



**Scott-Moncrieff**  
business advisers and accountants

# **National Waiting Times Centre Board**

2017/18 Annual Audit Report to the Board and  
the Auditor General for Scotland

**June 2018**

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# Key messages

## Annual accounts audit

All key financial targets were met in 2017/18. The Board made a saving against its revenue resource limit of £4,000 and reported a break even position against its capital resource limit.

The annual report and accounts were approved by the Board on 21 June 2018. We report within our independent auditor's report an unqualified opinion on the annual accounts, regularity and on other prescribed matters.

## Wider scope audit

### Financial sustainability

The Board's recurring savings target was achieved in 2017/18. A breakeven position is forecast for 2018/19 subject to achieving savings of £4.206m.

The Board has appropriate arrangements in place to develop a financial framework for achieving long term financial sustainability in partnership with other national and regional health boards.

### Financial management

The Board has adequate and effective processes in place for managing its financial position and use of resources.

The key financial systems and internal financial controls are adequate to prevent material misstatements in the annual accounts.

### Governance & transparency

Governance arrangements are adequate and appropriate, although transparency could be improved by publishing Board minutes online.

Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.

### Value for money

The Board has appropriate performance management processes in place that support the achievement of value for money. Progress has been made towards achievement of the local priorities and five out of eight LDP measures are on target for 2017/18.

## Conclusion

This report concludes our audit for 2017/18. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

**Scott-Moncrieff**  
**June 2018**

# 1

## Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of National Waiting Times Centre Board for 2017/18.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.

At National Waiting Times Centre Board, the Audit and Risk Committee have been designated "those charged with governance".

# Introduction

1. This report summarises the findings from our 2017/18 audit of National Waiting Times Centre Board (“the Board”).
2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit and Risk Committee at the outset of our audit. The core elements of our work include:
  - an audit of the 2017/18 financial statements and related matters;
  - consideration of the wider dimensions of public audit work, as set out in Exhibit 1; and
  - any other work requested by Audit Scotland, for example, input into performance audit work.

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## Exhibit 1: Audit Dimensions within the Code of Audit Practice



Source: Audit Scotland Code of Audit Practice, May 2016

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3. The Board is responsible for preparing an annual report and accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. The report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help the Board assess their significance and prioritise the actions required.
5. We discussed and agreed the content of this report with the Director of Finance, Assistant Director of Finance and interim Director of Finance support. We would like to thank all management and staff for their co-operation and assistance during our audit.
6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

### Confirmation of independence

7. We confirm that we have complied with Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.
8. We set out in Appendix 1 our assessment and confirmation of independence. Our assessment includes consideration of:
  - Provision of non-audit services to the Board and the group; and
  - Relationships between Scott-Moncrieff and the Board, its members and senior management that may reasonably be thought to bear on our objectivity and independence.

### Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.
10. As part of our 2017/18 audit we added value to the Board and Audit Scotland in a range of ways:

### Regular contact and liaison

- We invest senior time to ensure that we keep up to date with significant issues, in part through our membership of the NHS Technical Accounting Group and Sub group, and share that knowledge across our team and with the Board.
- We maintain regular dialogue with the Assistant Director of Finance, including early discussion on potential audit and accounting issues.
- We support the Board's finance team through open discussion of technical accounting matters (such as asset and provisions accounting) and the sharing of best practice from across the sector.

### Providing assurance to the Board and Audit Scotland

- We meet the deadlines set out in Audit Scotland's annual planning guidance in respect of the delivery of audit plans, independent auditor reports and annual reports.

### Feedback

11. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: [www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX)
12. While this plan is addressed to the Board, it will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

# 2

## Annual report and accounts

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.

In this section we summarise the findings from our audit of the 2017/18 annual report and accounts.

# Annual report and accounts

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The annual report and accounts for the year ended 31 March 2018 were approved by the Board on 21 June 2018. We report unqualified opinions within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and accounts.

The Board has appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.

Our audit identified no material adjustments to the annual accounts.

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## Overall conclusion

### An unqualified audit opinion on the annual report and accounts

13. The annual report and accounts for the year ended 31 March 2018 were considered by the Audit and Risk Committee on 12 June 2018 and approved by the Board on 21 June 2018. We report within our independent auditor's report:
- An unqualified opinion on the financial statements;
  - An unqualified opinion on regularity; and
  - An unqualified opinion on other prescribed matters.
14. We are also satisfied that there were no matters which we were required to report by exception.

procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described in Exhibit 2.

### Appropriate administrative processes were in place

15. We received the draft financial statements template and supporting papers of a good standard, in line with our agreed audit timetable. However, full draft statutory accounts incorporating the performance report and accountability report were not made available to us until the end of our audit.
16. The annual report and accounts were submitted to the Scottish Government and Auditor General for Scotland by the 30 June 2018 deadline.

### Our assessment of risks of material misstatement

17. The assessed risks of material misstatement described in Exhibit 2 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit



## Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### 1. Revenue recognition

Under ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise income in a way that materially misstates the Board's financial performance.

*Excerpt from the 2017/18 External Audit Plan*

18. At the planning stage of our audit we considered that the risk of fraud in relation to revenue recognition was present in all non-government revenue streams. We evaluated each type of revenue transaction and documented our conclusions.
19. We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we evaluated the Board's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.

### 2. Risk of fraud in the recognition of expenditure

The FRC published Practice Note 10 which applies to the audit of financial statements for periods commencing after June 2016. The Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

*Excerpt from the 2017/18 External Audit Plan*

20. We evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance on the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion we carried out testing to confirm that the Board's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

### 3. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

*Excerpt from the 2017/18 External Audit Plan*

21. We have not identified any indications of management override in the year. We have reviewed the Board's accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

## Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### 4. Consolidation of endowment funds

In October 2014 the National Waiting Times Centre Board Endowment Fund was registered with The Scottish Charity Regulator and the endowment funds were formally transferred to the National Waiting Times Centre Board Endowment Fund during 2015/16. Where material, health boards are required to consolidate endowment funds into their financial statements.

At 31 March 2017, the Endowment Fund totalled £1.398million and during 2016/17 incoming resources were £0.963million and charitable expenditure was £0.266million. The Board did not consider the Endowment Fund to be material to the 2016/17 annual accounts as a whole and as a result did not consolidate in 2016/17. However, indications are that the Endowment Fund is likely to hold greater assets at 31 March 2018 and as such could be considered material to the 2017/18 annual accounts.

*Excerpt from the 2017/18 External Audit Plan*

22. The Board considered the Endowment Fund to be material to the 2017/18 annual accounts and as a result consolidated the Endowment Fund as a subsidiary. At 31 March 2018, the Endowment Fund totalled £2.193million and during 2017/18 incoming resources were £1.378million and charitable expenditure was £0.582million. We reviewed management's assessment of whether the fund should be consolidated within the Board's annual accounts. We found the Board's approach to be reasonable and the Endowment Fund has been consolidated appropriately.

### 5. The Golden Jubilee Conference Hotel

The Golden Jubilee Conference Hotel ('the hotel') forms a key part of the Board's unique model of care, with the hospital using the accommodation to assist with access for patients and their relatives from all over Scotland.

In May 2014 the Board approved the Beardmore 2020 Strategy. The strategy was developed to harness the strengths and opportunities available to the hotel, its role as an integral part of the Board and as a national resource for NHS Scotland. The Board's vision is that "by 2020 the Beardmore will be recognised as a pivotal meeting and hospitality element of an internationally renowned Innovation Campus, a global centre of excellence in quality, innovation and collaboration in health, hospitality and learning."

We consider that the unique nature of the Board's operations in this area gives rise to a potential risk of misstatement in the financial statements.

*Excerpt from the 2017/18 External Audit Plan*

23. We carried out a high level review of the financial controls in place at the hotel and performed testing to gain assurance over the completeness, occurrence and accounting treatment applied to the income raised through the hotel. Through this work, we were able to gain assurance that hotel income was not materially misstated.
24. The Board continues to progress with the hotel's 2020 Strategy. A management and implementation planning group have responsibility for planning, implementation, scrutiny of agreed actions and managing risks to support the strategy. The Board monitors the hotel's performance through key performance indicators, which are included in the corporate scorecard reported to each Board meeting. The Board has an established and appropriate performance management framework, which is in line with corporate objectives.

## Our application of materiality

25. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.
26. Our initial assessment of materiality for the Board's annual accounts was £2million. This equates to approximately 1.5% of the Board's forecast expenditure. Achieving a breakeven position through the application of both income and parliamentary funding is a key target for the Board and one of the principal considerations for the users of the accounts when assessing financial performance.
27. On receipt of the unaudited annual accounts, incorporating the Endowment Fund, we reassessed materiality and concluded that our initial assessment was still applicable. We therefore applied materiality of £2million to both the Board and Group.

### Performance materiality

28. Performance materiality is the amount set by the auditor at less than overall materiality for the annual accounts as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the annual accounts as a whole.
29. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We performed audit procedures on all transactions and balances that exceeded our performance materiality. This means that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the following table:

Area risk assessment	Weighting	Performance materiality
High	40%	£0.8million
Medium	55%	£1.1million
Low	70%	£1.4million

30. We agreed with the Audit and Risk Committee that we would report all material corrected misstatements, uncorrected misstatements with a value in excess of £50,000, as well as other misstatements below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

### Audit differences

31. We are pleased to report that our audit identified no material adjustments to the annual accounts. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.
32. We also identified three unadjusted errors which are not considered material to the annual accounts, either individually or in aggregate. These have been reported to the Director of Finance and Chief Executive and are included in Appendix 3 to this report.
33. These unadjusted errors are also included in the letter of representation. The letter covers a number of issues and we have asked for it to be presented to us at the date of signing the annual report and accounts.

### An overview of the scope of our audit

34. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk Committee at the outset of our audit. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is

subject to review during the course of the audit to take account of developments that arise.

35. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
36. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

## Group audit

37. As noted at paragraph 22, the Board prepared, for the first time in 2017/18, its annual report and accounts on a group basis. The Group comprises the Board and the Endowment Fund.
38. The Endowment Fund is fully consolidated. We did not consider the Endowment Fund to be of individual financial significance to the group or, due to its specific nature or circumstances, include a significant risk of material misstatement to the group financial statements.
39. As part of our audit we reviewed the consolidation entries made within the group accounts and confirmed those entries back to the financial statements.
40. Scott-Moncrieff is also the appointed auditor to the Endowment Fund. During our audit we liaised with the Endowment Fund audit team to confirm that their programme of work is adequate for our purposes.
41. We have nothing to report in respect of the following matters:
  - No significant deficiencies in the system of internal control or instances of fraud were identified by the component auditor; and
  - There were no limitations on the group audit.

## Other matters identified during our audit

42. During the course of our audit we noted the following:

## Revised financial statement format

43. In 2017/18, the presentation of the statement of comprehensive net expenditure (SoCNE) was amended, in line with the NHS Accounts Manual, to improve clarity for the user of the accounts and ensure compliance with the HM Treasury Government Financial Reporting Manual (the FReM) and accounting standards. The comparative information in respect of 2016-17 is presented in the new format in the SoCNE. No further retrospective restatements were required.

## Other information in the annual report and accounts

44. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.

## The performance report

45. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an overview of the organisation and a detailed summary of how the entity measures performance.
46. We have concluded that the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

## The accountability report

47. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the governance statement), a remuneration and staff report; and a parliamentary accountability report.

## Governance statement

48. The governance statement reports that no significant control weaknesses or issues have arisen and no significant failures have arisen in the expected standards for good governance, risk management and control. The statement does disclose the following points:
  - whilst no significant control weaknesses have been identified, a small number of medium and low risk recommendations were made by internal audit, none of which

present a risk to the achievement of Corporate Objectives. Action plans have been agreed to address these recommendations.

- During the year the Board put in place systems to ensure that performance relating to Treatment Time Guarantees is monitored effectively and reported on. Updates are provided to each meeting of the Board
- During the year there was one instance when the interim Board Chair was required to be co-opted onto the Audit and Risk Committee due to a member being unable to attend.

49. We have concluded that the governance statement has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions from Scottish Ministers and is consistent with the financial statements.

#### Remuneration and staff report

50. We have concluded that the audited part of the remuneration and staff report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions from Scottish Ministers.

#### Regularity

51. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

#### Revaluation reserve

52. The Board's asset register ('RAM') tracks historic cost and valuations in order to calculate the accounting entries required annually. However, RAM is not fully populated with historic data and does not currently reflect the full value of the revaluation reserve. This means that the entries calculated by RAM do not reflect all movements between reserves, which requires manual intervention to correct.

#### Action plan point 1

#### GRNI adjustments

53. The national ledger system used by the Board generates automatic accruals for goods received that have not yet been invoiced (GRNI). Where payments are not properly matched on the system there is a risk that

automatic accruals are made for items that have already been paid for, effectively double counting expenditure. While we have found no indication of an over accrual, the current process is not efficient and could lead to an overstatement in the annual accounts.

#### Action plan point 2

### Qualitative aspects of accounting practices and financial reporting

54. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are in line with the NHS Accounts Manual and are considered appropriate.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Significant estimates have been made in relation to the valuation of property, plant and equipment and liabilities related to the Board's membership of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). These estimates have been informed by advice from qualified, independent experts. We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the expert is appropriate.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2018/19. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Board will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

3

# Financial management

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

# Financial management



The Board has effective arrangements in place for managing its financial position and the use of resources

All three key financial targets for the year were met

The Board exceeded its efficiency savings target

## Financial performance

55. All Boards have to work within the resource limits and cash requirements set by the Scottish Government.

56. The Board reported a saving against its revenue resource limit (RRL) of £4,000 (0.006%). This position was consistent with the breakeven position outlined in the 2017/18 Local Delivery Plan (LDP).

## Exhibit 3: Performance against resource limits

Financial Target	Limit £000	Actual £000	Variance £000	Target achieved?
Core revenue resource limit	66,175	66,171	4	Yes
Non-core revenue resource limit	7,199	7,199	0	Yes
Capital resource limit	7,436	7,436	0	Yes
Cash requirement	70,572	70,572	0	Yes

Source: National Waiting Times Centre Board Annual Report and Accounts 2017/18

57. The outturn against RRL incorporated a revenue to capital transfer of £1.6million. The transfer was agreed with the Scottish Government Health and Social Care Directorates (SGHSCD) to support infrastructure projects.

### The Board invested £7.436million in assets

58. The Board invested £7.436million into capital projects during the year. As agreed with SGHSCD, the capital resource limit (CRL) increased from the initial allocation of £2.691million to £7.436million during the year. This was due to:

- capital stimulus of £3.283million and funding for elective care of £0.25million (July 2017);

- a revenue to capital transfer of £1.6million to support infrastructure projects (November 2017); and
- the return of £0.388million of capital funding in March 2018 due to slippage on projects. The Board expects the majority of that funding to be returned to the Board in 2018/19.

## Efficiency savings

### Total efficiency savings were above target

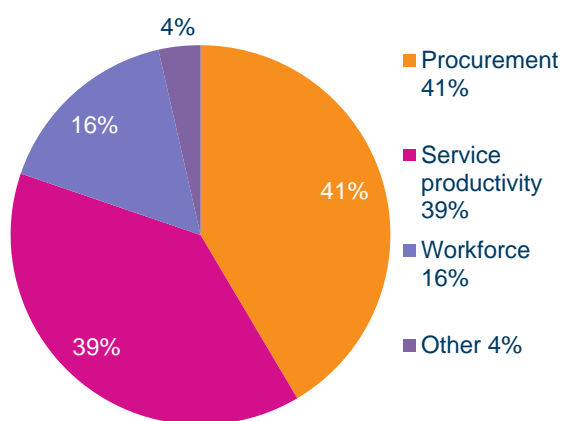
59. As part of the 2017/18 LDP, the Board was tasked with achieving £4.5million efficiency savings. The Board exceeded its target by £42,000. Exhibit 4 provides a breakdown of efficiency savings achieved by work stream.

60. The Board has a strong record of achieving its efficiency savings target. A key driver is the



Board's achievement of recurring savings. In 2017/18, 77% of the savings reported were recurring savings (£3.516million), £187,000 above target. This puts the Board in a strong position to reach future efficiency targets.

**Exhibit 4: Efficiency savings achieved by work stream**



## National working

61. During 2017/18, consistent with the 'Once for Scotland' approach outlined in the Scottish Government's Programme for Scotland 2017-18, national boards worked together to meet a shared target of £15million efficiency savings. The Board delivered £1.9million of the overall total savings, which was reflected in an in-year reduction of £1.9million to the board's funding allocation. Further discussion on national board working is given in the Financial Sustainability section of this report.

## Effective financial management arrangements in place

62. We reviewed the Board's system of budgetary control and financial management and did not identify any significant deficiencies. The Board's divisional managers have monthly meetings with a member of the finance and business service team to ensure budgets are in line with planned activity for the division.

### Budget monitoring and control

63. Each Board meeting considers the most recent financial monitoring report. Reports detail performance against budget and narrative to

explain any significant variances from budget and efficiency targets

## Prevention and detection of fraud and irregularity

64. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate.
65. Regular updates on fraud related matters (including Counter Fraud Services updates), the National Fraud Initiative (NFI) are presented to the Audit and Risk Committee.

### National Fraud Initiative

66. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.
67. We last reviewed the Board's participation in the 2016/17 NFI in February 2018. The exercise identified 1,195 matches of which 144 were recommended for investigation. As at February 2018 the Board had investigated and concluded upon 131 of the recommended matches (91%). No issues were noted from that work and we concluded that the Board's participation in the NFI had been satisfactory.

## Standards of conduct

68. In our opinion the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and scheme of delegation and for complying with national and local codes of conduct. We have also considered compliance with the regulatory guidance that is produced by the SGHSCD throughout the year.

## Internal audit

69. An effective internal audit service is an important element of a Board's overall governance arrangements. The Board's internal audit service is provided by PricewaterhouseCoopers (PwC). During our audit we considered the work of internal audit wherever possible to avoid duplication of effort

and make the most efficient use of the Board's total audit resource.

## Systems of internal control

70. We have evaluated the Board's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.
71. We did not identify any significant weaknesses in the Board's accounting and internal control systems during our audit.

# 4

## Financial sustainability

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

# Financial sustainability



The Board has appropriate arrangements in place to develop a financial framework that will inform consideration of its long term financial sustainability in partnership with other national and regional health boards

The Board is forecasting a breakeven position for 2018/19 and is fully engaged in the developing national and regional financial planning processes for the medium and longer term

## Significant audit risk

72. As outlined in our audit plan, we considered there to be a significant risk to the wider scope of our audit in relation to financial sustainability:

### Financial sustainability

As is standard practice, the Board's LDP covers a three year period, and is supported by a five year capital plan. The LDP forecasts a breakeven position against both recurring and non-recurring funding in each of the next three years. Although small increases are expected in the resources available to the Board over the next three years, the Board is expected to make substantial recurring efficiency savings each year. There is a risk that delivery of the Board's efficiency savings plans are at the detriment of services and/or on-going financial health.

In 2016/17 we noted that the Board had started to plan on a longer-term basis when considering the costs and demand for increasing capacity to deliver ophthalmology services, with projections of revenue estimated up to 2035. The good practice being demonstrated in relation to the planned expansion should inform an approach to the Board's overall financial planning on a 5 to 10 year basis to demonstrate the financial sustainability of the Board's unique service model.

*Excerpt from the 2017/18 External Audit Plan*

73. The Board in partnership with other national and regional health boards has begun to develop a financial framework. This framework will inform the Board's long term strategy for financial sustainability. As outlined below we have reviewed the developing arrangements in regional and national planning as well as the Board's own arrangements for managing its financial position and use of resources. While we consider the Board to have appropriate arrangements in place in respect of financial sustainability, we also recognise that due to the timing of our work there is a lack of medium and long term public plans and financial forecasts. We plan to continue to review the Board's input to regional and national planning in detail during our 2018/19 audit.

## National Board planning

74. The Scottish Government's Programme for Scotland 2017-18 included the commitment to "supporting national NHS Boards to develop a plan of where improvement in national services should be focused, including where appropriate a 'Once for Scotland' approach."
75. The Board plays a crucial role in collaborating with other National health boards. A National Board Plan 2018-2023 is in development with the intention of being finalised during summer 2018. The Plan will require a supporting financial framework and the Board is fully engaged in the national financial planning

process. The general principles underpinning the process are:

- use existing capacity and capability wherever possible;
- focus on potential impact and added value;
- focus on priorities where they can achieve most by working together;
- not limiting their level of ambition; and
- work in partnership across health and social care.

## Regional planning

76. The Scottish Government's Programme for Scotland 2017-18 also included the commitment to “develop regional delivery plans to set out services which can best be planned and delivered at a regional level, and support services that can best be delivered closer to home”.

77. The Board also works in close collaboration with the West of Scotland regional group. The group comprises the Board, NHS Ayrshire and Arran; NHS Dumfries and Galloway; NHS Forth Valley; NHS Greater Glasgow and Clyde; NHS Lanarkshire; the Scottish Ambulance Service; NHS 24; NHS Education for Scotland and NHS National Services Scotland.

78. As part of early planning work the Board contributed to a position paper and discussion document which was shared with the Scottish Government in September 2017. Regional implementation leads and their teams are engaging with health boards within their areas in a range of ways to help shape the first wave of regional plans which are expected to be finalised during summer 2018.

## Operational and financial planning

79. The Board recognises that financial planning is an integral part of the Annual Operational Plan (AOP) process (previously called the Local Delivery Plan). The Board submitted its AOP, with an accompanying financial plan, by the 31 March 2018 deadline.

80. Unlike in the 2017/18 LDP, the 2018/19 AOP presents the financial outlook for only one financial year (Exhibit 5), although it includes high level consideration of future financial pressures. The 2018/19 AOP sets out how the Board will achieve financial balance in the

coming year and discusses a range of key issues and assumptions made in forming that view.

### Exhibit 5: Forecast 2018/19 financial position

Financial plan 2018/19	£million
Expenditure	(141.242)
Income	61.928
Baseline funding allocation	53.433
Anticipated funding allocations	18.939
Non-core RRL	6.942
Forecast outturn position	0

81. The key risks and assumptions within the 2018/19 AOP are set out below (Exhibit 6):

### Exhibit 6: Key risks and assumptions

Risk / assumption	Likely cost implication	Risk rating
Financial implications from waiting list initiatives are not managed to release cost pressure	>£250k	High
Delivery of the Golden Jubilee financial strategy	>£150k	Medium
Cath lab activity referrals exceed the anticipated level	>£200k	Medium
Efficiency savings are not achieved	>£500k	Medium
Pay costs are higher than anticipated	>£400k	Low
Insufficient capital funds to complete the planned replacement of fixed assets	>£500k	Low
Board is unable to deliver targets agreed within the national delivery plan	>£300k	Low

### Developing planning frameworks

82. The AOP also reflects the developing arrangements in place, and the practical steps

being taken by the Board, to ensure full engagement with both regional and national planning groups.

83. Given the timing of these developments at a regional and national level, the Board has not been able to integrate any wider medium and long term financial implications into the current AOP. In preparation of the 2018/19 AOP any investment and redesign plans have been assumed to be cost neutral.

## Capital plans

84. The Board has well established capital planning processes in place. A capital group meets every two weeks to consider capital requests and requirements against the Board's strategic planning objectives. The group discusses proposed capital projects and approves and monitors capital expenditure.
85. While the AOP only outlines the forecast revenue position for one year, capital plans extend out to five years (as in previous years).

Exhibit 7: Capital plans					
CRL £million	18/19	19/20	20/21	21/22	22/13
Formula funding	5.4	3.9	4.3	3.5	5.2
Project funding	4	19.5	36.5	11	20
Total CRL	9.4	23.4	40.8	14.5	25.2

86. The Board's capital plan outlines significant capital investment in its property, plant and equipment over the next five years, totalling £113.3million. Of that total £91million relates to the Board's major expansion plans, discussed further below.

## Efficiency savings

87. The AOP outlines further challenging savings requirements over the next three years. While the Board has a strong record in delivering efficiency savings to date, it still needs to develop plans in respect of 36% of the required 2018/19 savings target. Unidentified savings for the following two years are also significant at this time.

### Exhibit 8 – Efficiency savings (£million)

	18/19	19/20	20/21
Savings required	4.2	4.11	5.7
Savings identified	2.7	0.85	1.1
Unidentified savings	1.5	3.26	4.6
% savings unidentified	36%	79%	81%

88. As noted in the Financial Management section above, during 2017/18 national boards worked together to meet a shared target of £15million efficiency savings. From 2018/19 the same £15million target will be deducted from revenue allocations on a recurring basis with the final split still to be agreed. Consistent with 2017/18, the AOP assumes that £1.9million of further non-recurring support could be provided in 2018/19 towards the national figure.

## Board expansion

89. The 2018/19 AOP reflects that the Scottish Government plans to invest over £91million over the next five years as part of a major expansion of the Board's services. The planned expansion is a direct result of the success of the Board's service model and is expected to consist of two phases:
- phase one: delivery of ophthalmology elective care capacity; and
  - phase two: delivery of additional orthopaedic and other surgical elective care capacity.
90. During the year the Scottish Government Capital Investment Group approved the Initial Agreement for phase one of the expansion programme, allowing plans for the creation of a purpose built ophthalmology unit to proceed to Outline Business Case stage.
91. The Board receives updates on the expansion programme at each meeting, providing an overview of progress to date against key milestones. As at April 2018 the expansion programme remained on track.
92. A project budget has been allocated for the internal Programme Team within 2018/19 and separate funds have been identified for

Advisors and the Principal Supply Chain Partner, Kier Construction. Cost control meetings are held on a monthly basis and the programme remains on budget.

93. The Outline Business Case has been completed and through April and May 2018 was reported to the Golden Jubilee Foundation Programme Steering Group, the West of Scotland Directors of Finance, the West of Scotland Chief Executives and the Board itself. The next key task for the Board is the formal approval of the Outline Business Case.
94. Given the scale of the expansion programme and its significance to the Board's service delivery we will continue to monitor developments throughout our term of appointment.

5

# Governance and transparency

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



# Governance and transparency



**Governance arrangements at the Board were found to be satisfactory and appropriate. However, we did note that the Board could improve transparency by publishing Board minutes online**

**Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct**

## Governance Arrangements

### Board appointments

- 95.** The previous Chair of the Board resigned on 18 March 2016 and the Chair of the Audit and Risk Committee was subsequently appointed as Interim Board Chair. Susan Douglas-Scott was appointed as the Chair of the Board on 4 April 2018.
- 96.** The Board has had a number of other changes in membership in the year. Outgoing non-executive members John Rae and Marie Whitehead were replaced by Marcella Boyle and Karen Kelly. The Director of Quality, Innovation and People resigned on 18 February 2018, and an Acting Medical Director has been in post since 1 October 2017 as cover for the Medical Director who is on long term sick leave.
- 97.** From January 2018, a number of national boards have been trialling a collaborative working set up that sees Directors of Finance taking on the role across multiple Boards. The National Waiting Times Centre Board Director of Finance and Deputy Chief Executive has taken on a role, two days a week, at the Scottish Ambulance Service. The two days she is absent from the Board are covered by the Finance and Performance Management Director from the State Hospitals Board for Scotland. This collaborative approach is being trialled to facilitate sharing of best practice between Boards.

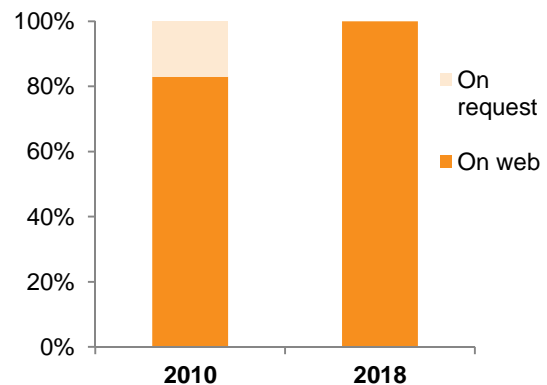
### Openness and transparency

- 98.** One of the sector risks identified by Audit Scotland for 2017/18 relates to public sector organisations keeping pace with public expectations relating to openness and transparency.
- 99.** Audit Scotland's Role of Boards report, published in September 2010, found that there

was wide variation in the openness and transparency of boards of public bodies. NHS organisations were the most open of public boards in 2010, with 100% holding board meetings in public, against an average of 41% across the public sector.

- 100.** As Exhibit 9 below highlights, our research in 2018 found that the variation that Audit Scotland reported in the availability of Board papers has been addressed.

**Exhibit 9: Availability of Board papers**

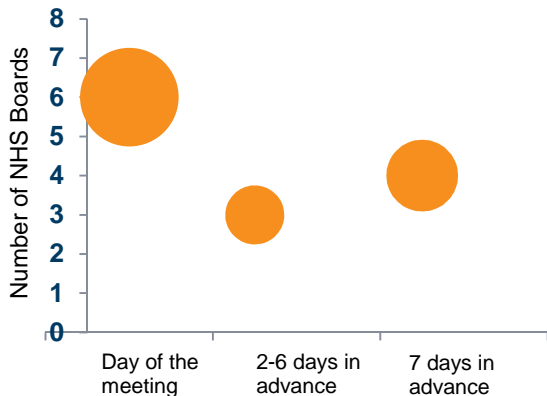


In 2010, 17% of NHS Boards made board papers available on request only. By 2018 all NHS Board papers were available on the organisations website.

- 101.** We also found that all NHS bodies were clear that members of the public could attend the board meetings as observers, and that agendas were generally available in advance.

- 102.** However Exhibit 10 highlights that, of the NHS bodies that specify when Boards papers will be available, almost half do not make papers available until the day of the meeting. In one case, the papers are only available after the meeting has begun.

**Exhibit 10: Timing of availability of Board papers**



We found only 4 NHS boards in Scotland that committed to making Board papers available a week in advance of their meetings.

**Source: Review of NHS Board websites March - May 2018**

**103.** The National Waiting Times Centre Board (NWTCCB) makes board papers available 7 days in advance, but they are removed after the date of the meeting. Only the Board agendas for previous meetings are available online. We found no other health boards in Scotland where this is current practice. NWTCCB was also the only Board we found where board minutes from the previous meeting are held as a private paper.

**Action plan point 3**

**104.** In October 2017, the NHS in Scotland 2017 overview report stressed that more information in the public domain would help to involve staff and communities in developing the future of healthcare. Audit Scotland noted that it is important that the public, staff, and elected officials are able to easily access information about how the NHS and integration authorities are performing so that they can get involved with and hold these bodies to account. The report identified a range of areas where transparency could improve, including allowing the public to attend committee meetings and publishing all committee meeting papers and minutes on the organisation’s website.

**105.** Our own research highlights that, while all NHS boards publish audit committee minutes on their

websites, they are often only available through board papers. The timing of meetings meant that in some instances the most recently available minutes were over 6 months old.

**106.** Only two NHS Boards in Scotland make other key committee papers available publicly. We would support any future review of openness and transparency at the Board, including consideration of the sensitivity of Audit Committee papers, and therefore whether there is scope to make papers available publicly.

**Openness Benchmarking**

**107.** The following exhibits (Exhibit 11 and 12) highlight the results of our assessment of other key openness indicators, and our commentary on the Board.

**Exhibit 11: Availability of key publications**



**Source: Review of NHS Boards’ websites March – May 2018**

**108.** For all but two NHS Boards in Scotland, we found that all key publications by which the Board can be held to account by the public were found on the website including the annual accounts, results of the annual review and Local Delivery Plan/Annual Operational Plan.

**Our assessment of the Board**

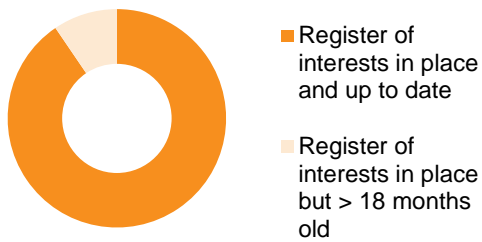
**Green**

All key documents were found on the website, and the publications section of the website is helpful and appears to be up to date

## Disclosure of Interests

109. All NHS Boards have a Register of Interests in place and available on the website, but in two cases, including the NWT CB, we noted that the register is out of date.

### Exhibit 12: Disclosure of interests



**Source: Review of NHS Boards' websites December 2017 – February 2018**

### Our assessment of the Board

**Red**

The publicly available register of interests has not been updated since 2015/16 and as a result of a number of changes to the Board membership is now out of date, particularly for non-executive board members. This matter was raised during our interim audit, but had not yet been rectified by the time of our final audit fieldwork.

**Action plan point 4**

## Risk Management

110. The Board continues to have an appropriate risk management framework in place and during 2017/18 this was further strengthened through the development of an updated risk appetite statement. This statement, developed at a December 2017 Board workshop, aligns to the Board Risk Register with appetite considered for the four pillars across the risk cluster scoring on a scale of one to five.

### Disclosure of Risks

111. As part of our assessment of Board openness, we reviewed the top risks across NHS Scotland, as disclosed in Boards' annual accounts and risk registers (where publically available). We found that there are a number of

strong themes across the NHS in Scotland as Exhibit 13 outlines below.

### Exhibit 13: Top NHS Scotland Risks

- Workforce sustainability: Including the impact of factors such as Brexit, GP Sustainability and the new GP contract
- Financial sustainability: Including the inability to deliver efficiency savings and specific risks about failing to meet financial targets
- Partnership working: Risks were often linked to structural change related to the delivery of Health and Social Care Integration or the creation of the new public health body, but 7 boards mentioned stakeholder engagement.
- ICT: Including the implementation of new systems, cyber security threats, ageing ICT infrastructure and lack of funding to implement an effective ICT strategy.
- Targets: Performance targets were mentioned 7 times by 5 NHS boards – often linked to other risks such as delayed discharges, or funding and management of waiting times.

**Source: Review of NHS Annual Reports 2016-17, December 2017-February 2018**

## Information Governance

### Cyber Security

112. In May 2017, a number of health boards across NHS Scotland were affected by the Wannacry global ransomware attack. In response to this the Scottish Government launched 'A Cyber Resilience Strategy for Scotland: Public Sector Action Plan, 2017/18'.
113. The action plan outlines a number of requirements that public bodies should be taking forward. This includes an action for public bodies to achieve a Cyber Essentials Plus certification by the end of October 2018.
114. Regular updates have been presented to the Audit and Risk Committee and Board. The most recent update to the Board in March 2018 outlined the action plan to achieve the Scottish Government deadline. All actions reported on were complete or on track for completion.

### General Data Protection Regulations

- 115.** The General Data Protection Regulations came into force in the UK on 25 May 2018. The regulations replace the Data Protection Act 1998 and, as well as strengthening existing regulations, the Act has brought in new legislative duties for the Board. The regulations bring significant potential penalties for non-compliance.
- 116.** The Board has used guidance issued by the Information Commissioner's Office to develop an action plan to demonstrate compliance with the new regulations. At the last update, the Board was on track for compliance before the 25 May deadline. The Board's revised privacy policy was published on its website on 25 May 2018.
- 117.** Compliance with the Regulations is an ongoing process, which we will continue to monitor as part of our annual audit procedures in the future. We have not identified any significant risks to compliance with the regulations at this stage.

# 6

## Value for money

Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the Board's own reporting of its performance.

# Value for money



The Board has appropriate performance management arrangements in place that support the achievement of value for money

Progress has been made towards achievement of the local priorities and five out of eight LDP targets are on target for 2017/18

## Performance management arrangements

118. The Board's LDP sets out local targets, priorities and LDP standards which link to the Scottish Government's national outcomes. In 2017/18 the Board set the following six local priorities (Exhibit 14):

### Exhibit 14: Local priorities



119. The Performance and Planning Committee and the Board monitor performance against the priorities every six weeks through a range of reports. The Performance and Planning Committee reviews a large volume of operational performance data from each division, which is reported on by exception to the Board alongside the corporate balanced scorecard. There is also an Efficiency and Productivity group with a defined efficiency and resource focus which meets quarterly. On a 6

monthly basis, they produce an efficiency and productivity scorecard with detailed information on specialised topics such as theatre productivity.

120. The most recent Performance Report noted that the Board is progressing well with plans to support the local priorities.

### Key Performance Indicators

121. The Local Delivery Plan (LDP) sets out the Board's performance expectations against targets. The Board identified eight performance targets in 2017/18. Progress against these targets has been reported by the Board in its Annual Report and Accounts for the year ended 31 March 2018.

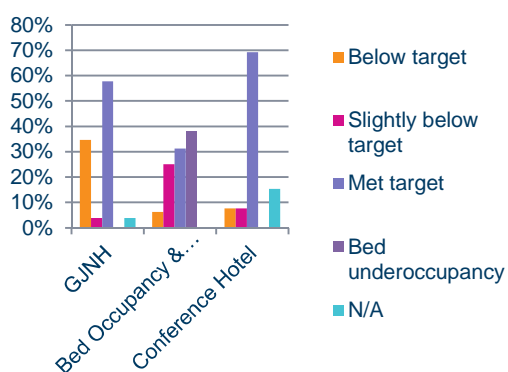
122. Five of the Board's eight reported key performance measures were on target for 2017/18. In comparison to 2016/17, one key performance measure had improved, four were comparable and in three performance had declined. Performance had declined for the following targets:

- Staphylococcus Aureus Bacteraemia (SAB) including MRSA/MSSA infections (per 1000 acute occupied bed days): 0.21 (2016/17: 0.16)
- Sickness absence: 5.07% (2016/17 4.7%)
- 12 weeks Treatment Time Guarantee: 96.4% (2016/17: 99.9%)

123. The Board tracks 55 KPIs, including the eight LDP targets, via a corporate balanced scorecard. The KPI's align with the Scottish Government's quality ambitions: safe, effective and person-centred and the Board's corporate objectives.

124. Monthly performance reports measure each KPI on the scorecard using a red, amber, green (RAG) rating. The scorecard also includes an update on performance and a graph detailing the two-year trend analysis against target. An exception report of all red or amber ratings with detailed narrative explanation helps to focus discussion at Board meetings.
125. Exhibit 15 summarises performance against the Board's 55 key performance indicators, as reported to the Performance and Planning Committee in April 2018 (NB. The corporate balanced scorecard presented had complete figures up to February and only partial figures for March. Complete figures are not due to be reported until the June 2018 meeting).
126. The Golden Jubilee National Hospital (GJNH) met 62% of KPI targets in the year, 3% were slightly below target and 35% of targets were not met. This reflects a slight reduction in performance compared to last year (65% met). The LDP targets are included in these totals, with three out of eight targets not met: sickness absence (5.07% against a target of 4%), the 12 week Treatment Time Guarantee (96.4% against a target of 100%) and maintaining breakeven (as the Board was briefly overdrawn in January 2018, as noted in our interim report).

**Exhibit 15: 2017/18 Performance against KPIs**



127. Bed occupancy and waiting times are tracked, with each ward listed as an individual KPI. While bed under-occupancy appears high, an issue was noted in the most recent Performance Report where bed occupancy in some wards may appear artificially low, potentially due to a delay in updating the patient management system (Trakcare).

128. The Hotel achieved all KPI's, with the exception of two: achieving profit within 10% of the strategy and conference room utilisation. A significant factor in these results was the change to NHS procurement that restricts direct booking of venues and has resulted in a reduction in enquiries and subsequent bookings.
129. Some indicators were marked as not applicable. This was due to migration of the personal development review system at year end.

### Driving continuous improvement

130. In order to support the Boards' savings agenda, as well as driving continuous clinical improvement, the Performance and Planning Committee leads up a number of schemes. This includes oversight of national efforts such as the Patient Flow Programme and the Enhanced Recovery Programme which consider factors such as theatre productivity and improving surgery admission rates. As a surgical centre, improvement projects which focus on theatres can have a major impact.
131. The Performance and Planning Committee also oversees the Strategic Projects Group, where teams can bid for funding and improvement team resource for improvement projects. In order to get funding support, the applicants must demonstrate that investment or improvement resource can be used to make efficiency savings. The bid form and reporting template requires measurable outcomes and clear aims from the outset as well as an agreed reporting frequency. Case studies are drawn from the end project reports.

### Efficiency and quality is improved through benchmarking

132. Effective benchmarking can be challenging as national boards, such as the National Waiting Times Centre Board, operate in a different manner to the territorial boards. As such, benchmarking takes place on a service or procedure basis. For instance, the Board participates in the national cardiac benchmarking programme.
133. Higher level benchmarking is carried out using Discovery, a National Shared Services (NSS) developed platform which compares performance against a suite of peers on a speciality basis. To try and improve the quality

of data, the Board are working with NSS to identify English trusts which may act as more effective comparators than Scottish Boards.



# 7

## Appendices

# Appendix 1: Respective responsibilities of the Board and the Auditor

## Responsibility for the preparation of the annual accounts

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder.

### In preparing the annual report and accounts, the Board and the Chief Executive, as Accountable Officer are required to:

- apply on a consistent basis the accounting policies and standards approved for the NHS Scotland by Scottish Ministers;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Financial Reporting Manual have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate; and
- ensure the regularity of expenditure and income.

### Board members are also responsible for;

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditor responsibilities

### We audit the annual report and accounts and give an opinion on whether:

- they give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the board's affairs as at 31 March 2018 and of its net expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 FReM ;
- they have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are

### We audit the annual report and accounts and give an opinion on whether:

- prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

### We are also required to report by exception if, in our opinion:

- adequate accounting records have not been kept; or
- the annual accounts and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

## Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we consider and report against these four dimensions: financial management; financial sustainability; governance and transparency; and value for money.

## Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Financial Reporting Council's Ethical Standards. In our professional judgement the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff and the Board or senior management that may reasonably be thought to bear on our objectivity and independence.

In May 2017, the Board requested Scott-Moncrieff assist in the preparation of a business case for a digital application. The non-audit work consists of reviewing the reasonableness and completeness of business case assumptions. This work has not involved management decision making and has been undertaken by the Scott-Moncrieff Corporate Finance team, entirely separately from the Public Sector External Audit team. The non-audit fee was £12,000. In line with Audit Scotland planning guidance, approval was obtained from the Scott-Moncrieff ethics partner and Audit Scotland before commencing this non-audit work.

With regard to our appointment to the Board for a second five year term, we can confirm that we comply with FRC's Revised Ethical Standard which states that careful consideration must be given once an audit engagement partner has held the role for a continuous period of ten years. We do not consider our second five year term to contradict the requirement of the Revised Ethical Standards. This is in line with guidance from Audit Scotland which states that there is no expectation for the rotation of audit partners for national health board audits.

# Appendix 2: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The 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. Communication of the matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

## Action plan grading structure

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

The rating structure is summarised as follows:

Grade	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

Action plan point	Issue, Risk & Recommendation	Management Comments
<b>1. Revaluation reserve</b>	<p><b>Issue</b></p> <p>The Board's asset register ('RAM') tracks historic cost and valuations in order to calculate the accounting entries required annually. However, RAM is not fully populated with historic data and does not currently reflect the full value of the revaluation reserve. This means that the entries calculated by RAM do not reflect all movements between reserves, which requires manual intervention to correct.</p> <p><b>Risk</b></p> <p>There is a risk that transfers from the revaluation reserve to the general fund are understated. An immaterial audit adjustment was required in 2017/18 in respect of the 2017/18 transfer.</p> <p><b>Recommendation</b></p> <p>The Board should review the revaluation entries within RAM and ensure that the system is updated to reflect the full revaluation reserve balance in order that future accounting entries properly reflect past valuations.</p>	<p>The information that impacts on the revaluation reserve dates back to 2002 when the NHS bought the site, at this stage the asset register was maintained on a spreadsheet and not a fixed asset system. The Board moved on to a standalone version of RAM, then as part of NSI moved onto the national version of RAM.</p> <p>Whilst we have copies of revaluations undertaken each year we have not been able to verify the accuracy of the entries into RAM from 16 years ago.</p> <p>Given that we would be unable to entry any date into RAM from the original periods and the length of time this exercise would take we discussed that we would take 1/4/18 as the point that we would track all movements in the revaluation reserve and ensure that all entries from this point on accurately reflect any revaluations undertaken.</p> <p><b>Responsible officer:</b></p> <p>Assistant Director of Finance – Governance and Financial Accounting</p> <p><b>Implementation date:</b></p> <p>Immediate</p>
<b>Rating</b>		
<b>Grade 3</b>		
<b>Paragraph ref</b>		
<b>52</b>		

Action plan point	Issue, Risk & Recommendation	Management Comments
<b>2. GRNI accrual</b>	<p><b>Issue</b></p> <p>The National ledger system used by the Board generates automatic accruals for goods received that have not yet been invoiced (GRNI). Where payments are not properly matched on the system there is a risk that automatic accruals are made for items that have already been paid for, effectively double counting expenditure. The Board has an established process in place to identify items in the automatic accrual that are not required. However, while we have found no indication of an over accrual, the current process is not efficient as staff time needs to be spent monthly reviewing accruals that have resulted from expenditure not being properly matched to orders on the system, and that has likely already been identified as unrequired in previous months. In total, entries of c£2.5m have been raised to reduce the GRNI accrual to 'remove' the element that is not actually required (PY comparison £4.2m).</p> <p><b>Recommendation</b></p> <p>The Board should ensure that GRNI accruals that are not required are being promptly amended on the system.</p>	<p>The Board have now put in place a process for reviewing the accrual on a monthly basis, this is done by division each month with the items that require to be removed passed to procurement.</p> <p>To ensure adequate segregation of duties procurement will then request that NSI close these orders.</p> <p>There has been a significant improvement in the value of the accrual and we will continue with this process during 2018/19.</p> <p><b>Responsible officer:</b></p> <p>Head of Procurement/Assistant Directors of Finance</p> <p><b>Implementation date:</b></p> <p>Ongoing</p>
<b>Rating</b>		
<b>Grade 3</b>		
<b>Paragraph ref</b>		
<b>53</b>		

Action plan point	Issue, Risk & Recommendation	Management Comments
<b>3. Board papers</b>	<p><b>Issue</b></p> <p>The Board makes papers available 7 days in advance, but they are removed after the date of the meeting. Only the Board agendas for previous meetings are available online. We found no other health boards in Scotland where this is current practice. The Board was also the only one we found where board minutes from the previous meeting are held as a private paper.</p> <p><b>Risk</b></p> <p>The operations and activities of the Board may lack transparency.</p> <p><b>Recommendation</b></p> <p>Board minutes and papers should be published online where feasible within commercial and privacy considerations. Previous minutes and papers should be archived on the website.</p>	<p>This action is accepted, we will identify if there are specific reasons why the papers are not available online and address these to ensure that in future all appropriate papers on available on line.</p> <p><b>Responsible officer:</b></p> <p>Chief Executive</p> <p><b>Implementation date:</b></p> <p>30 September 2018</p>
<b>Rating</b>		
<b>Grade 4</b>		
<b>Paragraph ref</b>		
<b>103</b>		

Action plan point	Issue, Risk & Recommendation	Management Comments
4. Register of interests	<p><b>Issue</b></p> <p>As identified in our interim audit report, the register of interests published on the Board's website was last reviewed in March 2016 and does not show the interests of all current board members. The Board's website had not been updated by the time of our final audit fieldwork.</p>	<p>The Board did complete the register of interests for 2016/17 as verified at year-end; however the summary register was not published in a timely manner.</p>
Rating		<p><b>Responsible officer:</b></p>
Grade 3	<p><b>Risk</b></p> <p>There is a risk that potential related party transactions are not identified and disclosed in the financial statements. Additionally, the Board is not adhering to best practice as described within <i>On Board</i>.</p>	<p>Assistant Director of Finance – Governance and Financial Accounting/ Head of Corporate Affairs</p> <p><b>Implementation date:</b></p>
Paragraph ref		<p>Immediate. We will ensure that the register of interests is published as soon as is practical after the end of the financial year.</p>
109	<p><b>Recommendation</b></p> <p>The register of interests published on the website should be updated at the earliest opportunity.</p>	

# Appendix 3: Follow up on prior year action plan

	Issue & Recommendation	Management Comments	2018 update
<b>1. Financial Sustainability</b>	As is standard practice, the Board's LDP covers a three year period, and is supported by a five year capital plan. We consider that the good practice being demonstrated in relation to the planned expansion should inform an approach to the Board's overall financial planning on a 5 to 10 year basis. This would help the Board to demonstrate that it is identifying risks to the financial sustainability of its service model; allocating resources to the services with the highest demand and identifying wider risks to financial sustainability.	<p>This is acknowledged and work had already commenced in considering the 5-10 year impact of the expansion and related financial consequences. This is of particular importance to the West of Scotland Health Boards who are likely to access the increased capacity from the expansion</p> <p><b>Action owner:</b> Director of Finance</p> <p><b>Due Date:</b> Will be incorporated into the outline business case planned for end of calendar year 2017 and will be described within the financial plan for 2018-19.</p>	<p><b>Action complete</b></p> <p>Since we raised this point in the prior year report, effort has been directed into shaping longer term regional and national financial plans rather than at the Board level. While these are in draft at the time of audit, they are expected to be finalised during Summer 2018.</p>
<b>Rating</b>			
<b>Grade 3</b>			



## Appendix 4: Unadjusted differences

We identified the following differences during the audit. We have discussed these adjustments with management and have agreed that they would not be incorporated into the financial statements.

Difference	SoCNE		Balance Sheet	
	DR £m	CR £m	DR £m	CR £m
Expenditure (AME)	0.0125			
Reimbursement receivable			0.3625	
Provisions				0.375
<i>Being the reassessment of the potential liability of a CNORIS case as advised 31 May 2018</i>				
Provisions			0.07	
Reimbursement receivable				0.025
Expenditure (AME)		0.045		
<i>Being the adjustment of provisions for legal expense</i>				
Reimbursement receivable			0.0875	
Expenditure (AME)		0.0875		
Reimbursement receivable < 1yr			0.2	
Reimbursement receivable > 1yr				0.2
<i>Being the adjustment of reimbursement receivables and aging</i>				
<b>Net increase / (decrease) in outturn (£million)</b>	<b>0.12</b>			



**Scott-Moncrieff**  
business advisers and accountants

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