

Borders Health Board

2018/19 Annual Audit Report



 AUDIT SCOTLAND

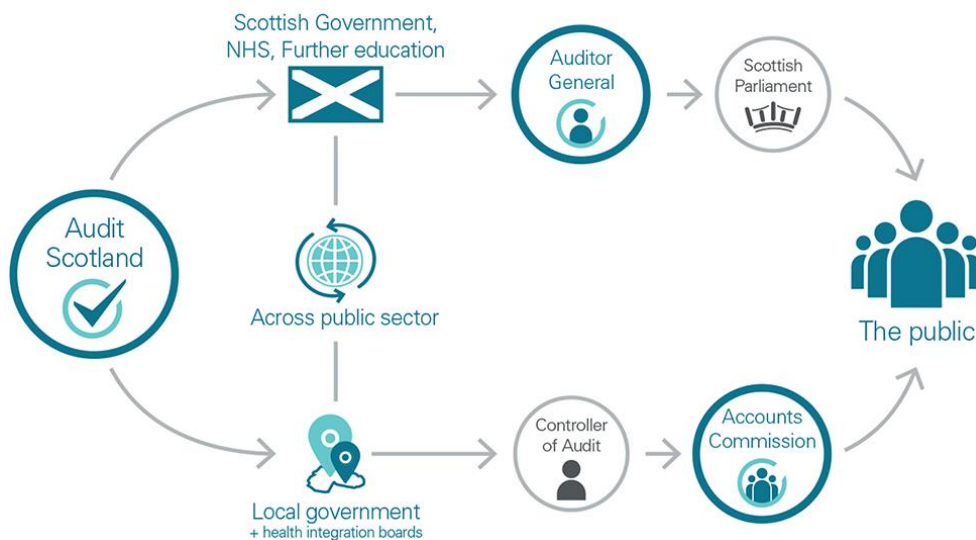
Prepared for the Board of NHS Borders and the Auditor General for Scotland

17 June 2019

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

2018/19 annual report and accounts

- 1 Borders Health Board's (referred to as 'the board' or 'NHS Borders' throughout) financial statements give a true and fair view and were properly prepared. We therefore propose to issue an unqualified audit opinion.

Financial management

- 2 The board required brokerage of £10.1 million from the Scottish Government to balance its revenue budget, in order to meet its financial targets in 2018/19.
- 3 Systems of internal control operated appropriately in 2018/19 with scope for improvement in some areas.

Financial sustainability

- 4 NHS Borders is currently at Escalation level 4 in the NHS Scotland Performance Framework and has agreed external support from Scottish Government. The board faces significant challenge to achieve efficiency savings and restore financial balance in the coming years. The pace of transformational change must increase if the board is to be restored to a financially stable position over the next three years.
- 5 The board currently faces a financial gap of £9.3 million in 2019/20. The development of a balanced three-year financial plan is an immediate priority.

Governance and transparency

- 6 There are satisfactory governance arrangements in place that support scrutiny of decisions made by the board.
- 7 Effective leadership, the pace of delivering change and resources made available to implementing the new Financial Turnaround Programme will be key to restoring financial balance.

Value for money

- 8 Financial planning processes and joint working with health and social care partners have proved a challenge. NHS Borders and its partnership organisations have reported a lack of progress and improvements required regarding the operation of the Borders Integration Joint Board.
- 9 The performance management framework in place is satisfactory. However, the board is reporting variable performance levels against national performance measures.

Introduction

1. This report summarises the findings from our 2018/19 audit of Borders Health Board (referred to as 'the board' or 'NHS Borders' throughout). 2018/19 is year three of our audit appointment.

2. The scope of our audit was set out in our Annual Audit Plan presented to the Audit Committee on 11 December 2018. 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](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2018/19 have been:

- a review of the board's main financial systems
- an audit of the board's 2018/19 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- consideration of the four audit dimensions.

Adding value through the audit

4. We add value to Borders Health Board through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness and effectiveness of financial management and sustainability, governance and performance management arrangements.

5. By doing this we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

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

- Performance Report
- Accountability Report (which includes the Corporate Governance Report, Remuneration and Staff Report and, Parliamentary and Accountability Report)
- Financial statements and supporting notes.

7. The board is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK .

9. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements,
- the financial position and arrangements for securing financial sustainability.

10. 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](#) and supplementary guidance.

11. This report raises matters from our 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.

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

13. 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 2018/19 audit fee of £123,000, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. 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 in due course.

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

Part 1

Audit of 2018/19 annual report and accounts



Main judgements

The board'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 relevant legislation and directions made by Scottish Ministers.

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

Audit opinions on the annual report and accounts

16. The annual report and accounts for the year ended 31 March 2019 are due to be approved by the board on 27 June 2019. As reported in our independent auditor's report:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and 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 relevant legislation and directions made by Scottish Ministers
- we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

17. We therefore propose to issue an unqualified audit opinion for Borders Health Board's 2018/19 annual report and accounts.

Submission of annual report and accounts for audit

18. We received the unaudited annual report and accounts on 7 May 2019, in line with our agreed audit timetable. The board's group accounts included the financial results of the Endowment Fund (known as 'The Difference') and Borders Integration Joint Board (IJB).

19. We noted improvements in the draft accounts provided this year. The working papers provided were of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risks of material misstatement

20. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

21. We reported a total of six risks in our 2018/19 Annual Audit Plan. There are two risks which remain ongoing issues for the board which are therefore included in our action plan at [Appendix 1](#):

- There remains a significant risk regarding the board's financial sustainability;
- The board continues to operate an out-dated and unsupported version of TrakCare. There is a risk to service provision if this system should fail.

22. We provide updates on these issues under our wider audit dimensions later in this report. There are no issues to report from our audit work in respect of the financial statement risks we identified in our Annual Audit Plan.

Materiality

23. Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of 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.

24. 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.

25. On receipt of the unaudited annual report and accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£2.6 million
Performance materiality	£1.3 million
Reporting threshold	£50,000

Source: Audit Scotland




Significant findings from the audit in accordance with ISA 260

26. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

27. The significant findings 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.

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Accrual adjustments</p> <p>The original workings provided showed there had been a change in the methodology for the holiday pay accrual compared to prior year. This concerned annual leave entitlement for bank staff and was a factor in the total accrual increasing considerably from prior year, from £1.8 million in 2017/18, to £2.4 million in 2018/19 (a 32% increase).</p> <p>Management agreed to review their workings and a subsequent amendment was made to reduce the overall holiday pay accrual by £437,000 to a final total of £1.9 million. There were a number of other payroll accruals which required adjustments to ensure the accounts accurately reflected the board's liabilities.</p> <p>We reviewed the revised workings and note the holiday pay accrual is now calculated on a reasonable basis.</p> <p>The overall net effect was a reduction in accruals of £28,000 as adjustments were largely offset. These amendments are recognised in the final version of the annual report and accounts and detailed in Appendix 3. We are satisfied that these accruals are now accurately reported.</p>	<p>We recommend a full review of the methodology for material payroll accruals which are recognised each financial year. This should include discussions with Scottish Government and other health boards to review best practice.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>
<p>2. Valuation of finance lease</p> <p>The Borders General Hospital site includes Eildon Residence and Recreation block used by medical staff. These buildings are held under a long-term finance lease and are therefore recognised as assets on the Statement of Consolidated Financial Position. However, the leased buildings are not being revalued periodically in accordance with the board's accounting policies and the NHS Capital Accounting Manual. The leased buildings currently have a Net Book Value of £675,000.</p> <p>We have reviewed lease workings and concluded that interest and capital repayments have been accounted for correctly, and therefore conclude this asset is not materially misstated.</p>	<p>The Eildon lease should be revalued in line with accounting policies.</p> <p> Recommendation 2 (refer appendix 1, action plan)</p>
<p>3. Stock certificates</p> <p>We noted improvements to stock working papers this year based on our prior year recommendations. However, our review found that not all year-end stock balances were supported by signed stock certificates, as required by the board's stocktaking procedures.</p> <p>We reviewed further workings to support material stock balances and conclude inventories are adequately recorded in the annual report and accounts.</p>	<p>We recommend all stock areas complete and sign stock certificates and return these to the finance department at year-end.</p> <p> Recommendation 3 (refer appendix 1, action plan)</p>

Qualitative aspects of the audit

28. We noted improvements this year to the management commentary sections of the annual report and accounts. We recommended some disclosure amendments for areas such as the governance statement and accounting policies to ensure all risks and estimations were fully explained. These were subsequently included in the final version of the accounts and we therefore have no significant issues to report in this area.

How we evaluate misstatements

29. As noted in [Exhibit 3](#), there were accrual adjustments required to the unaudited annual report and accounts arising from our audit which were above our reporting threshold. The net effect was to reduce accruals (and therefore increase the final surplus reported) by £28,000. These adjustments are summarised in [Appendix 3](#). All individual misstatements which exceeded our reporting threshold have been corrected in the audited financial statements.

30. We also received late notification regarding a calculation error included in the national liability for the clinical negligence and other risks indemnity scheme (CNORIS). The liability is calculated by the NHS Central Legal Office based on local returns completed by health boards. The errors identified would impact on each health board's CNORIS provision recognised in their financial statements, although this would be offset by the amount reimbursed for CNORIS and therefore does not impact on the outturn position. They will also impact on the share of the national CNORIS liability recognised at each board. Based on the methodology used by the Scottish Government, Borders Health Board's provision is understated by £132,000.

31. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management do not propose to adjust for the provision item noted above as the amount is linked to nationally provided information and not considered material in the context of the financial statements, and is below our audit materiality levels. In addition, any adjustment would not impact on the outturn relative to the Revenue Resource Limit (RRL) as provisions are accounted for under Annually Managed Expenditure (AME).

Follow up of prior year recommendations

32. The board has made good progress in implementing our prior year audit recommendations. Only one action is considered not yet fully implemented. Revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Good practice

33. A full set of draft annual report and accounts were presented and discussed at an additional Board session (including both Executive and Non-Executive members) on 27 May 2019. This gives Board members a good opportunity to comment and discuss matters disclosed in the accounts with the finance team and we consider this an area of good practice.

Part 2

Financial management



Main judgements

For the first time, the board required brokerage of £10.1 million from the Scottish Government to balance its revenue budget, in order to meet its financial targets in 2018/19.

Systems of internal control operated appropriately in 2018/19 with scope for improvement in some areas.

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

Financial performance in 2018/19

34. The board, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorate (SGHSCD) annually. As illustrated in [Exhibit 4](#), after receiving brokerage of £10.1 million included in the revised core Revenue Resource Limit received on 13 May 2019, the board operated within all limits during 2018/19.

Exhibit 4

Performance against resource limits in 2018/19

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Variance Surplus/(Deficit) £m
Core revenue resource limit <i>(includes additional £10.1m brokerage)</i>	237.77	237.68	0.09
Non-core revenue resource limit	6.97	6.97	0
Total revenue resource limit	244.74	244.65	0.09
Core capital resource limit	4.57	4.55	0.02
Non-core capital resource limit	0	0	0
Total capital resource limit	4.57	4.55	0.02
Cash requirement	248.08	248.08	0

Source: Borders Health Board Annual Report and Accounts 2018/19

Escalation and brokerage

35. The Board continues to face significant financial challenges and is currently at Escalation Level 4 in the NHS Scotland Performance Framework. Level 4 is described in the Framework as '*Significant risks to delivery, quality, financial performance or safety; senior level external support required*'. Support from the Scottish Government Health and Social Care Directorate Board recovery team has been in place since mid-December 2018.

36. This led to the board receiving non-recurring brokerage funding of £10.1 million in 2018/19 to support its revenue budget, including cost pressures in acute services and delegated IJB services at the Borders General Hospital (BGH). Brokerage is an advance of funding from the Scottish Government (SG) which usually has to be repaid. However, SG announced in October 2018 that all health boards would not require to repay any outstanding brokerage received as at 31 March 2019. Therefore NHS Borders does not need to repay the £10.1 million.

37. We reported last year that NHS Borders produced a detailed financial plan for 2018/19, and then indicative forecasts for financial years 2019/20 and 2020/21. However, the board has been unable to produce a balanced financial plan as it is unable to fully meet its efficiency savings targets. Therefore, as part of the Financial Turnaround programme, the board has been tasked with revising its financial plans and savings opportunities in order to return to a financially stable position.

38. The terms of any future brokerage will be dependent on the board's ability to produce a balanced three-year financial plan, which management are aiming to finalise in autumn 2019. From 2019/20, NHS boards in Scotland will be able to exercise flexibility up to 1% over or under budget, with a requirement to break even every three years.

Revenue position

39. After receipt of brokerage funding, the board recorded a small surplus of £88,000 (0.02%) against its 2018/19 core revenue resource limit (RRL) of £237.7 million. The financial pressures the board faces continue to grow. The financial stability of the organisation is a cause for concern. The financial outturn in 2018/19 was again achieved as a result of a number of non-recurring measures. This included a transfer (as agreed with the Scottish Government) of £1 million from the Capital Resource Limit (CRL) to the RRL. A number of areas of capital works have now been postponed for three years to support the board's revenue budget.

40. These short-term measures are unsustainable. In future, it will be extremely challenging to maintain financial balance and there is a real risk that the board will again not achieve its financial targets in 2019/20. Senior management continue to work closely with the Scottish Government to implement the Financial Turnaround programme. This programme and the board's financial sustainability are discussed further in the next sections of this report.

Cost Pressures

41. The main cost pressures identified by NHS Borders in 2018/19 were as follows:

- Pressures continued in set aside budgets for BGH nursing costs due to absence and vacancy levels and the use of supplementary staff.
- The continuing requirement for surge beds to support delayed discharges has had a further impact on nursing and medical costs.
- IJB directed services reported an overspend of £5.2 million for 2018/19.
- External Healthcare Providers budget pressures continued in 2018/19, particularly due to pressures seen in Unplanned Activity and Extra Contractual Referrals.

Capital position

42. NHS Borders received a total capital allocation of £4.6 million in 2018/19. After accounting for the £1 million CRL to RRL transfer noted above, this revised allocation was almost fully utilised with only a small underspend of £21,000 reported in the financial statements. Capital expenditure this year included ongoing work on the Information Management & Technology (IM&T) Road to Digital Programme, completion of schemes at Eyemouth and Knoll Health Centres and replacement medical equipment.

43. NHS Borders has prioritised areas in its capital plan 2019/20 to 2023/24; including further IT infrastructure and development, estates and facilities works, and continued upgrades to its Primary Care premises. Funding is still to be secured for capital plans beyond 2019/20. This includes evolving plans for the Borders Health Campus Development which are in very early stages.

Backlog maintenance

44. The last Property & Asset Management Strategy (PAMS) 2017 noted that backlog maintenance is required to bring facilities up to the highest standard possible. The backlog maintenance requirement is estimated at £8.3 million, which is an increase of £1.4 million from that reported within PAMS 2015. Of the £8.3 million reported, no backlog maintenance is categorised at 'high' risk, a total of £2.4 million is deemed 'significant' risk with the remaining backlog noted as moderate risk (£2.1 million) and low risk (£3.8 million). It should be noted that 66% of the board's properties were built between 1966 - 1986, with only 3% built post 2007. The board are due to produce a new iteration of their PAMS later in 2019 after an external review of their estate is completed by Health Facilities Scotland (a division of National Services Scotland).

45. From review of the 2019/20 Financial Plan, this backlog will be partly addressed in capital spending forecasts under planned work for estates and facilities, with amounts for 'Rolling Replacement Programme' totalling £1 million over the next 5 years and 'Backlog/Estates Strategy/Ward Refurbishment' totalling £1.75 million over the next 5 years. With plans to commit only £2.75 million over the next 5 years in Estates, there is a £5.54 million shortfall in backlog maintenance.



Recommendation 4

Management should update the Property & Asset Management Strategy data and consider which elements of backlog maintenance need prioritising. A business case should be considered if current levels of capital funding for its Estate are inadequate.

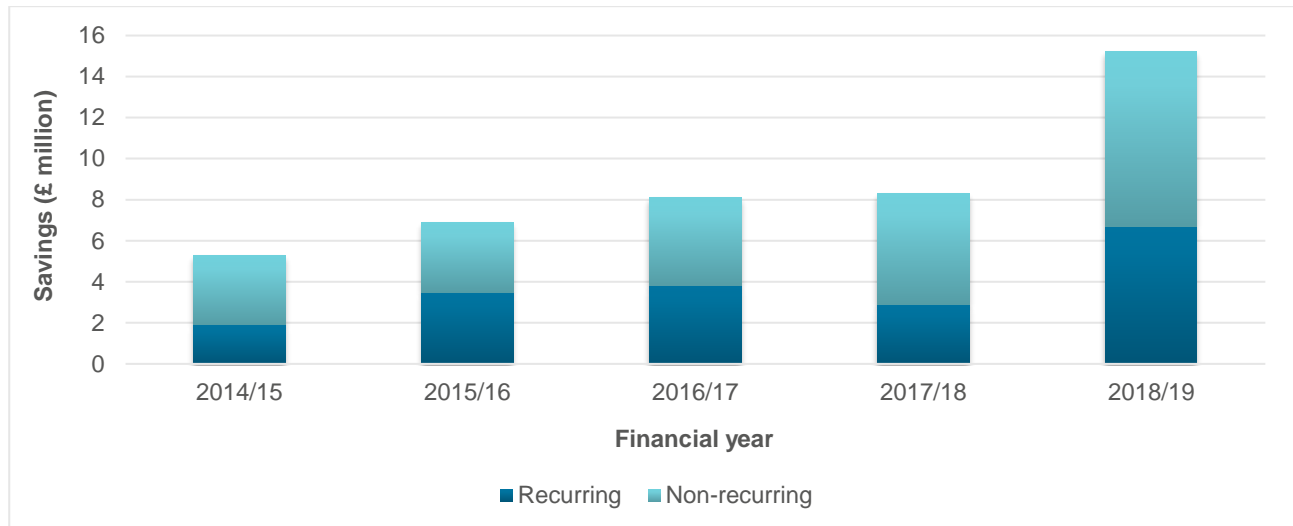
Efficiency savings

46. Significant efficiency savings of £24.8 million were required in 2018/19. Savings of this magnitude are unprecedented. The board did not achieve its target, but did deliver a record £15.2 million savings in year. This was still a shortfall of £9.6 million against the target level.

47. In addition, the recurring element of £17.6 million was not fully achieved with a recurring shortfall of £13.8 million carried forward to 2019/20 from previous years. In 2018/19, 44% of savings were achieved on a recurring basis with the remainder on a non-recurring basis (56%). 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.

48. As illustrated in [Exhibit 5](#), the board has been increasingly reliant on non-recurring savings in recent years. In our opinion, this situation is not sustainable in the longer term. The board has produced an unbalanced financial plan for 2019/20 (discussed further in the next section of the report) and as it stands will again be dependent on additional Scottish Government funding next year to deliver financial targets.

Exhibit 5 Savings – recurring and non-recurring



Source: Borders Health Board Annual Report and Accounts 2014/15 to 2018/19

Budgetary processes

49. We reviewed the board's budgetary processes including budget setting and monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we observed that senior management and Non-Executive Directors receive regular and accurate financial information on the board's financial position. However, our interim audit found that the finance team has scope to improve its documentation of meetings with budget holders, to evidence budget pressures are scrutinised and escalated to senior management where required.

50. Management must ensure their budget monitoring and processes are well-designed, in order to progress with future financial plans and deliver savings. The achievement of restoring financial balance will rely on buy-in from across the organisation, supported by the finance department.

Systems of internal control

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

52. Our findings were included in the management report presented to the Audit Committee on 20 March 2019. We concluded, subject to management addressing the points raised in the report's action plan, that the board:

- 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.

Internal audit

53. The internal audit function for 2018/19 was 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.

54. This year's internal audit reports did not directly relate to testing key financial controls. Therefore we have not carried out any re-performance of their work, or placed assurance on internal audit work for the purposes of our financial statements audit. We have placed assurance on internal audit's reports for reporting on the wider audit dimensions.

Standards of conduct for prevention and detection of fraud and error

55. The board is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place. These procedures are captured in the board's Code of Corporate Governance which was most recently reviewed in November 2018 and is reviewed annually. This governance document includes Codes of Conduct for board members and staff, and a Counter Fraud Policy.

56. We have concluded that the board has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

National Fraud Initiative

57. 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.

58. We raised recommendations last year noting that there was a shortage of resources for the last NFI exercise and investigation work should be documented more promptly. For the 2018/19 NFI exercise, these issues have been addressed. This has ensured good progress has been made investigating and recording matches this year, as summarised in [Exhibit 6](#).

Exhibit 6 NFI activity



1,224

Total matches

35

Payroll high/medium risks

1,161

Completed/closed investigations

Source: NFI secure website: www.nfi.gov.uk

59. The results of NFI activity are regularly reported to the Audit Committee by the Fraud Liaison Officer. At the time of writing, no data matches have been concluded as fraud or error in this latest NFI exercise. We conclude that the board has made improvements this year and have been pro-active in investigating matches and reporting the outcomes of NFI activity.

Shared systems

60. The NHS in Scotland procures a number of service audits each year for shared systems: NHS National Services Scotland (NSS) procures service audits covering primary care payments and the national IT contract; and NHS Ayrshire & Arran procure a service audit of the National Single Instance eFinancials service. We have considered the content of service auditor assurance reports and there are no significant findings to draw to your attention.

Dependency on key suppliers

61. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.

62. As part of the board's preparations for the United Kingdom exiting the European Union (Brexit), the procurement department carried out a risk assessment of key suppliers which may affect continuity of service using a Red, Amber, Green (RAG) status. Red status was assigned to several IT suppliers and also catering suppliers. Management have advised food contracts/suppliers are being addressed nationally. We discussed dependencies on IT suppliers with IM&T management and as the majority of suppliers are sourced via the national framework, they considered the risk of failure of IM&T's key suppliers to be low.

ICT update

63. We raised a risk in our Annual Audit Plan noting the board were operating with an out-dated and unsupported version of TrakCare (electronic medical records system for patients) and there is risk to service provision if the system should fail. We met with IM&T management in May 2019 to discuss plans to upgrade this key system and other ongoing projects. The position is provided as follows:

TrakCare

- The board remain on the 2010 version of TrakCare. IM&T have plans in place to upgrade to the 2018 version in the next 6 to 9 months, leading to a roll out in May 2020 for users.

NHS Borders considered various options and have chosen to move to a fully managed service via an external company who will host the 2018 version of TrakCare, with the board paying a fee for this service. This approach has been used by health trusts in England. This option is considered cost effective, as the board do not have to build a new cluster on-site.



Recommendation 5

The board still operate with an out-dated and unsupported version of TrakCare. There is a risk to service provision if this system should fail. Management should progress promptly with plans to upgrade this key system.

Other ICT projects

64. Other programmes of work in the IM&T department include:

- **Second data centre:** An option appraisal process is underway to determine a preferred option for the delivery of a backup 'data centre'. This project will be included in the Board's IM&T Road to Digital programme for 2019/20. Funding for the programme has yet to be agreed with Scottish Government eHealth Directorate.
- **Upgrading to Windows 10:** The move away from Windows XP was originally planned to finish at the end of 2018 - this has slipped to June 2019. The IM&T department have faced a lack of skilled resource on this project and have since been progressing with in-house training. The board also have a number of devices which use Windows 7 for which the end of life is January 2020. The roll out of Windows 10 is planned to commence from January 2020 to March 2020. Virtual Desktop Infrastructure (VDI) implementation is then planned for the BGH campus.
- **Email upgrade:** NHS Borders are aiming to move off the current Exchange 2007 server for email as a priority, as this has been 'end of life' since January 2017. IM&T therefore plan to move to Office 365 (email only) within the next three months for 3,500 users.
- **Cyber resilience:** IM&T are working through tasks outlined in Scottish Government's Public Sector Action Plan. Management advise to improve their cyber resilience there are some barriers, including the need to replace all Windows XP devices (unsupported system) and upgrades required to their email server. By focusing on the programme of work noted above, this should improve the board's cyber resilience at the same time. The board are planning to progress cyber resilience work in the next 6 months.

65. We conclude NHS Borders has made improvements to its ICT infrastructure with limited resources available, but still have work to do to upgrade key systems. We will monitor these ICT projects and follow up as part of next year's audit.

Part 3

Financial sustainability



Main judgements

NHS Borders is currently at Escalation level 4 in the NHS Scotland Performance Framework and have required external support from Scottish Government. The board faces significant challenge to achieve efficiency savings and restore financial balance in the coming years. The pace of transformational change must increase if the board is to be restored to a financially stable position.

The board currently faces a financial gap of £9.3 million in 2019/20. The development of a balanced three-year financial plan is an immediate priority.

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.

Financial planning

66. Borders Health Board's Annual Operational Plan (AOP) for 2018/19 set out how the board's financial, workforce and services plans support its strategic priorities. The draft AOP and accompanying financial plan were submitted to Scottish Government in March 2018 in line with guidance.

67. The board have since prepared a Financial Plan in April 2019¹ which provides a focused plan for financial year 2019/20. As part of the Financial Turnaround Programme (discussed further in Part 4 of this report) the board's priority is to produce a three-year plan which restores the board to financial balance. This three-year financial plan is due to be submitted to the Board for consideration in autumn 2019.

68. The Financial Plan 2019/20 does not forecast a balanced position. The one-year plan delivers significant savings of £12.4 million but with a remaining financial gap of £9.3million. The board acknowledges that the efficiency challenge the organisation is facing in 2019/20 is significant and at a level that will take a number of years to address, with 2019/20 being the first year of this plan.

69. For boards where brokerage is required SGHSCD expects an improvement in the financial outturn compared to 2018/19. In addition Annual Operational Plans should demonstrate how, by the end of the three year period, they will return to financial balance. The board's requirement for additional into 2019/20 have already been flagged to SGHSCD.

70. The plan recognises the significant cost pressures facing the board. These include a considerable savings deficit of £13.8 million carried forward from 2018/19, staff pay increases, increased prescribing costs and cost pressures in a number of services.

¹ Financial Plan 2019/20 presented by the Director of Finance at the Board meeting on 4 April 2019

71. Across NHS Scotland, boards which are currently below the NHS Scotland Resource Allocation Committee (NRAC) parity levels will receive an additional allocation. However, Borders Health Board are above NRAC parity so they will not receive an additional allocation. There are significant funding pressures over the duration of the plan. SGHSCD has confirmed a funding uplift of 2.6% (£5.1 million) for 2019/20.

Medium to long term efficiency savings

72. The board is required to achieve efficiency savings of approximately 9% of its baseline RRL in 2019/20. This is equivalent to a saving of £21.7 million with the majority (88%) on a recurring basis. To date the board has identified £12.4 million of savings for 2019/20 leaving a funding gap of £9.3 million. Due to the current financial position and focus on the short term circumstances, the board has not forecast efficiency savings required beyond 2019/20 at the time of writing this report.

73. The board aims to produce a three-year balanced financial plan by autumn 2019. However, given the Financial Plan 2019/20 currently forecasts a substantial financial gap and there are significant unmet savings carried forward from previous years, there is a significant risk the board will not be able to restore itself to a financially sustainable position within three years. The pace of transformational change and delivery of savings must increase if NHS Borders is to restore itself to a financially stable position.



Recommendation 6

The board should prioritise its savings plans to identify how the target savings of £21.7 million in 2019/20 will be achieved. The development of a three-year financial plan should be an immediate priority.

Changing landscape for public financial management and medium to long term financial planning

74. Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity.

75. A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

76. The board should closely refer to this Strategy when setting their own upcoming three-year financial plan, to ensure they identify and address the risks relating to financial sustainability across the medium and long term.

Workforce planning

77. The board is facing a number of workforce challenges and is due to refresh its workforce plans in summer 2019. The current 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, particularly for Medical and Dental staff
- recruitment and retention strategy for Medical staff.

78. Management should prioritise updating their workforce plans to address these issues and also consider the following staffing features noted below.

Vacancy rates

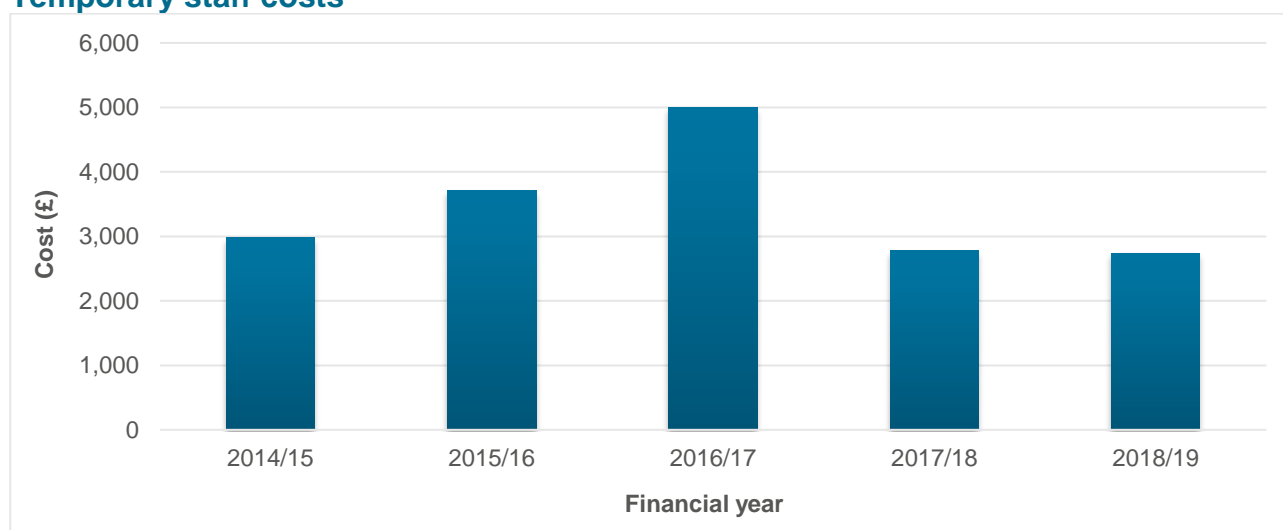
79. NHS Borders, like many other health boards, are facing challenges in recruiting and retaining staff. The latest NHS Scotland Workforce statistics² as at March 2019 note the following vacancy rates for NHS Borders:

- Nursing & midwifery staff: NHS Borders vacancy rates were 5.1% (March 2018: 4.9%). This compared to the overall national rate of 5.0%. NHS Borders rank the 6th highest vacancy rate out of the 14 territorial and specialist health boards measured. The rise in this vacancy rate is linked to the requirement for agency nurses as discussed below.
- Medical consultants: NHS Borders consultant vacancy rates were 4.8% (March 2018: 3.2%). This compared to the overall national rate of 7.8%. NHS Borders rank the 2nd lowest vacancy rate out of the 14 territorial boards measured.

Temporary staff

80. As a result of recruitment and retention issues 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](#). Agency staff costs in 2018/19 were £2.74 million (2017/18: £2.79 million). Good work continues to reduce reliance on temporary staff since this peaked at just over £5 million in 2016/17, such as the continued use of NHS bank staff instead of external agencies and ongoing work to improve the staff rota system used at the BGH.

Exhibit 7 Temporary staff costs



² NHS Scotland Workforce, Latest Statistics as at March 2019, Information Services Division

81. Cost pressures in 2018/19 are partly due to the continued need for agency nurses to cover for rota gaps and sickness absence, with agency nurse spend £1.0 million in 2018/19 (2017/18: £1.2 million). Medical agency spend in 2018/19 was £1.1 million (2017/18: £1.0 million). The use of temporary staff is putting pressure on the board's budget and does not always represent value for money.

Sickness rates

82. 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 an absence rate of 5.4% in 2018/19 (2017/18: 5.3%). This is consistent with the NHS Scotland national rate of 5.4% reported as at March 2019.

83. We recommended in our Annual Audit Report last year that the board's Sickness Absence Working Group should meet more frequently and liaise with management to take appropriate action to reduce sickness rates. We are pleased to note this group has been meeting more frequently in 2018/19 and a new Terms of Reference has been established. Training events have also been scheduled for 2019/20. However, sickness rates continue to increase at NHS Borders.

Recommendation 8 (prior year matter)

As the board is due to refresh its workforce plans in 2019, we recommend the plan should establish actions required to reduce sickness rates and target key departments, as sickness impacts on delivery of services and the financial position by requiring agency staff to provide cover.

EU Withdrawal

84. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU leaders have now backed a seven month extension until 31 October 2019. 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, funding and regulation.

85. Borders Health Board have been preparing for EU withdrawal in the following areas of the organisation:

- **Workforce:** Following the NHS in Scotland nationality survey undertaken in December 2018, 57 EU citizens were noted as currently employed by NHS Borders. The board has offered support to these staff in applying for continuation of residency status post Brexit. Management have also been reviewing qualifications and registration of staff affected. Brexit workforce implications will be addressed in the forthcoming Local Workforce Plan.
- **Procurement & stock:** NHS Borders have confirmed that no stockpiling is taking place, in line with guidance from National Procurement. The Head of Pharmacy has coordinated communications with local pharmacies and GP practices.
- **Business continuity and resilience:** The board has reviewed its current action plans, in particular in relation to catering services. The Lothian & Borders Local Resilience Partnership (LRP) had also convened teleconferences to coordinate EU withdrawal issues.

86. We conclude the board has made good progress in preparing for EU withdrawal and is discussing matters with appropriate partners. It is important that workforce issues and any known financial implications are carefully factored into the board's forthcoming three-year financial plan, as the terms of EU withdrawal become clearer in the coming months.

Part 4

Governance and transparency



Main judgements

There are adequate governance arrangements in place that support scrutiny of decisions made by the board.

Effective leadership, the pace of delivering change and resources made available to implementing the new Financial Turnaround Programme will be key to restoring financial balance.

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.

Governance arrangements

87. Borders Health Board is a single legal entity, accountable to the Scottish Government Health and Social Care Department and to Scottish Ministers for the functions and performance of the board. 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.

88. The board is supported in this role by several standing committees which are directly accountable to it. A change in 2018/19 has been the set up of a new Finance & Resources Committee (FRC), to oversee the board's financial strategy. The FRC replaces the previous Financial Performance Group. The new FRC has been created to ensure additional attention and focus is given to the board's financial challenge. The FRC's membership includes Non-Executive Directors, with Executive Directors also in attendance. A summary of the board's revised committee structure is provided in [Exhibit 8](#).

Exhibit 8

Committee structure



Source: NHS Borders Code of Corporate Governance

Financial Turnaround Programme

89. In November 2018, the board moved to Level 4 in the NHS Scotland Ladder of Escalation. As part of directed support from Scottish Government Health and Social Care Directorates, board members and the Board Executive Team have worked with management to devise changes to governance arrangements to support the Financial Turnaround Programme. These changes are summarised as follows:

- A new Financial Turnaround Programme³ has been created to replace the previous Better Borders transformational programme.
- Since December 2018, the Scottish Government's Head of Board Recovery and team have been working alongside the Board Executive Team to determine the best approach to finalising a robust financial plan. The plan aims to return the organisation to financial balance and to build a framework for change to effect rapid and sustainable improvement to the financial position.
- A new Project Management Office (PMO) structure has been developed. The Director of Strategic Change & Performance is performing the role of PMO Director and it is envisaged that, in the short term, the PMO Director will be supported by a Turnaround Director with experience of successfully effecting and delivering similar Financial Recovery Programmes at pace elsewhere.
- A number of new governance groups have been set up to support the Turnaround Programme, including a Clinical Advisory Group, a Grip and Control Committee, and a number of workstreams focusing on financial improvement.

³ NHS Borders Financial Turnaround Programme, Strategy & Performance Committee paper, February 2019

90. The new governance structure aims to put senior clinicians at the heart of the PMO and transformation programme. It is clear more resources and capacity is required for the new structure, which in the short term (6-12 months) will need to be supplemented by external support.

91. The priorities for the Financial Turnaround Programme have been to focus on developing a robust financial plan for 2019/20 by the end of March 2019, and developing a 3-year balanced financial plan in autumn 2019.

Leadership changes and review

92. We reported in our Annual Audit Plan that the leadership of the board was expecting a number of changes this year. The following key members of senior management have now left the board:

- The previous Chief Executive retired in early April 2019. A new Chief Executive started on 22 April 2019.
- The previous Chair of the board reached the end of his 8-year appointment in March 2019. An interim Chair took up post from 1 April 2019. The board continues to recruit to appoint a permanent replacement.
- The Director of Nursing and Midwifery left the board in November 2018, with the Associate Director of Nursing & Midwifery taking up this position on an interim basis since then.

93. In September 2018, an external diagnostic review of NHS Borders' transformational programme and its barriers to delivery was commissioned by the Scottish Government. The review was completed by a programme management consultancy service. The evaluation framework used to review NHS Borders was developed from NHS Tayside's emergent recovery programme. Following the review, the board were issued with a report which included several recommendations.

94. In support of the Financial Turnaround Programme, the Board Executive Team commissioned an external Organisational Development (OD) expert to undertake a diagnostic review in December 2018 with senior leaders. The purpose of this exercise was to design initial plans to develop an OD programme tailored for NHS Borders, to enable a supportive environment and organisational culture ready for change. Management intend to progress with the OD programme in the next 18 months.

95. Leadership of the organisation is crucial at this time, as the board faces significant financial and operational challenges in the months and years ahead. We will continue to monitor the leadership and decision making of the board and new senior management appointments, to ensure appropriate governance arrangements remain in place.

Audit Committee and Board members

96. From our attendance at Audit 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.

97. We have previously recommended that the board's Non-Executive Directors 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. Board members should be clear about their roles and responsibilities and kept up to date on current issues during this demanding period.

98. This is a challenging time for the board and effective leadership and governance will be key to the success of transformational change. We conclude that governance arrangements are satisfactory. The Financial Turnaround

Programme is in its early stages and the speed of change and resources made available for the programme will be key to restoring financial balance to the board.

Openness and transparency

99. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. Transparency means that the public 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.

100. There is evidence from a number of sources which demonstrates NHS Border's commitment to transparency including:

- public availability of board papers and minutes on the website
- the annual accountability review (where members of the public can attend)
- the development of the form and content of annual reports.

101. Other examples of transparency and engagement with the public include the use of Care Opinion (online feedback service for patients and service users) dealing with Freedom of Information requests and the board's Complaints Handling Procedure.

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

Performance report

103. In addition to the opinion on the performance report covered in Part 1 of this report, we also consider the qualitative aspects of the performance report. The purpose of a performance report is to provide information on a body, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of a body's performance and, is essential in helping stakeholders understand the financial statements.

104. We consider the 2018/19 performance report provides good coverage of the board's main activities, financial arrangements and non-financial performance against standards. The quality of the management commentary included in the annual report and accounts has been an area of improvement since year one of our audit appointment.

Transparent reporting of financial and performance information

105. A finance report and detailed performance scorecard are presented regularly at board meetings. The new Finance & Resources Committee provides an additional forum to challenge the finances and saving opportunities available. From our review of board papers and minutes and attendance at these meetings, we confirm that these papers are discussed and scrutinised.

106. 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.

107. In light of the board's financial position, an additional review of financial plans was also arranged in September 2018. A report was completed by the NHS Lanarkshire Director of Finance and considered by the Finance and Resources Committee. The review provided assurance to the board regarding the assumptions used in financial planning. It also concluded that patient flow, bed models and delayed discharge would be key areas for review and reform for NHS

Borders, with clarity given on the respective responsibilities of the health board and IJB. These findings are important for management to discuss with partnership bodies and to consider in its financial planning.

108. In terms of non-financial performance reporting, we consider 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.

Health and social care

109. The Scottish Borders Integration Joint Board (IJB) is the health and social care partnership between NHS Borders and the Scottish Borders Council. 2018/19 was now the third 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 2018/19 to the IJB. The Board's total contribution to the IJB in 2018/19 was £134.7 million (2017/18: £126.5 million).

110. We reported a risk in our Annual Audit Plan regarding the accounting treatment of the IJB. We noted that the arrangements to record the sum set aside for hospital acute services, under the control of the Borders IJB, are not yet operating as required by legislation and statutory guidance. In common with other IJBs, the set aside sum has been agreed for prior financial years based on the budget agreed at the start of the year between NHS Borders and the IJB. These transitional arrangements for 2016/17 and 2017/18 were agreed by the Scottish Government.

111. Scottish Government have since provided further guidance which extend these transitional arrangements, allowing health boards to calculate the set aside element of their resources in 2018/19 to the IJB based on budgeted amounts, rather than actual figures. NHS Borders have complied with this guidance. However, there remains a risk that in future years the sum set aside recorded in the NHS Borders annual report and accounts will not reflect actual hospital use and expenditure, as required by legislation.



Recommendation 7

The board should consult on this matter with Scottish Government and other health boards to develop their accounting practices for the IJB sum set aside in 2019/20.

112. During 2018/19 Borders IJB introduced a 'Discharge to Assess' policy. This has been supported by new inpatient facilities at Tweedbank and Hospital to Home health care support teams across five areas in the Scottish Borders.

113. Section 5 of this report includes our review of the joint return on effective partnership working completed by NHS Borders, Scottish Borders Council and Borders IJB. This provides insight into the challenges the board and its partners have to address in order to make health and social care integration work effectively.

2020 Vision

114. 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.

115. The 2018/19 Annual Operational Plan includes details of the board's Improvement Plan. This was the last 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.

116. 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 the board 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 would be tested against the key principles with a view to improve the quality and effectiveness of services. The Annual Operational Plan and Clinical Strategy are both subject to review and scrutiny by the board.

117. We conclude that the board is giving the 2020 Vision appropriate profile. However, we have noted concerns regarding the pace of transformational change at the board and mixed performance against the national targets suggest progress towards the delivery of the 2020 vision will be challenging. A review of the board's performance against key measures is included in part 5 of this report.

Local Inspections

118. The board was subject to an unannounced inspection by Health Improvement Scotland (HIS) in November 2018. This reviewed care of older people in acute hospitals at the Borders General Hospital. The HIS report⁴ noted areas where the board is performing well, such as the organisation of mealtimes and good development of training for link nurses. The report also noted areas for improvement, such as the use of the Malnutrition Universal Screening Tool which was not always correctly completed within the required timeframe, and a lack of documented care planning.

119. The report also recognised the improvement work undertaken through the 'Back to Basics' programme since the last HIS inspection in June 2017. An action plan has been developed to address recommendations raised.

General Data Protection Regulation

120. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. As a Regulation, all EU member states must implement it in the same way. GDPR sets out more requirements than the DPA and has introduced new and significantly changed data protection concepts. Failure to comply with new GDPR data handling arrangements could result in the board incurring significant fines.

121. Internal audit reviewed the board's progress developing their Information Asset Register (IAR), a key part of GDPR, presenting a report⁵ to the Audit Committee in March 2019. The report included a high risk noting, at the time of review, only 42% of returns have been completed by local departments/Information Owners for consolidation into the master IAR. Further progress would have been expected given the GDPR deadline was May 2018. The Senior Health Information Manager noted buy-in from Directors and their senior managers was crucial to complete this exercise. We will continue to monitor the progress of the IAR to ensure the board has effective information governance arrangements in place.

⁴ *Healthcare Improvement Scotland Unannounced Inspection Report (Borders General Hospital, NHS Borders): 6–8 November 2018*

⁵ *Internal Audit Report 2018/19, PwC, Information Asset Register, March 2019*

Part 5

Value for money



Main judgements

Financial planning processes and joint working with health and social care partners has proved a challenge. NHS Borders and its partnership organisations have reported several areas of improvement required for the operation of the Borders Integration Joint Board (IJB).

The performance management framework in place is satisfactory. However, the board is reporting variable performance levels against the national performance measures.

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

Best value

122. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value.

123. Our Annual Audit Plan noted the focus of our best value work in 2018/19 was how the board was able to demonstrate effective partnership working. The Scottish Government (SG) issued a comprehensive checklist for health boards, local authorities and Integration Joint Boards (IJBs) to complete. The purpose of this questionnaire was to review the progress of health and social care integration and follows up recommendations reported in Audit Scotland's national report on this topic published in November 2018.

124. The board submitted their return to SG in May 2019⁶. A summary of responses from the joint return completed by Borders Health Board, Scottish Borders Council (SBC) and Borders IJB are as follows (selected findings only).

Responses

- Key features which support integration were identified by SG. Proposals for each key feature were outlined by SG and rated by Borders IJB to identify the progress made in order to achieve exemplary integration. Overall, Borders IJB responded that the majority of the proposals outlined by SG have either been partly established or established in their organisation. However, there are some areas of improvement which were highlighted.
- The responses noted there is a lack of clear financial planning and ability to agree budgets by the end of March each year. Due to the different national processes for the allocation and confirmation of budgets for local authorities and NHS Boards and the financial outlook, there remains challenges in finalising IJB budget allocations.

⁶ *Self Evaluation: For the Review of Progress with Integration of Health and Social Care, Scottish Government, March 2019*

- The current need to focus on short term recovery as part of NHS Borders' financial turnaround is affecting the ability to prioritise and progress the longer term shared strategic direction.
- There is a risk that the ongoing financial challenges across the partnership and the impact of NHS Borders' financial deficit will continue to inhibit trust and understanding between the organisations.
- Responses also noted that whilst processes are in place, more could potentially be done by the Borders IJB to promote public engagement.

Actions

125. NHS Borders' management have discussed their responses with partnership bodies and the return outlined proposed actions:

- Explore the possibility of appropriate co-location to encourage relationship development.
- The appointment of a new Chief Executive and Chair of NHS Borders provides opportunity to enhance momentum around collaboration and strengthened relationships. Initial meetings between the CEOs of SBC and NHS Borders have confirmed shared perspectives and commitment to integration.
- The partners will jointly agree a medium term financial plan for Borders Health & Care services which addresses both the current financial deficit within NHS Borders and the ongoing financial challenges across the Health & Social Care Partnership. This will be in line with the IJB commissioning plan as well as the strategic plans of both SBC and NHS Borders.
- Closer integration of budget development and transparency of processes will be introduced between NHS Borders, SBC and Borders IJB.
- Continue to recruit members from local communities, to ensure that partners are involving service users from across the Borders area and ensuring they have the required support to do this.

126. It is clear that financial planning processes and joint working with health and social care partners has proved challenging for the board. Management have advised they are committed to working collaboratively with partners and implement an action plan to improve the performance of the IJB and delegated services, through consultation with the Scottish Government.

Performance management

127. The Scottish Government identified key performance targets for 2018/19, whereby NHS boards were expected to achieve 2017 performance levels by March 2019. Borders Health Board implemented a programme of work to support progress in meeting these agreed targets.

128. The board is kept informed of performance across all areas. Every year the SGHSCD asks each health board to report to them on their performance and delivery plans for the next financial year.

129. From 2018/19, boards are no longer required to produce a Local Delivery Plan (LDP), as these have been replaced by Annual Operational Plans (AOP) that have AOP measures associated with them. Boards are also still required to monitor LDP standards. Therefore [Exhibit 9](#) below does not show a like for like comparison to last year, but provides a sense of direction.

130. Each meeting of the Board and the Strategy and Performance Committee receives a corporate performance scorecard. Performance is reported using 16 key performance indicators and two safety indicators. Performance scorecards contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance.

131. We concluded that the board has an adequate performance management framework in place helping the board achieve value for money.

Overview of service performance

132. The board's performance against its key performance targets as reported in the 2018/19 annual accounts and based on the most up-to-date position at the end (February/March 2019) is summarised in [Exhibit 9](#).

Exhibit 9

Overall performance against LDP standards







Source: Borders Health Board Annual Report and Accounts 2018/19

133. The board has had a mixed performance in 2018/19 against the standards. There were ten measures that fell below target levels and eight measures within target. Selected examples are provided in [Exhibit 10](#).

Exhibit 10

Performance against key standards

Target/standard	Performance at January 2019	Action being taken by board
Cancer Waiting Times 95% of all patients requiring treatment for cancer to be seen within 31 days	 100% (as at Feb 2019)	This is a historically strong area of performance for the board that compares favourably against other health boards.
Delayed discharges Zero patients delayed in hospital for more than 72 hours.	 17 patients delayed over the threshold (as at March 2019)	Delayed discharges remain an ongoing challenge. Efforts to implement co-ordinated and better discharge planning processes are underway.
Treatment Time Guarantee (TTG) 12 weeks treatment time guarantee for all patients	 179 patients breached TTG (as at March 2019)	Issues have been reported within Surgery & Orthopaedics. The board are planning additional weekend sessions to recover all of Oral Surgery and some of Orthopaedics. Management are also identifying extra theatre capacity for shoulder surgery as this is the area with the most pressure.
CAMHS waiting times 18 weeks CAMHS - 18 weeks referral to treatment for specialist Child and Adolescent Mental Health Services (90% target)	 45.8% (as at March 2019)	This was reported as a 'particular concern' for NHS Borders. The service has undertaken a deep dive review of current performance and has set an improved trajectory to be delivered in 2019/20. The board are considering the appropriateness of staffing levels and recruitment for this service area.

Note: 1. Figures still to be validated by NHS Information Services Division.

Source: Borders Health Board Annual Report and Accounts 2018/19

134. The variable service performance as reported in the 2018/19 Annual Report and Accounts is linked to the resourcing challenges, for example workforce or capacity, faced by the organisation. Some key targets have now been missed for well over a year, such as treatment time and waiting time targets. Going forward the board is working closely with the Scottish Government in relation to delivery of its Annual Operational Plan Performance Standards.

National performance audit reports

135. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 a number of reports were published which are of direct interest to the board and are highlighted in [Appendix 4](#).

136. The Board has satisfactory arrangements in place for considering these reports. For example, the Audit Committee takes a keen interest in Audit Scotland's annual NHS in Scotland reports, which are presented at meetings. Other Audit Scotland reports, such as good practice notes, are also regularly considered at the Audit Committee. Any matters of interest regarding patient care and services are considered by relevant committees, such as the Clinical Governance Committee.

Appendix 1

Action plan 2018/19



No.	Issue/risk	Recommendation	Management response/ responsible officer /timing
1	<p>Accrual adjustments</p> <p>A number of adjustments were required to payroll accruals originally included in the board's draft annual report and accounts. This included a reviewed methodology for the holiday pay accrual as part of our audit recommendations. These adjustments were subsequently made to the final version of the accounts.</p>	<p>We recommend that the finance team fully review their methodology for material payroll accruals which are recognised each financial year. This should include discussions with Scottish Government and other health boards to review best practice.</p> <p>See Exhibit 3</p>	<p>Management response:</p> <p>Agreed. The Board will include the review of the methodology for year-end accruals as part of the 2019/20 Annual Accounts process.</p> <p>Responsible officer:</p> <p>Deputy Director of Finance (Financial Accounting)</p> <p>Agreed date: March 2020</p>
2	<p>Finance lease valuation</p> <p>The Eildon Residence and Recreation block, held by the board under a long-term finance lease, has not been revalued periodically in accordance with the board's accounting policies and the NHS Scotland Capital Accounting Manual. The leased buildings currently have a Net Book Value of £675,000.</p>	<p>The Eildon lease should be revalued in line with accounting policies.</p> <p>See Exhibit 3</p>	<p>Management response:</p> <p>Agreed. The Eildon Lease will be included in the 5 year valuation exercise scheduled for January 2020.</p> <p>Responsible officer:</p> <p>Deputy Director of Finance (Financial Accounting)</p> <p>Agreed date: March 2020</p>
3	<p>Stock certificates</p> <p>Our review of stock workings found that not all year-end stock balances were supported by signed stock certificates, as required by the board's stocktaking procedures.</p>	<p>We recommend all stock areas complete and sign stock certificates and return these to the finance department at year-end, in accordance with the board's stocktaking procedures.</p> <p>See Exhibit 3</p>	<p>Management response:</p> <p>Agreed. We will agree with stock holding areas the content and format requirements for stock certificates to be submitted.</p> <p>Responsible officer:</p> <p>Deputy Director of Finance (Financial Accounting)</p> <p>Agreed date: March 2020</p>
4	<p>Backlog maintenance</p> <p>The Estates backlog maintenance requirement for the board is estimated at £8.29 million. Only £2.75 million is recognised for Estates in the</p>	<p>Management should update the Property & Asset Management Strategy data and consider which elements of backlog maintenance need prioritising. A business case</p>	<p>Management response:</p> <p>The Board will update its assessment of backlog maintenance, this work which will be supported by Health Facilities Scotland will take</p>



No.	Issue/risk	Recommendation	Management response/ responsible officer /timing
	capital plan 2019/20 to 2023/24.	should be considered if current levels of capital funding for its Estate are inadequate. Paragraph 45	place over the next 2 financial years. The Board's capital planning will be influenced by this work. A business case will be considered if appropriate. Responsible officer: Director of Finance, Estates and Procurement Agreed date: Ongoing throughout 2019/20
5	ICT infrastructure investment The board currently operate an out-dated and unsupported version of TrakCare. There is a risk to service provision if this system should fail. Management should progress promptly with plans to upgrade this key system.	The board's IM&T department should finalise its project plans to upgrade TrakCare and other key systems, which at the same time should improve the organisation's cyber resilience. Update (June 2019) This risk remains from our Annual Audit Plan, as the same version of TrakCare is still being used. IT plans and upgrades for 2019/20 have prioritised implementation of a new version of TrakCare hosted by an external provider, for planned roll out in May 2020. Paragraph 63	Management response: Agreed. The Trakcare Upgrade is a key priority for 2019/20 and is included in the Boards IM&T Road to Digital Programme. The IM&T Road to Digital Plan for 2019/20 has been presented to the Board and will be confirmed with the eHealth Directorate of Scottish Government. Responsible officer: Director of Strategic Change and Performance Agreed date: March 2020
6	Efficiency savings For 2019/20 the board is required to deliver £21.7 million of savings. The board has yet to identify £9.3 million of the savings required for 2019/20. The board may not be able to return to a balanced position within the next year. The development of a three-year financial plan, including efficiency savings, is an immediate priority.	The board should ensure that saving plans are developed identifying how the £21.7 million of savings in 2019/20 will be fully met. Paragraph 73	Management response: The Board will, in conjunction with Scottish Government, agree how the savings requirement of £21.7 million will be met in 2019/20. Responsible officer: Director of Finance, Estates and Procurement Agreed date: Ongoing throughout 2019/20
7	Accounting for IJB set aside The arrangements to record the sum set aside for hospital acute services, under the	The board should consult on this matter with Scottish Government and other health boards to develop their	Management response: Partially agreed as this needs a partnership approach.



No.	Issue/risk	Recommendation	Management response/ responsible officer /timing
	<p>control of the Borders Integration Joint Board (IJB), are not yet operating as required by legislation and statutory guidance. A figure has been agreed in 2018/19 based on the budget agreed at the start of the year between NHS Borders and the IJB, rather than actual expenditure. NHS Borders have applied Scottish Government's transitional arrangements now for three years.</p> <p>There remains a risk that in future years the sum set aside recorded in the NHS Borders annual report and accounts will not reflect actual hospital use and expenditure, as required by legislation.</p>	<p>accounting practices for the IJB sum set aside in 2019/20.</p> <p>Paragraph 111</p>	<p>The Board will work in partnership with the Integration Joint Board to finalise an agreed basis for set aside budgets in 2019/20.</p> <p>Responsible officer:</p> <p>Director of Finance, Estates and Procurement</p> <p>Agreed date: March 2020</p>

Follow up of prior year recommendations (focusing on those still outstanding)

8	<p>Sickness absence (as reported in June 2018)</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.</p> <p>Update (June 2019)</p> <p>We are pleased to note the Sickness Absence Group has been meeting more frequently in 2018/19 and a new Terms of Reference has been established. eLearning training for managers has been refreshed recently, and training days have been scheduled for 2019/20. However, sickness rates continue to increase with a rate of 5.4% reported in 2018/19.</p> <p>Paragraph 83</p>	<p>Revised action (as at June 2019)</p> <p>The board is due to refresh its workforce plans in 2019. The plan should establish actions required to reduce sickness rates and target key departments, as sickness impacts on delivery of services and the financial position by requiring agency staff to provide cover.</p> <p>Management response</p> <p>Agreed. Workforce Plans will be refreshed in 2019/20 and the factors noted by audit will be included in discussions to formulate the agreed plans.</p> <p>Responsible officer</p> <p>Director of Workforce</p> <p>Revised date</p> <p>October 2019</p>
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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
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires audit work to be 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 to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Reviewed accounting estimates and accounting policies. • Focused testing of accruals and prepayments. • Evaluated significant transactions that are outside the normal course of business. 	<p>No issues to report in addition to the accrual adjustments noted in Appendix 1.</p>
<p>2 Risk of fraud over income and expenditure</p> <p>Borders Health Board receives income from several 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. 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 tend to have an overall net expenditure outturn.</p>	<ul style="list-style-type: none"> • Analytical procedures on income and expenditure streams. • Detailed testing of income and expenditure transactions focusing on the areas of greatest risk. • Audit work on the National Fraud Initiative data matches. 	<p>No issues to report.</p>
<p>3 Financial sustainability and brokerage requirements</p> <p>As at 30 September 2018, NHS Borders reported a year to date overspend of £6.5 million against their Revenue Resource Limit. The board is reporting it will not achieve their financial targets for 2018/19 without additional funding. NHS Borders is therefore in advanced discussions with the Scottish Government to agree brokerage (a form of loan) of approximately £10 million to fund the gap.</p>	<ul style="list-style-type: none"> • Liaised closely with senior finance staff regarding budget plans and discussions with the Scottish Government. • Monitored monthly Financial Performance Returns submitted to the Scottish Government. • Focused cut-off testing at year-end to confirm expenditure and income has been accounted for in the correct financial period. 	<p>Point 6 in Appendix 1 has provided an update on this risk.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>There is therefore a significant risk regarding the board's financial sustainability in 2018/19 and in subsequent years.</p>	<ul style="list-style-type: none"> Ensured brokerage and budget transfers were correctly disclosed in the annual report and accounts. 	
<p>4 Accounting for IJB set aside (delegated hospital budgets)</p> <p>The arrangements to record the sum set aside for hospital acute services, under the control of the Borders Integration Joint Board (IJB), are not yet operating as required by legislation and statutory guidance. In common with other IJBs, a figure has been agreed for prior financial years based on the budget agreed at the start of the year between NHS Borders and the IJB. These transitional arrangements for 2016/17 and 2017/18 were agreed by the Scottish Government.</p> <p>There is a risk that in future years the sum set aside recorded in the NHS Borders annual report and accounts will not reflect actual hospital use and expenditure, as required by legislation.</p>	<ul style="list-style-type: none"> Reviewed the finance team's plans for incorporating the IJB transactions into the accounts. Reviewed the latest technical guidance and Scottish Government advice regarding the accounting treatment for IJB set aside amounts. Performed specific substantive testing of IJB income and expenditure relating to NHS Borders. 	<p>Point 7 in Appendix 1 has provided an update on this risk.</p>
<p>5 Estimation and judgements</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, particularly due to the financial pressures NHS Borders faces in 2018/19.</p>	<ul style="list-style-type: none"> Focused substantive testing during the financial statements audit of key areas. Reviewed accounting policies to ensure these are reasonable. Reviewed methodology for trade payables and accruals categories. Reviewed provisions calculations for appropriateness and consistency. 	<p>No issues to report in addition to the accrual adjustments noted in Appendix 1.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>6 ICT infrastructure investment</p> <p>The board currently operate an out-dated and unsupported version of TrakCare. There is a risk to service provision if this system should fail.</p>	<ul style="list-style-type: none"> We reviewed the result of these considerations and have monitored the board's continuing IT investment plans. 	<p>Point 5 in Appendix 1 has provided an update on this risk.</p>

Appendix 3

Summary of adjusted misstatements

We report all misstatements that are individually greater than our reporting threshold of £50,000.

The table below summarises adjusted misstatements that were noted during our audit and were subsequently amended in the final version of the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2](#). We are satisfied that these misstatements 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
1	Holiday pay accrual			437	
	Expenditure (RRL)		(437)		
2	Expenditure (RRL)	409			
	Accruals				(409)
Net impact on Revenue Resource Limit (RRL)			(28)	28	

Notes:

- Entry 1 relates to an adjustment required for annual leave entitlement for bank staff which was previously calculated incorrectly.
- Entry 2 relates partly to adjustments required to various payroll accruals (£341,000) to include additional liabilities such as employer's pension costs, and partly for other accruals to adjust for payments made in April 2019 which had been previously omitted (£68,000).

Appendix 4

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

NHS relevant reports

[Children and young people's mental health](#) – September 2018

[NHS in Scotland 2018](#) – October 2018

[Health and social care integration: update on progress](#) – November 2018

Borders Health Board

2018/19 Annual Audit Report

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