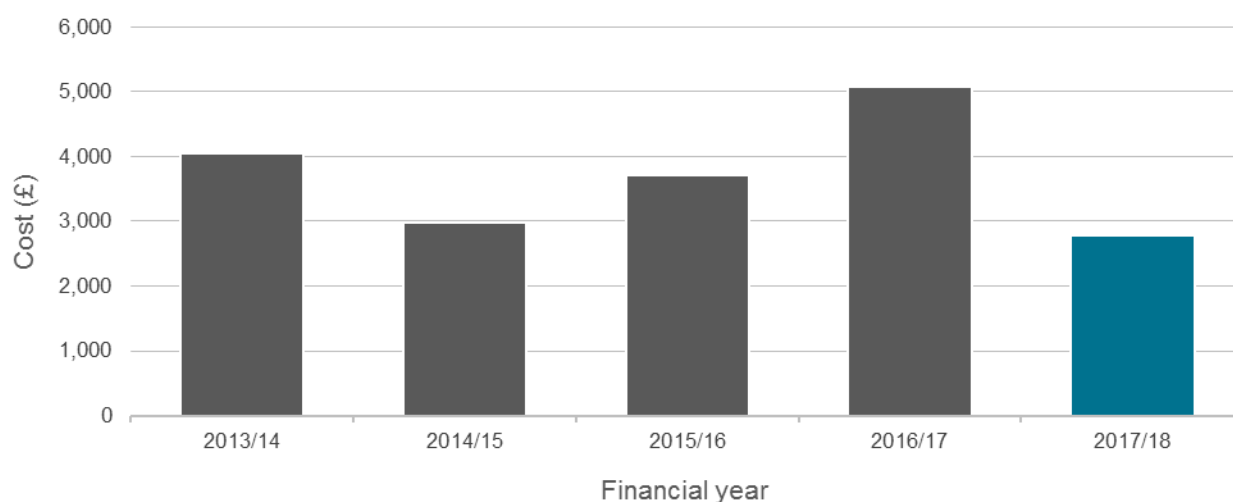
**59.** NHS Borders, like many other health boards, are facing challenges in recruiting and retaining staff. The latest NHS Scotland Workforce statistics<sup>4</sup> (reporting as at 31 March 2018) note the following vacancy rates for NHS Borders:

- Nursing & midwifery staff: NHS Borders vacancy rates at 4.9% (compared to the overall national rate of 4.5%). NHS Borders rank the 6<sup>th</sup> highest vacancy rate out of the 18 territorial and specialist health boards measured.
- Medical consultants: NHS Borders consultant vacancy rates at 3.2% (compared to the overall national rate of 7.5%). NHS Borders rank the 2<sup>nd</sup> lowest vacancy rate out of the 16 territorial and specialist boards measured. This favourable rate is reflected in the reduction on medical agency costs highlighted below.

**60.** As a result of recruitment and retention problems and pressures to meet waiting time targets, the board has supplemented its workforce by using temporary staff in recent years. The trend in expenditure on temporary staff is illustrated in [Exhibit 7](#). This shows that the board has taken effective action to recruit key permanent posts. This has reduced its use of temporary staff in 2017/18 (total temporary staff costs £2.8 million) with costs decreasing by £2.2 million since last year. This decrease is mainly attributable to a reduction in medical agency staff. This is due to actions taken to fill key vacancies (particularly in medical consultant posts), increased use of NHS locums instead of external agencies, and ongoing work to improve the staff rota system used at Borders General Hospital.

## Exhibit 7

### Temporary staff costs



Source: Borders Health Board Annual Report and Accounts 2013/14 to 2017/18

**61.** Cost pressures in 2017/18 are partly due to the continued need for agency nurses to cover for rota gaps and sickness absence, with agency nurse spend £1.2 million in 2017/18 (2016/17: £1.0 million). Medical agency spend in 2017/18 was £1.0 million (2016/17: £3.2 million). The use of temporary staff is putting pressure on the board's budget and does not always represent value for money.

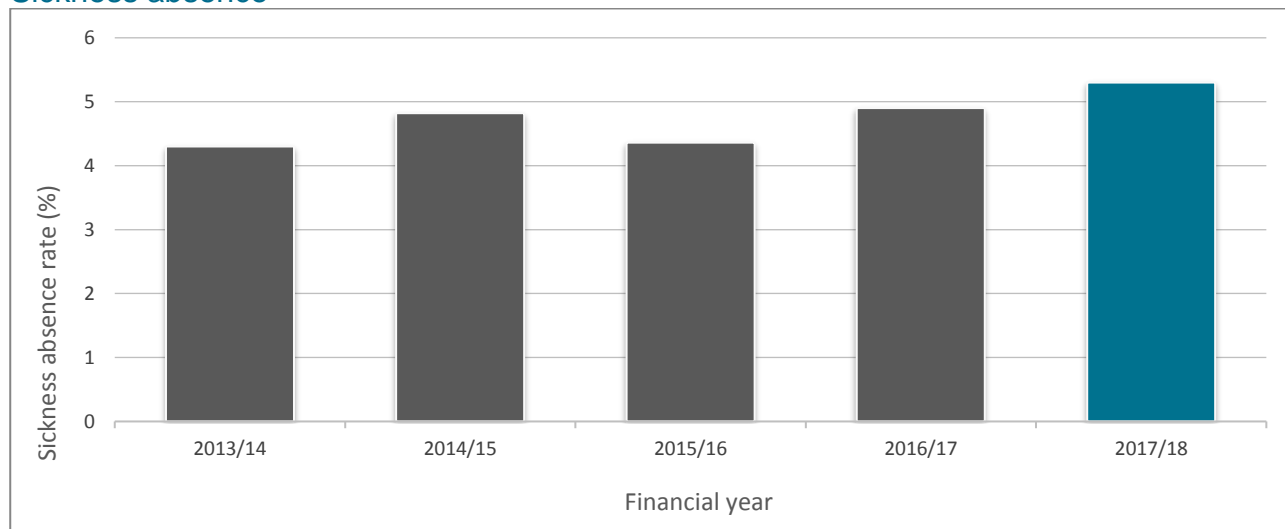
**62.** NHS Borders, like other NHS boards, is continuing to find it difficult to achieve the national performance standard of 4% sickness absence. NHS Borders reported

<sup>4</sup> NHS Scotland Workforce latest statistics as at 31 March 2018, Information Services Division, published June 2018

an absence rate of 5.3% in 2017/18, with the trend in prior years shown in [Exhibit 8](#) below.

## Exhibit 8

### Sickness absence



Source: Borders Health Board Annual Report and Accounts 2013/14 to 2017/18

**63.** The board set up a Sickness Absence Working Group in 2016/17 to monitor sickness rates and drive actions to improve attendance and returns to work. However, the Working Group last met in December 2017 and the action tracker has not been updated since early 2017.

### Recommendation 5

**We recommend the Sickness Absence Working Group meets more frequently and liaises with management to take appropriate action to improve attendance. There is a risk the board will continue to face increased sickness absence rates, pressures on staff rotas and poor staff wellbeing if management are not acting to address underlying issues.**

### Ending of public sector pay cap

**64.** Looking ahead, the board will also need to consider the impact of the end of the public sector pay cap. In summary, the Scottish Government Draft Budget 2018/19<sup>5</sup> set out the following in relation to public sector pay; the Budget has:

- removed the one per cent public sector pay cap and provided for a three per cent pay rise for NHS staff, police, teachers and others earning up to £36,500
- capped the pay bill at two per cent for all those earning more than £36,500; and
- limited the maximum pay uplift for those earning over £80,000 to £1,600.

**65.** As previously mentioned the board anticipates that further funding will be allocated to meet the cost of the 2018/19 pay award for Agenda for Change Staff if agreed above 1%, but this has still to be confirmed. The board's Financial Plan

<sup>5</sup> Scottish Budget: Draft Budget 2018-19, Scottish Government, published December 2017

2018/19 identifies pay budgets as a cost pressure in the next three years, with pay awards each financial year assumed to be an average of 2.5%. These pay cost pressures will make it more challenging for the board to maintain financial balance in the coming years.

## EU withdrawal

**66.** There remains significant uncertainty about the detailed implications of Brexit. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

**67.** The board has acknowledged that there is a great deal of uncertainty around Brexit and this makes it difficult to quantify the impact or outline the actions that need to be taken.

**68.** Several key themes have been identified and agreed by the NHS Directors of Finance as a whole. These include: workforce and staffing issues if staff need to leave or cannot be recruited from outside the UK; the price impact on medicine if health boards lose out on European procurement benefits; and the impact if expats decide to return to the UK which could have a disproportionate increase in demand as they tend to be older people who are more reliant on the NHS. In common with other public sector organisations, NHS Borders is aware of these issues, the uncertainties surrounding them means that there are no fixed plans in place or direct costs known at this stage.

# Part 4

## Governance and transparency



### Main judgements

**NHS Borders has appropriate governance arrangements in place that support scrutiny of decisions made by the board.**

**NHS Borders is open and transparent in the way it conducts its business.**

### Governance arrangements

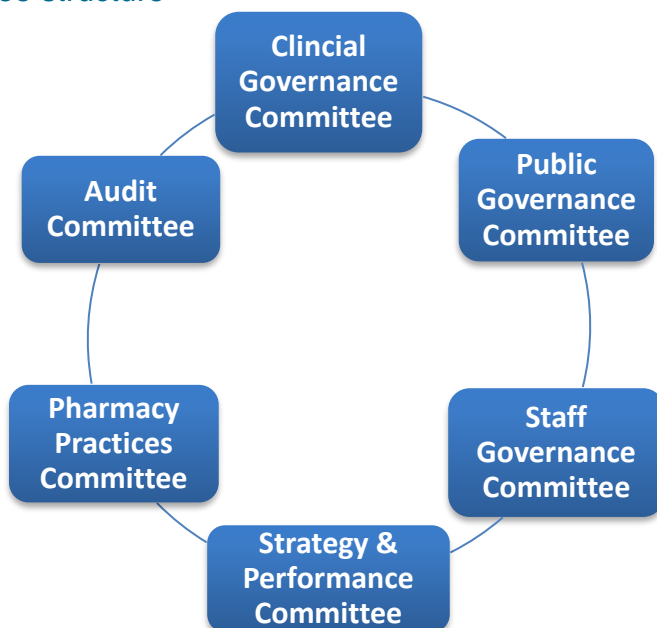
**69.** The board is a single legal entity, accountable to the Scottish Government Health Department and to Scottish Ministers for the functions and performance of NHS Borders. The overall purpose of the board is to review and ensure that efficient, effective and accountable governance arrangements are in place, and to provide strategic leadership and direction. The board also works in partnership with the Scottish Borders Health and Social Integration Joint Board and Scottish Borders Council to deliver the Strategic Commissioning Plan and associated outcomes.

**70.** The board is supported in this role by several standing committees which are directly accountable to it. These are:

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

### Exhibit 9

#### Committee structure



**71.** From our attendance at committees, we observed that papers are well prepared in advance of meetings. During meetings, sufficient time is provided for members to scrutinise papers and discuss matters with officers. Members are well-prepared and ask appropriate questions. We found that Audit Committee members provide effective scrutiny and challenge to officers.

**72.** We conclude that appropriate arrangements are in place at NHS Borders, which support good governance and accountability, and effective scrutiny of performance.

### Board membership and training

**73.** We reported in our 2017/18 Annual Audit Plan that the leadership of the board has seen considerable change during the 2017 calendar year, most notably a new Medical Director (since February 2017), new Director of Nursing & Midwifery (since May 2017) and three new Non-Executive members have joined the board since the summer of 2017. In addition, the Audit Committee Chairperson recently finished his term of appointment in March 2018. Effective leadership of the board will be crucial in the coming years, as the board continues to face significant financial challenges, while continuing to provide efficient and effective patient care.

**74.** Given the financial and performance pressures facing the health board, the board non-executive members may wish to consider their training and development requirements as part of the board's ongoing self-assessment process, to ensure they continue to provide robust challenge and scrutiny. This recommendation is included in [Appendix 1](#).

### Transparency

**75.** Transparency means that the public and local residents have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

**76.** There is evidence from several sources which demonstrate the board's commitment to transparency including the annual accountability review, where members of the public can attend. In addition, board meetings are open to the public.

**77.** Other examples of transparency and engagement with the public include the use of Care Opinion (online feedback service discussed in further detail below), dealing with Freedom of Information requests and the board's new Complaints Handling Procedure which was implemented in April 2017.

**78.** In terms of complaints handling, the board received 248 complaints between 1 April 2017 to 31 January 2018. This was 90 more complaints than the same period last year. The board's average response time to 'Stage 1' complaints in 2017/18 was 3 days (against a 5-day target), and 16 days (against a 20-day target) to respond to 'Stage 2 non-escalated' complaints<sup>6</sup>.

**79.** Overall, we concluded that the board conducts its business in an open and transparent manner.

### Internal audit

**80.** The board's internal audit function is carried out by PricewaterhouseCoopers (PwC). Each year Audit Scotland carries out a review of the adequacy and effectiveness of internal audit and their compliance with Public Sector Internal Audit Standards (PSIAS). Our review concluded that PwC comply with PSIAS and have appropriate procedures in place regarding their methodology and quality arrangements.

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<sup>6</sup> NHS Border Clinical Governance Report, presented at the Board meeting on 5 April 2018

**81.** In 2017/18, we have placed assurance on internal audit's reports for reporting on the wider audit dimensions. This includes their finance related reports on *Budget Management and Financial Reporting* and *Financial Efficiency Savings*. However, as this year's internal audit reports did not directly relate to testing key financial controls, we have not carried out any re-performance of their work, or placed reliance on internal audit work for the purposes of our financial statements audit.

## Governance statement

**82.** Our review of the governance statement assessed the assurances which are provided to the Chief Executive as Accountable Officer regarding the adequacy and effectiveness of the board's system of internal control which operated in the financial year.

**83.** A number of risks are set out in the governance statement. These include issues such as financial sustainability risk, workforce issues, aspects relating to health and social care integration and delayed discharges. The statement also summarises internal audit findings and key reports issued in the year, with the overall conclusion of internal audit's annual report noted as being '*generally satisfactory with some improvements required*'.

**84.** We raised a recommendation last year advising each Executive Director to complete annual assurance statements and internal control checklists as per the Scottish Public Finance Manual (SPFM) guidance, to strengthen the Board's governance procedures. We noted that no action had been taken in 2017/18 to address this point, however the introduction of this improvement will be completed during 2018/19. This action point remains outstanding and is included in [Appendix 1](#).

**85.** Overall, we concluded that the Board has adequate arrangements in place to support good governance and accountability. Board members provide adequate scrutiny and challenge at regular bi-monthly meetings to ensure the Board's performance is effectively reviewed. We are satisfied that the information in the governance statement is consistent with information gathered from our audit work.

## Quality of financial and performance reporting

**86.** A finance report and detailed performance scorecard is presented regularly at board meetings. From our review of board papers and minutes and attendance at these meetings, we confirm that these papers are fully discussed and scrutinised.

**87.** The finance report provides information on the financial performance against budget to date and forecast outturn. Reports are transparent, timely and clear, and support effective scrutiny of the financial management process. We are satisfied that this provides sufficient, but not excessive information, and that figures reported are consistent with the year-end position.

**88.** The performance scorecards presented to the board provides good context for each performance measure, including commentary and graphs to depict the trajectory of the measure. A high-level summary paper is also provided of key issues and highlights where targets are not being achieved.

## National Fraud Initiative

**89.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

**90.** NFI activity is summarised in [Exhibit 10](#). We reviewed the board's progress with investigating matches during our interim audit, and raised a recommendation in our

2017/18 Management Report regarding the need to effectively document work completed on the NFI database in accordance with guidance. The board aimed to investigate all matches in the 2016/17 exercise as follows:

## Exhibit 10

### NFI activity



1,654

Matches



134

Recommended  
for investigation



1,636

Completed/closed  
investigations

Source: NFI secure website: [www.nfi.gov.uk](http://www.nfi.gov.uk)

**91.** This shows that NHS Borders has completed much of its investigation work. Most of the outstanding matches relate to payroll cases where queries remain outstanding with other NHS Scotland boards. The results of NFI activity are regularly reported to the Audit Committee by the Fraud Liaison Officer. No cases of fraud have been found to date in this latest NFI exercise. However, the investigation of creditors matches found several duplicate payments totalling £31,000 which the board are in the process of recovering.

**92.** We conclude that the board is pro-active in investigating matches, but with scope to improve the timeliness and completeness of evidencing investigation work on the NFI database. We would advise the outstanding matches to be completed as soon as possible as these are now overdue. Recording outcomes is performed by one officer and we have previously recommended that for future exercises, additional administrative support could be provided in this area. A revised action point is included in [Appendix 1](#) relating to the NFI exercise.

### Standards of conduct for prevention and detection of fraud and error

**93.** The board has a range of established procedures for preventing and detecting fraud and irregularity, and to maintain standards of conduct. These procedures are captured in the board's Code of Corporate Governance which was most recently reviewed in October 2017 and is reviewed annually. This governance document includes Codes of Conduct for board members and staff, and a Counter Fraud Policy. The board also has a separate policy setting out whistleblowing arrangements available to staff. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

**94.** We concluded that the board has appropriate arrangements in place for the prevention and detection of fraud, bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

### Cyber security

**95.** The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017. This required all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

**96.** NHS Borders have been following this Action Plan, with its Resilience Committee overseeing arrangements. The board carried out the Cyber Essentials pre-assessment in March 2018 as required, and are working with the NCC Group



(cyber security experts) with the aim of being accredited with Cyber Essentials Plus by the end of October 2018.

**97.** We conclude that NHS Borders is actively strengthening its cyber resilience arrangements, as part of its overall IT investment programme (see below).

### IT investment programme

**98.** The board's IT Investment Programme (Road to Digital) commenced in October 2017. During the first 6 months of the programme there was extensive work carried out on the financial, design and delivery plans for the introduction of the new technology. The programme consists of the following key elements:

- a new file cluster with new storage and a new network infrastructure
- a new (Virtual Desktop Infrastructure) VDI Desktop Solution; and
- a second facility to provide resilience to all data, all applications (except Trak & Labs which are being reviewed separately) and all other organisational systems.

**99.** Alongside this new infrastructure, the board will be introducing further layers of security to prevent cyber attacks and are working towards Cyber Essentials Plus accreditation. This IT review and investment takes into consideration the internal audit *Cyber Security Maturity Review*, presented to the Audit Committee in December 2017. As part of the programme, the board are also reviewing Business Continuity and organisational Disaster Recovery.

### General Data Protection Regulation

**100.** The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. All EU member states must implement the Regulation in the same way. GDPR has introduced new and significantly changed data protection concepts.

**101.** GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in the board incurring significant fines.

**102.** We carried out an assessment of the board's progress with implementing GDPR arrangements during our interim audit, with findings noted in our 2017/18 Management Report (published in March 2018). We recommended that the board should quickly progress a GDPR implementation plan and effectively record key assets in its newly developed Information Asset Register (IAR) by the May 2018 deadline.

**103.** Since our assessment in March 2018, a short-life working group has been set up to oversee GDPR activity. A key area of focus continues to be the completion of the new IAR. All departments were requested to record all information assets on the IAR by the end of April 2018. Progress has been slower than anticipated, with 116 assets now added from 15 areas. This will be an area of focus for the working group in the coming months.

**104.** Other key actions in recent weeks are as follows:

- a Privacy Notice has been published on the NHS Borders website
- a new process has been devised to respond to Subject Access Requests within the required timeframe

- the board's Senior Health Information Manager has been designated the Data Protection Officer, who will be supported in this role by the Information Governance team.

**105.** We conclude that the board has made progress with implementing the new GDPR arrangements, but with further work to do to establish a complete and accurate Information Asset Register.

## Health and social care

### Finances

**106.** The Scottish Borders IJB is the health and social care partnership between NHS Borders and the Scottish Borders Council.

**107.** 2017/18 was the second year NHS Borders has been required to consolidate the financial results of the IJB in its annual accounts. NHS Borders delegated services and provided resources for those services during 2017/18 to the IJB. The Board's total contribution to the IJB in 2017/18 was £126.5 million (2016/17: 123.4 million).

**108.** We reported a risk in our Annual Audit Plan regarding the potential for error in processing the required IJB accounting entries and a risk of late submission of the IJB financial results. We are pleased to note the IJB figures were correctly included in the annual accounts.

**109.** In accordance with Scottish Government guidance, NHS Borders calculated the set aside element of their resources to the IJB based on budgeted amounts, rather than actual figures. This was originally planned to be a transitional arrangement for the first year of operation of the IJB, but Scottish Government have extended these arrangements for a second year. NHS Borders have complied with this guidance.

**110.** We conclude that NHS Borders has adequate arrangements to identify all financial transactions that relate to the IJB. There are also good arrangements in place to agree the board's share of the IJB budget and to provide appropriate financial information to enable the IJB to monitor their financial budget.

### Governance

**111.** The IJB has undergone changes to its management team this year. A new IJB Chief Officer was appointed in October 2017, however, the Chief Finance Officer post has remained vacant since October 2017. The IJB Chief Officer continues to work with the Scottish Borders Council Chief Finance Officer and the NHS Borders Director of Finance to recruit a new IJB Chief Finance Officer. While this post remains vacant, a senior finance officer from Scottish Borders Council has been tasked with compiling the IJB accounts for 2017/18.

**112.** The Care Inspectorate and Health Improvement Scotland published a joint inspection of services for older people in the Scottish Borders in September 2017<sup>7</sup>, assessing the services provided by the Scottish Borders Health and Social Care Partnership. The report raised 13 recommendations for the Partnership; including (but not limited to):

- a need for more effective consultation with stakeholders on its vision and service redesign
- improvements required for performance reporting
- the development of its joint approach to early intervention and prevention services, so that it continues to improve the range of services working

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<sup>7</sup> Services for older people in Scottish Borders, Care Inspectorate and Health Improvement Scotland, September 2017

together that support older people to remain at home and help avoid hospital admission

- the need for the Partnership to review its delivery of care at home, care homes and intermediate care services to better support a shift in the balance of care towards more community based support.

**113.** Borders IJB, with support from NHS Borders and the Scottish Borders Council, should continue to ensure appropriate action is taken for each of the recommendations raised in this inspection report.

**114.** It remains difficult to point to any shifts in spending (away from hospital care, toward the community) however limited quality improvements have been reported to the IJB, including the introduction of 'matching units'. The matching unit pathway aims to improve patient journey and experience in accessing health and social care (H&SC) services. A number of H&SC initiatives are ongoing and the reporting of agreed performance measures is necessary to ensure demonstration of benefit.

**115.** Audit Scotland, as part of a series of reports, will be reporting an update on progress of integration joint boards. This report is due to be published in November 2018. We plan to use this report to assess progress being made by Borders IJB.

## 2020 Vision

**116.** In 2011 the Scottish Government set out an ambitious vision for health and social care that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. In August 2015 the Cabinet Secretary for Health, Well-being and Sport opened a national conversation on creating a healthier Scotland which aimed to increase the pace of progress towards the 2020 vision.

**117.** NHS Borders 2017/18 Local Delivery Plan (which from 2018/19 onwards will be an 'Annual Delivery Plan') includes details of the board's Improvement Plan. This was the fourth year of a 5-year transformational plan setting out how the board delivers on the 2020 Vision for NHS Scotland. The board's plan is structured around priority areas of work which include (but are not limited to) both scheduled and unscheduled care, health inequalities and prevention, mental health, and integration.

**118.** The NHS Borders Clinical Strategy 2017 also recognises the 2020 Vision. In 2014, following consultation with staff and the public, the board approved its Key Strategic Principles. These principles (which focus on high quality, person-centred care) form the basis for the future design and development of clinical services across NHS Borders and are in line with and support the 2020 Vision for Healthcare in Scotland. The Board has made a commitment to ensure that each service within NHS Borders would be tested against the key principles with a view to improve the quality and effectiveness of services.

**119.** The Local Delivery Plan and Clinical Strategy are both subject to review and scrutiny by the board. From our review of the board's plans and strategies and supporting board papers, we conclude that the Board is giving 2020 Vision appropriate profile and is developing plans to towards the delivery of the 2020 vision. However, this needs to be set in the context of the board's significant financial challenges, which are having an impact on the achievement of LDP standards. A review of the board's performance against the LDP standards is included in part 5 of this report.

## Local Inspections

**120.** In addition to the joint inspection report on services for older people noted above, Health Improvement Scotland (HIS) published a report in September 2017

titled '*Unannounced Inspection Report – Nutritional Care in Acute Hospitals*'<sup>8</sup>. The report found three malnourished patients during an unannounced visit to Borders General Hospital over the summer of 2017.

**121.** The findings highlighted the need for improvement in relation to documentation and areas where aspects of food, fluid and nutrition care standards were not being met. The report also found that ward staff had not received any recent training on nutrition.

**122.** In responses to this report, NHS Borders have launched a 'Back to Basics' Improvement Programme under the leadership of the Director for Nursing, Midwifery and Acute Services. The board are working collaboratively with staff and HIS to improve the quality of care to patients.

**123.** To enhance the board's nutritional care, the board is working with the HIS Tailored Response Team who will provide bespoke improvement advice and coaching in this area, which they recognise is not well developed across Scotland. The board are also using a Person Centred Coaching Tool (PCCT) to provide weekly data on nutritional assessment and planning which will give organisational intelligence on areas of good practice and those for improvement. The NHS Borders Food, Fluid and Nutritional Care Strategy and overarching policy has been developed and the work plan is being considered by the Food, Fluid and Nutritional Care Steering Group.

## Good practice

**124.** We consider the board's active response to the HIS report on nutritional care and the launch of the 'Back to Basics' Improvement Programme an area of good practice, promoting a clear focus on improving patient care.

**125.** We also note a further area of good practice to promote interaction with patients and service users. In 2016 the board first trialled Patient Opinion, an online service which allowed patients (and other service users) to provide feedback to the health board. The board agreed in April 2017 to move to a full subscription for this system, which is now called Care Opinion. This service enables the board to engage constructively with patients, carers and visitors using the board's services; respond to their concerns or positive comments and share feedback with staff. The board now has 139 staff listening to stories shared on Care Opinion and 61 of these staff from across different service areas can respond directly to feedback and comments provided. Care Opinion stories are regularly shared at Board meetings via Clinical Governance updates.

We consider this feedback system an area of good practice, which allows the board to actively engage with service users and patients in an open and transparent way. Feedback provided is also an effective way at looking at where services can be improved.

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<sup>8</sup> Unannounced Inspection Report – Nutritional Care in Acute Hospitals, Borders General Hospital, 12-14 June 2017; Health Improvement Scotland, published September 2017.

# Part 5

## Value for money



### Main judgements

**NHS Borders has a satisfactory performance management framework in place.**

**The Board is reporting variable performance levels against the LDP standards and its key performance indicators.**

### Performance management

**126.** The Scottish Government monitors how NHS Borders performs against the targets it set in its national performance framework. These include targets and their trajectories (plans) as set out in the board's LDP. Examples include waiting times for accessing treatment such as the proportion of patients that were seen within 12 weeks, otherwise known as the Treatment Time Guarantee.

**127.** The board is kept well informed of performance across all areas. The detailed review and scrutiny of performance has been delegated to the Strategy and Performance Committee which meets quarterly. We attend meetings and review papers received by members to find out how well the board and standing committees are scrutinising performance.

**128.** Each meeting of the Board and the Strategy and Performance Committee receives a corporate performance scorecard. Performance is reported using 44 key indicators (including 31 LDP Standards for 2017/18 and 13 Key Performance Indicators). Performance scorecards contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance.

**129.** Committee members receive supplementary reports on specific aspects of performance namely waiting times, delayed discharges and the financial position. These enable members to focus on key risks relating to access to treatments and financial sustainability.

**130.** We concluded that the NHS Borders has a satisfactory performance management framework in place. This helps it achieve value for money and continually improve how it delivers services.

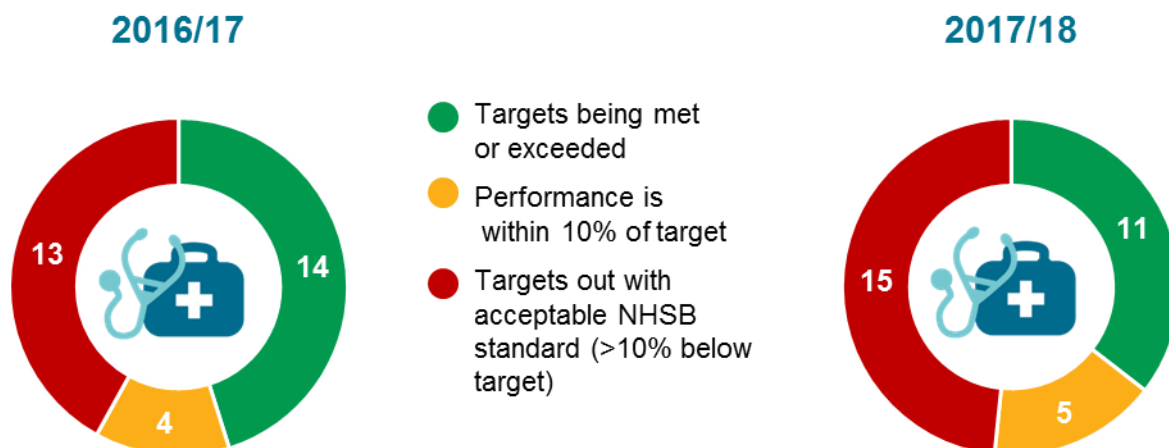
### Overview of service performance

**131.** The board's performance against its LDP Standards, as reported in the February 2018 Performance Scorecard (latest available), is summarised below.

Value for money is concerned with using resources effectively and continually improving services.

## Exhibit 11

### Overall performance against LDP standards




Source: NHS Borders Performance Scorecards

**132.** Overall, NHS Borders has a variable performance: 11 standards were categorised as green, 5 were amber, and 15 were red. Many standards reported as red have now missed the performance target for several consecutive months. We have commented on the upward trend in sickness absence earlier in our report. A summary of some other selected key targets is provided below.

## Exhibit 12

### Performance against key LDP standards

Target/standard	Latest Performance	Action being taken by Board
<b>GREEN</b>		
<b>Cancer waiting times (1)</b> 95% of all cases with a suspicion of cancer seen within 62 days in January 2018 ( <i>latest available data</i> )	Target: 95% ● 97.1%	N/A
<b>Cancer waiting times (2)</b> 95% of patients requiring treatment for cancer seen within 31 days in January 2018 ( <i>latest available data</i> )	Target: 95% ● 100%	N/A
<b>RED</b>		
<b>12-week Treatment Time Guarantee</b> (Tolerance of zero patients, performance recorded as at February 2018)	Target: zero ● 132 patients	<ul style="list-style-type: none"> <li>• Short notice cancellations are reviewed on a daily basis.</li> <li>• Work is ongoing to ensure cancellations are minimised and decisions are made as soon as possible.</li> </ul>

Target/standard	Latest Performance	Action being taken by Board
		<ul style="list-style-type: none"> <li>An Institute for Healthcare Optimisation (IHO) project is looking to address surgical flow; however, the services are reviewing on a weekly basis to determine any risk of cancellations and take appropriate action.</li> <li>Cancelled patients are rebooked as soon as possible to accommodate their TTG date where possible.</li> </ul>
<p><b>Delayed discharges</b> (delays over 72 hours)</p> <p><i>(Tolerance of zero patients, performance recorded as at February 2018)</i></p>	<p>Target:  18 patients zero</p>	<ul style="list-style-type: none"> <li>NHS Borders continues to face challenges with delayed discharges, which impacts on patient flow across their hospitals.</li> </ul> <p>Actions:</p> <ul style="list-style-type: none"> <li>A comprehensive action plan has been produced with partners in SBC to address the challenges. Progress on this is being monitored weekly.</li> </ul>

Source: NHS Borders Performance Scorecard February 2018

**133.** The Board's ongoing financial challenges appear to have some linkage to this variable service performance. Some key targets have now been missed for well over a year, such as treatment time and waiting time targets. This trend is likely to continue in the coming years as the financial sustainability of the Board remains a concern.

## Shared services

**134.** The financial challenges facing the health service in Scotland are well documented. The speed at which substantial changes are needed within the NHS means that greater sharing of services between health boards is vital if the Scottish Government is to achieve the overall ambitions of the 2020 vision. In 2015, the Scottish Government established a transformational programme board including senior representatives from NHS boards to try to provide greater coordination across boards and various healthcare programme and initiatives.

**135.** NHS Borders is exploring opportunities to work with neighbouring health boards as part of an East Region (which included NHS Lothian and NHS Fife). This has included efficiencies for sharing staff more effectively across health boards e.g. to develop a regional nurse bank, and to streamline the training and induction required should staff move between health boards. Other areas where NHS Borders is looking to work collaboratively with other health boards include the development of national or regional information governance policies and procedures.

## National performance audit reports

**136.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 a number of reports were published which are of direct interest to the board and are

highlighted in [Appendix 4](#). We consider the following reports to be of particular interest to the Board:

**137.** [NHS workforce planning](#) – July 2017

**138.** [Self-directed support: 2017 progress report](#) – August 2017

**139.** [NHS in Scotland 2017](#) – October 2017

**140.** The Board has effective arrangements in place for considering these reports. For example, an extraordinary Audit Committee was called in January 2018 to carry out a focused review of our NHS workforce planning and NHS in Scotland 2017 reports. This allowed key findings of these reports to be presented by Audit Scotland Performance Audit and Best Value representatives, and to scrutinise how findings and recommendations related to the local NHS Borders setting. Other Audit Scotland reports, such as good practice notes, are also regularly considered at the Audit Committee.

### **Good practice**

**141.** The consideration and scrutiny of Audit Scotland national reports and other guidance is an area of good practice for NHS Borders. We would encourage the incoming Audit Committee Chairperson to continue this practice, thus ensuring the health board remains aware of the national context.



# Appendix 1

## Action plan 2017/18

### 2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>VAT debtor</b></p> <p>Our review of trade receivables found that the board's VAT debtor was overstated by £138,000, as this included irrecoverable VAT. Only recoverable VAT should be recognised as a debtor in the board's financial statements.</p> <p>In addition, VAT reconciliations are not regularly performed throughout the year by the finance team.</p>	<p>Management agreed that the board's VAT debtor has been overstated and have corrected for this in the final version of the accounts. This is reflected in the adjusted errors schedule in <a href="#">Appendix 3a</a>.</p> <p>We recommend that the finance team complete a full review of the VAT account in 2018/19 and carry out monthly VAT reconciliations going forward.</p> <p><a href="#">Reference: page 9</a></p>	<p><b>Narrative on agreed action</b></p> <p>Revised VAT control account working files will be implemented to ensure HMRC reconciliations and overall VAT controls are reviewed as part of routine monthly processes.</p> <p><b>Responsible officer</b></p> <p>Deputy Director of Finance (Financial Accounting)</p> <p><b>Agreed date</b></p> <p>September 2018</p>
2	<p><b>Provisions</b></p> <p>Our review of provisions found some misstatements and/or inconsistencies in the calculations for clinical and medical negligence claims and for the pensions provision.</p>	<p>Management have corrected for the two omitted clinical and medical negligence claims in the final version of the accounts. No adjustment was deemed necessary for the pensions provision as misstatements were judged to be immaterial. <a href="#">Appendix 3</a> summaries these adjusted and unadjusted misstatements.</p> <p>The finance team have agreed to complete a full review of their provision calculations in 2018/19.</p> <p><a href="#">Reference: page 9</a></p>	<p><b>Narrative on agreed action</b></p> <p>The provisions working files will be updated to ensure life table links and formula based calculations are consistent.</p> <p><b>Responsible officer</b></p> <p>Deputy Director of Finance (Financial Accounting)</p> <p><b>Agreed date</b></p> <p>December 2018</p>
3	<p><b>Stock</b></p> <p>We found that stock was understated by £74,000 as fast-moving stock was not included in the year-end balance. We also found a lack of evidence to support the £30,000 stock provision which has historically been applied for potentially obsolete stock.</p>	<p>Management agreed to adjust the stock balance in the final version of the accounts.</p> <p>We recommend the finance team review their stock take procedures and clarify stock counting methods with staff.</p> <p>We also recommend completing a review of the stock provision to identify if this</p>	<p><b>Narrative on agreed action</b></p> <p>Stock take procedures will be revised to ensure the 'end to end' stock take process is documented. The documents will be dated, authorised by appropriate management and will have an agreed timeline for revision.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>From our attendance at the BGH Theatres stock take, we have also raised recommendations concerning the marking of stock as counted, and revisions required to the stock take procedures.</p>	<p>remains a reasonable estimation. <a href="#">Reference: page 10</a></p>	<p>The estimated stock provision will be reviewed in 2018/19. <b>Responsible officer</b> Deputy Director of Finance (Financial Accounting) <b>Agreed date</b> March 2019</p>
4	<p><b>Financial sustainability and efficiency savings</b></p> <p>The 2018/19 Financial Plan does not report a balanced, break-even position. The board is required to deliver £24.8 million total savings, with £13.2 million of this amount yet to be identified to date.</p> <p>There is a significant risk that the board may not be able to deliver the targeted savings in 2018/19, leading to non-achievement of financial targets next year.</p>	<p>The board should ensure that saving plans are developed identifying how the £24.8 million of savings in 2018/19 will be made.</p> <p>We recommend the board continue to have regular discussions with the SGHSCD on their financial position. <a href="#">Reference: page 14</a></p>	<p><b>Narrative on agreed action</b></p> <p>NHS Borders will receive an update at the 28th June Board meeting advising how a break-even position will be delivered in 2018/19 including the outcome of discussions with Scottish Government and how recurring balance can be achieved with estimated timescales.</p> <p><b>Responsible officer</b> Director of Finance <b>Agreed date</b> Ongoing throughout 2018/19</p>
5	<p><b>Sickness absence</b></p> <p>The board has experienced an increased sickness absence rate of 5.3% in 2017/18 (2016/17: 4.9%). A Sickness Absence Working Group was set up in 2016/17 to monitor sickness rates and drive actions to improve these rates. However, the Working Group last met in December 2017 and the action tracker has not been updated since early 2017.</p> <p>There is a risk the board will continue to face increasing sickness rates, pressures on staff rotas and poor staff wellbeing if management are not acting to address underlying issues.</p>	<p>We recommend the Sickness Absence Working Group meets more frequently and liaise with management to take appropriate action. <a href="#">Reference: page 19</a></p>	<p><b>Narrative on agreed action</b></p> <p>The Sickness Absence Working Group will refresh it's Terms of Reference, including membership and agree information and reporting requirements to ensure the group's work is focused to support the organisation to reduce the level of sickness absence.</p> <p><b>Responsible officer</b> Director of Workforce <b>Agreed date</b> October 2018</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
<b>Follow up of prior year recommendations</b>			
b/f	<p><b>Financial statements preparation</b></p> <p>The draft annual report and accounts provided on day one of the financial statements audit were incomplete, with sections of the annual report and notes to the accounts outstanding. In addition, working papers received on day one of the audit were not fully complete and for some account areas, lacked sufficient detail to progress the audit timeously.</p>	<p>We recommend that finance officers review their financial statements timetable and improve the detail provided in their working papers. Further discussions with other Health Boards would be advisable on this matter.</p>	<p><b>Updated audit response</b></p> <p>A full set of unaudited accounts were received on day one of the 2017/18 financial statements audit. However, several presentational errors were noted have now been amended.</p> <p>We acknowledge improvements made to the supporting working papers this year. This allowed the audit to progress smoothly.</p> <p><b>Revised action</b></p> <p>Partly actioned. We would advise a full management review of the unaudited annual report and accounts to be completed before submission for audit.</p> <p><b>Responsible officer</b></p> <p>Deputy Director of Finance (Financial Accounting)</p> <p><b>Revised date</b></p> <p>April 2019</p>
b/f	<p><b>Annual Report</b></p> <p>The narrative sections of the annual report and accounts required a significant re-draft to ensure compliance with the Financial Reporting Manual (FReM).</p>	<p>We recommend management review the latest technical guidance issued each financial year to ensure all disclosure requirements are reflected in the annual report and accounts.</p> <p>Guidance such as the NHS Accounts Manual and FReM disclosure checklists should be referred to closely.</p>	<p><b>Updated audit response</b></p> <p>The draft management commentary sections in the 2017/18 accounts were an improvement to last year. Improvements have been made to the Performance Report which now provides clearer performance against LDP standards.</p> <p><b>Revised action</b></p> <p>No further action required. <b>CLOSED.</b></p>
b/f	<p><b>Bad debt provision</b></p> <p>Our assessment of the Board's bad debt provision in relation to Road Traffic Accident (RTA) claims has found that this impairment has been</p>	<p>We advise finance officers to review RTA trade receivables on an individual basis to ascertain if payments are likely. If payments are not forthcoming, these should be</p>	<p><b>Updated audit response</b></p> <p>The board have now applied the national guidance in 2017/18 to calculate its bad debt provision for Road Traffic Accidents (RTA) claims. This should provide a more</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	understated, in relation to national guidance issued.	provided for in full, or written off if deemed irrecoverable.	<p>accurate estimation of the board's RTA debtor and potential bad debt.</p> <p><b>Revised action</b></p> <p>No further action required. <b>CLOSED.</b></p>
b/f	<p><b>Stock valuation</b></p> <p>Our audit of year-end stock certificates found that NHS Borders do not apply a standardised approach to assigning stock valuations across various categories of stock.</p>	<p>We recommend finance officers review their stock valuation method to apply a more consistent approach. Furthermore, we would recommend that a more formal write-off procedure for stock is introduced to ensure obsolete stock is not included in the valuation.</p>	<p><b>Updated audit response</b></p> <p>The finance team have revised the board's stock taking procedures this year and provide additional support to staff conducting the year-end counts, including a reminder to report obsolete stock.</p> <p><b>Revised action</b></p> <p>Recommendation 3 above supersedes this prior year action point. <b>CLOSED.</b></p>
b/f	<p><b>Trade Payables</b></p> <p>Our audit of trade payables found that there is scope to review the methodology applied to accruals which require estimation and judgement.</p> <p>In addition, there are trade payable account codes which require review in 2017/18 to ensure all balances are valid and accurately reflect the Board's year-end creditor total.</p>	<p>We recommend finance officers review the methodology applied to estimated accruals, including their annual leave accrual and travel expenses accrual, to identify if estimations are still reasonable to the Board.</p>	<p><b>Updated audit response</b></p> <ul style="list-style-type: none"> <li>• Management have revised their methodology for estimating their accruals, resulting in more accurate levels of accruals this year. However, improvements can still be made to the annual leave accrual methodology to further improve accuracy.</li> <li>• The balance on the K067 code (which previously contained several historic creditors entries) has reduced from £281,000 to £4,000.</li> <li>• Each of the SFR30 trade payable balances (amounts owed to other health boards) was within the tolerance of £100,000, with the overall difference between NHS Borders' ledger balances and the balances stated by other health boards being £52,000 (with NHS Borders' payables understated).</li> </ul>



No.	Issue/risk	Recommendation	Agreed management action/timing
			<p><b>Revised action</b></p> <p>Partly actioned. Further revisions to the annual leave accrual are planned in 2018/19.</p> <p><b>Responsible officer</b></p> <p>Deputy Director of Finance (Financial Accounting)</p> <p><b>Revised date</b></p> <p>March 2019</p>
b/f	<p><b>Accounting Policies</b></p> <p>The Board use a standard set of NHS accounting policies, some of which have scope to be tailored to local arrangements. The policy applied to the estimated useful lives of fixed assets has scope for refinement.</p>	<p>We recommend management carry out a review of their accounting policies and update these to ensure they match actual practices at the Health Board.</p> <p>We advise that as part of this exercise, the estimated useful lives of the Board's assets are reviewed, as the current wide-ranging useful lives could be refined to disclose more useful information to the reader.</p>	<p><b>Updated audit response</b></p> <p>The board has updated certain areas of its accounting policies this year, including its measurement and valuation of assets. In addition, the board's property advisor has carried out a review of asset lives in 2017/18 and have judged the useful lives, used for depreciation, to be reasonable.</p> <p><b>Revised action</b></p> <p>No further action required. <b>CLOSED.</b></p>
b/f	<p><b>Financial sustainability and efficiency savings</b></p> <p>The 2017/18 Indicative Financial Plan does not report a balanced, break even position. The Board is required to deliver £15.7 million of savings. The Board has yet to identify £3.8 million of the savings required for next year. Of those savings identified to date, 33% are classified as being high risk, and therefore may not materialise.</p> <p>There is a risk that the Board may not be able to deliver the targeted savings in 2017/18, leading to non-achievement of finance targets next year.</p>	<p>The Board should ensure that detailed saving plans are developed identifying how the £15.7 million of savings in 2017/18 will be made.</p> <p>The Board should work closely with the SGHSCD to discuss ongoing financial pressures and actions required.</p>	<p><b>Updated audit response</b></p> <p>The board has met its financial targets for 2017/18.</p> <p>However, savings targets were again not achieved (shortfall of £7.4m) against the £15.7m target.</p> <p><b>Revised action</b></p> <p>See recommendation 4 above which supersedes this action point. <b>CLOSED.</b></p>
b/f	<p><b>NFI progress</b></p> <p>The Board should review the following aspects of its NFI arrangements:</p>	<p>We recommend the Board continues to progress its investigation work in early 2017/18. Officers should use the NFI website to document investigation work where</p>	<p><b>Updated audit response</b></p> <p>We reported a recommendation in our 2017/18 interim Management Report, noting that the board</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<ul style="list-style-type: none"> <li>The self-appraisal checklists should be completed prior to starting each NFI exercise.</li> <li>The NFI website should be used more effectively to document investigation work carried, to support conclusions reached for recommended matches.</li> </ul> <p>The Board should consider if it has suitable resources to complete investigations timeously after matches have been released.</p>	<p>possible, to support conclusions reached for recommended matches.</p>	<p>has scope to update the NFI database more promptly to record outcomes for all data matches.</p> <p>The board has since updated the majority of cases on the NFI database (1,640 from 1,655 matches as at end of March 2018).</p> <p><b>Revised action</b></p> <p>The board should finalise and close off the remaining open data matches as soon as possible, to conclude the 2016/17 NFI exercise.</p> <p><b>Responsible officer</b></p> <p>Deputy Director of Finance (Financial Accounting)</p> <p><b>Revised date</b></p> <p>June 2018</p>
b/f	<p><b>Board member appointments</b></p> <p>The Board's Chair has highlighted the aim of recruiting new non-executive members who have financial expertise. We would emphasise this to further enhance the skill set of the Board.</p> <p>There is a risk that the financial management of the Health Board will not be scrutinised effectively.</p>	<p>NHS Borders should ensure new Board member appointments have recent and relevant financial experience.</p>	<p><b>Updated audit response</b></p> <p>Three new non-executive members have joined the board in 2017/18.</p> <p><b>Revised action</b></p> <p>Board members should consider their training and development requirements as part of the board's self-review exercise, to continue to provide robust scrutiny.</p> <p><b>Responsible officer</b></p> <p>Chairperson of the Board</p> <p><b>Revised date</b></p> <p>December 2018</p>
b/f	<p><b>Assurance statements</b></p> <p>The Chief Executive as Accountable Officer does not obtain direct assurances from Executive Directors, as part of the assessment of the adequacy and effectiveness of the Board's systems of internal control.</p>	<p>We recommend that each Executive Director complete annual assurance statements and internal control checklists as per SPFM guidance, to strengthen the Board's governance procedures.</p>	<p><b>Updated audit response</b></p> <p>This recommendation remains outstanding. Management have advised this action point will be addressed in 2018/19.</p> <p><b>Revised action</b></p> <p>Our original recommendation applies.</p> <p><b>Responsible officer</b></p>



No.	Issue/risk	Recommendation	Agreed management action/timing
			Deputy Director of Finance (Financial Accounting)  <b>Revised date</b> March 2019
b/f	<b>Business Continuity Plans</b> The cyber attack on 12 May 2017 had a significant impact on the day to day activities of the finance department and delayed the financial statements audit. The local file-store is heavily relied upon to store financial records.	We advise management to carry out a review of their business continuity plans for the finance department.  We recommend finance officers consider using the functionality available on the national eFinancials ledger system to identify if financial records could be stored across available areas to spread the risk of access.	<b>Updated audit response</b> The finance department have now moved on to a new file structured cluster server which, in the event of disruption, will be able to recover faster. Organisational business continuity plans, including archiving solutions, are also under review by the board's IM&T department.  The finance department is now also using the eFinancials system more effectively to improve its back up arrangements.  <b>Revised action</b> No further action required. <b>CLOSED.</b>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Reviewed the appropriateness of a sample of journal entries.</p> <p>Reviewed accounting estimates and accounting policies for biases.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluated significant transactions that are outside the normal course of business.</p>	<p>We substantively tested a sample of journal entries and agreed to source documentation. There were no issues to report.</p> <p>We reviewed accounting policies in the financial statements. We have reported in Appendix 1 that NHB Borders reviewed aspects of their policies in 2017/18 and carried out a review of asset useful lives, which were judged to be reasonable.</p> <p>We carried out detailed testing of trade payables and trade receivables balances to ensure they were posted to the correct financial year. There were no matters to report.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>NHS Borders receives income from a variety of sources, in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud which requires an audit response. The Code of Audit Practice expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure, for public sector bodies which have an overall net expenditure.</p>	<p>Performed analytical procedures on income and expenditure streams.</p> <p>Carried out detailed substantive testing of income and expenditure focusing on the areas of greatest risk.</p> <p>Reviewed the Board's approach to the investigating the National Fraud Initiative data matches.</p>	<p>Sample testing of unusual items did not identify any suspicious transactions.</p> <p>We assessed the controls in place for income recognition and undertook substantive testing of material year end balances focusing on external income transactions. No issues were identified and we could conclude that controls were operating satisfactorily.</p> <p>The monitoring and detection arrangements for fraud in relation to FHS were reviewed and were found to be appropriate and operating effectively.</p>
<p><b>3 Financial sustainability</b></p> <p>As at 30 September 2017, NHS Borders reported a year to date overspend of £5.0 million</p>	<p>Liaised closely with senior finance staff regarding budget plans.</p>	<p>NHS Borders achieved their financial targets in 2017/18.</p> <p>However, the Board achieved this using short term measures and</p>



Audit risk	Assurance procedure	Results and conclusions
<p>against its Revenue Resource Limit. The Board is planning to implement a number of actions to reduce this overspend, but still forecast a year-end overspend position of £1.5 million against budget. There is a substantial risk that the Board will not achieve its year-end financial target.</p>	<p>Monitored monthly Financial Performance Returns submitted to the Scottish Government.</p> <p>Focused cut-off testing at year-end to confirm expenditure and income has been accounted for in the correct financial period.</p> <p>Reviewed the use and cost of agency staff.</p>	<p>non-recurring savings. The board faces a significant challenge to continue to meet its targets in 2018/19 and achieve efficiency savings.</p> <p>Our substantive testing focused on regularity and cut-off assertions to ensure expenditure and income transactions were accounted for in the correct financial year. There were no issues to report.</p>
<p><b>4 Accounting for IJB transactions</b></p> <p>2017/18 will be the second year that NHS Borders is required to consolidate the financial results of the Borders Integration Joint Board (IJB). To meet sign-off deadlines it is essential that the IJB financial results are submitted on time and accurately disclosed in the draft group accounts, ready for the financial statements audit.</p>	<p>Reviewed the finance team's plans for incorporating the IJB transactions into the accounts.</p> <p>Gained assurances from the Scottish Borders Council external audit team over the accuracy of IJB transactions.</p> <p>Performed substantive testing of IJB income and expenditure relating to NHS Borders.</p>	<p>The NHS Borders group accounts included the required disclosures of the Borders IJB transactions. Supporting narrative has been included in the financial statements to explain this accounting treatment.</p> <p>We carried out focused testing of Borders IJB income and expenditure transactions. There are no issues to report.</p>
<p><b>5 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of accruals and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Focused substantive testing during the financial statements audit in key areas of judgement.</p> <p>Reviewed accounting policies to ensure these are reasonable.</p> <p>Reviewed trade payable categories and accruals we identified as areas of improvement last year.</p>	<p>Our findings in Appendix 1 note that the Board has scope to review their methodology and estimations applied to their provisions calculations.</p> <p>Appendix 1 notes the improvements made to the board's accrual methodology, with scope to refine their annual leave accrual.</p> <p>Accounting policies have been reviewed in 2017/18 and judged to be reasonable.</p>
<p><b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b></p>		
<p><b>6 Information governance</b></p> <p>We reported last year that the Board is overdue to review its Information Governance Strategy (dated 2010) and Information Governance Policy (dated 2012). These documents have yet to be revised. The new EU General Data Protection Regulation (GDPR) comes into force for all public bodies in May 2018.</p>	<p>Monitored process for reviewing policies and procedures.</p> <p>Reviewed policies to ensure these are fit for purpose and made available to staff.</p> <p>Reviewed ongoing work plan for GDPR implementation.</p>	<p>We reported our findings on the Board's GDPR arrangements in our 2017/18 interim Management Report (published March 2018).</p> <p>At this time, we recommended that a GDPR implementation plan should be progressed quickly. Management should ensure key assets in each department are effectively recorded in the Information Asset Register (IAR) by May 2018. Information governance policies should also be updated for GDPR and</p>

Audit risk	Assurance procedure	Results and conclusions
		<p>circulated to staff to raise awareness.</p> <p><b>Update as at June 2018:</b></p> <p>A short-life working group has been set up to oversee GDPR activity. A key area of focus continues to be the completion of the new IAR. All departments were requested to record all information assets on the IAR by the end of April 2018. Progress has been slower than anticipated, with 116 assets now added from 15 areas. This will be an area of focus for the working group in the coming months.</p> <p>Other key actions in recent months have included:</p> <ul style="list-style-type: none"> <li>• A Privacy Notice has been published on the NHS Borders website.</li> <li>• A new process has been devised to respond to Subject Access Request within the required timeframe.</li> <li>• The board's Senior Health Information Manager has been designated the Data Protection Officer, who will be supported in this role by the Information Governance team.</li> </ul>

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# Appendix 3a

## Summary of adjusted misstatements

We report all misstatements that are greater than our reporting threshold of £36,000. However, we consider these differences for the health board are potentially material by nature, due to the requirement to achieve a break-even position against set resource limits.

The table below summarises the misstatements that were noted during our audit testing which were corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 2. We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Statement of Consolidated Comprehensive Net Expenditure		Statement of Consolidated Financial Position	
		Dr £000	Cr £000	Dr £000	Cr £000
<b>1</b>	<b>Provisions</b>				
	Expenditure (AME)	200			
	Provisions				(200)
<b>2</b>	<b>VAT debtor</b>				
	Expenditure (RRL)	138			
	Trade Receivables				(138)
<b>3</b>	<b>Stock</b>				
	Stock			74	
	Expenditure (RRL)		(74)		
<b>4</b>	<b>Capital retentions</b>				
	Trade Payables			64	
	Expenditure (RRL)		(64)		
	<b>Net impact on Revenue Resource Limit (RRL)</b>		<b>(0)</b>	<b>0</b>	

Notes:

1. Entry 1 relates to Clinical and Medical Negligence claims that were not included in the draft accounts; this was subsequently adjusted in the final version of the accounts. As provisions are accounted for using Annually Managed Expenditure (AME) this has no impact on the Revenue Resource Limit (RRL).

2. Entry 2 relates to an irrecoverable VAT debtor that had been incorrectly included within trade receivables in the draft accounts. This has been adjusted in the final version of the accounts.

3. Entry 3 relates to fast-moving Theatres stock which was originally not included in the stock balance. This has been adjusted in the final version of the accounts.

4. Entry 4 relates to an accounting adjustment for capital retentions which was found to be unnecessary. This has been adjusted in the final version of the accounts.

# Appendix 3b

## Summary of unadjusted misstatements

The table below summarises the misstatements that were noted during our audit testing which were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 2. Management do not propose to adjust for these unadjusted misstatements as the amounts are not considered material.

No.	Account areas	Statement of Consolidated Comprehensive Net Expenditure		Statement of Consolidated Financial Position	
		Dr £000	Cr £000	Dr £000	Cr £000
<b>1</b>	<b>Provisions (personal injury)</b>				
	Provisions			19	
	Expenditure (AME)		(19)		
<b>2</b>	<b>Provisions (pre-1995 liability)</b>				
	Provisions			25	
	Expenditure (AME)		(25)		
	<b>Net impact on Revenue Resource Limit (RRL)</b>		<b>(0)</b>	<b>0</b>	

Notes:

1. Entry 1 relates to an overstatement of the provision for Pensions (Personal Injury).











2. Entry 2 relates to an overstatement of the provision for Pensions (Pre- 95).

(NB: As provisions are accounted for using Annually Managed Expenditure (AME) these have no impact on the Revenue Resource Limit (RRL)).

# Appendix 4

## Summary of national performance reports 2017/18



		2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

# NHS Borders

## 2017/18 Annual Audit Report

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