

# NHS Grampian

2019/20 Annual Audit Report



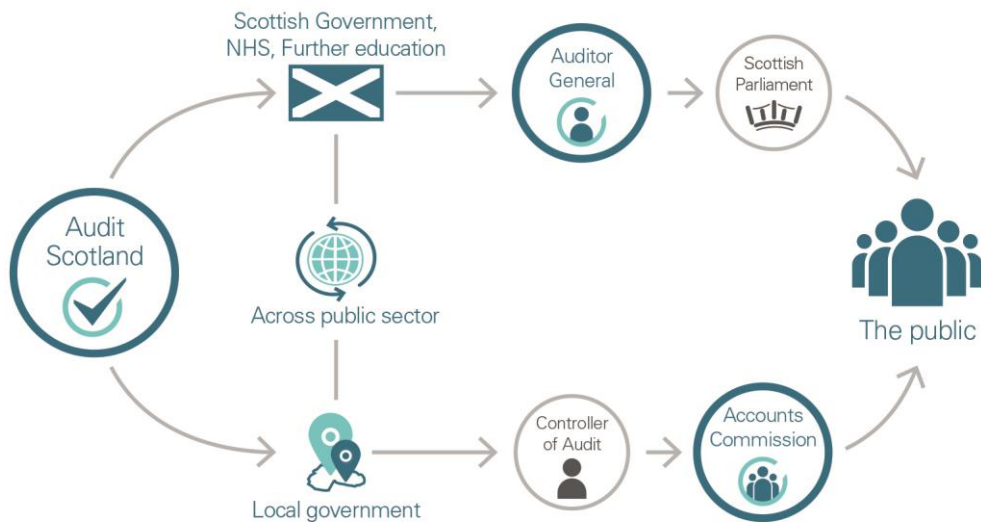
Prepared for the Board of NHS Grampian and the Auditor General for Scotland

3 September 2020

## Who we are

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

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



## About us

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

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

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

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# Key messages

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## 2019/20 annual report and accounts

- 1** The financial statements give a true and fair view of the state of affairs as at 31 March 2020 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.
- 2** 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.
- 3** Although our opinions on the annual report and accounts are unmodified, the independent auditor's report includes an 'Emphasis of Matter' paragraph highlighting the impact of market uncertainty due to Covid-19 on the board's valuation of land and buildings.
- 4** Due to Covid-19, timescales for audited accounts were rescheduled and some related year end routines were not possible.

## Financial management

- 5** NHS Grampian operated within its Revenue Resource Limit reporting an underspend of £0.025m.
- 6** Budget processes were appropriate but NHS Grampian continues to rely on non-recurrent savings to meet its targets. Additional costs of £4m were incurred in March 2020 due to Covid-19.
- 7** Due to limited staff capacity, and redirection of staff to support the immediate Covid-19 response, it was not always possible to comply with standard internal control arrangements.

## Financial sustainability

- 8** NHS Grampian has a three-year, medium-term financial plan. Pre-Covid, this identified a financial funding gap of £28m over three years.
- 9** The initial estimated impact of Covid-19 on NHS Grampian's 2020/21 financial position is £63m.

## Governance and transparency

- 10** NHS Grampian continued to review and strengthen its governance arrangements during the year including ongoing support and scrutiny of service development at Dr Gray's Hospital, Elgin.
- 11** In response to Covid-19, revised arrangements were put in place to enable the board to work effectively with partners. These arrangements have been described in the Governance Statement included in NHS Grampian's annual report and accounts.

## Value for money

- 12** NHS Grampian continues in the transition phase of implementing a new assurance framework which includes an improved approach to risk management.
- 13** Although still below national waiting time targets, performance has improved compared to the previous year. In particular, waiting times for child and adolescent mental health services are now within 5% of the national target.

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# Introduction

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1. This report summarises the findings from our 2019/20 audit of NHS Grampian. The scope of our audit was set out in our Annual Audit Plan which was presented to the Audit Committee on 7 January 2020. This report comprises the findings from our:

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

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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2. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, NHS Grampian has had to respond to the global coronavirus pandemic. This largely impacted on the final month of the financial year and will continue to have significant impact into 2020/21 and beyond. This has had significant implications not only for the services it delivers, but the costs of healthcare provision and the delay of non-essential projects and activities such as the construction of the Baird Family Hospital and Anchor Centre, and the elective care services project.

3. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit. In common with board staff, the audit team transitioned to remote working using technology to undertake the necessary audit work and conduct online meetings with board staff.

4. The main elements of our audit work in 2019/20 have been:

- a review of the board's key financial systems
- the audit of the board's 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

5. We add value to NHS Grampian through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of financial management, financial sustainability, governance and transparency, and value for money
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports and good practice guides.

6. In so doing, we aim to help NHS Grampian promote improved standards of governance, better management and decision-making and more effective use of resources.

### Responsibilities and reporting

7. The board has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the Accounts Direction from Scottish Ministers.

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

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

10. As public sector auditors, we give independent opinions on the annual accounts, the Performance Report, Governance Statement and the Remuneration Report. 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. 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.

## Auditor independence

**13.** Auditors appointed by the Auditor General for Scotland must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements, auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**14.** 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 2019/20 audit fee of £192,630, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**15.** This report is addressed to the board and the Auditor General and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.



# Part 1

## Audit of 2019/20 annual report and accounts



### Main judgements

The financial statements give a true and fair view of the state of affairs as at 31 March 2020 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.

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.

Although our opinions on the annual report and accounts are unmodified, the independent auditor's report includes an 'Emphasis of Matter' paragraph highlighting the impact of market uncertainty due to Covid-19 on the board's valuation of land and buildings.

Due to Covid-19, timescales for audited accounts were rescheduled and some related year end routines were not possible.

The annual report and accounts are the principal means of reporting financial performance and demonstrating stewardship of resources put at the disposal of the body.

### Although the auditor's report includes an 'Emphasis of Matter' paragraph, our audit opinions on the annual report and accounts are unmodified

16. The board approved the annual report and accounts for the year ended 31 March 2020 on 3 September 2020. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- 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 relevant legislation and directions made by Scottish Ministers
- an 'Emphasis of Matter' paragraph has been included in our independent auditor's report which refers to the impact of Covid-19 on the valuation of land and buildings. An 'Emphasis of Matter' paragraph is not a qualification of the opinion but is added where the auditor considers it necessary to draw users' attention to matters which are fundamental to the understanding of the accounts. Further information is provided in [Exhibit 2](#).

## Significant findings from the audit in accordance with ISA260

**17.** 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.


**18.** The significant findings are summarised in [Exhibit 2](#). There were no misstatements above our reporting threshold identified from our audit and we had no significant findings to report around the qualitative aspects of the annual accounts process.

**19.** The annual report and accounts provided for audit were of a high standard and met 2019/20 accounting requirements. In addition, we noted that both the performance report and the governance statement made appropriate reference to the board's group responsibilities and properly reported on the performance of group entities.

## Exhibit 2

### Significant findings from the audit of the annual report and accounts

Issue	Resolution
<p><b>1. Material uncertainty in respect of the valuation of land and buildings</b></p> <p>In applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards ('Red Book'), the District Valuer included a 'material uncertainty' disclosure in the valuation of the board's land and buildings at 31 March 2020. This is due to market uncertainties caused by Covid-19. The Red Book defines material uncertainty as 'where the degree of uncertainty in a valuation falls outside any parameters that might normally be expected and accepted.' The District Valuer confirmed that the valuation which increased land and buildings by £40m was based on the best information available and while it can be relied upon, a higher degree of caution should be attached to the valuation than would normally be the case. In August 2020, the valuer confirmed to the board that there had been no material changes since 31 March 2020 which would impact on the valuation.</p>	<p>The board has provided a detailed disclosure on the valuer's opinion in the Performance Report contained within the annual report and accounts. In addition, section 29, 'Key sources of judgement, estimation and uncertainty' within Note 1 (Accounting Polices) to the accounts explains the valuation approach and the level of uncertainty.</p> <p>An 'Emphasis of a Matter' paragraph has been included in the Independent Auditor's Report. This is not a qualification but a paragraph to draw attention to NHS Grampian's disclosures on the impact of material market uncertainty as a result of Covid-19 on the valuation of land and buildings at 31 March 2020.</p>
<p><b>2. Assurances in respect of payments to independent primary care contractors</b></p> <p>Included in the accounts is approximately £260m in respect of payments to independent primary care contractors (ie Medical, Dental, Ophthalmic and Pharmaceutical).</p> <p>NHS National Services Scotland (NSS) provide services to all boards, including NHS Grampian, in support of the administration, processing and verification of payments to independent primary care contractors and the national IT contract. Through the appointment of a service auditor, NHS NSS provides annual assurance on the support services it provides. The auditor reports in the context of ISAE 3402 which focuses on the design or operating effectiveness of controls in order to meet stated control objectives.</p>	<p>In accordance with Scottish Government guidance, DL(2018)19 covering payment verification protocols, NHS Grampian carries out an annual programme of post-payment verification. This includes a sample of practice visits and detailed review of trend analysis and outliers. Based on a limited review of the results of 2019/20 practice visits, the level of recoveries was not considered significant.</p> <p>Payments to practitioners is a complex area covered by a range of national contracts and guidance, and local arrangements. Sufficient assurance for 2019/20 payments was obtained by supplementing the service auditor's findings and the routine year end</p>

Issue	Resolution
<p>In line with our standard audit approach, planned assurances for primary care payments were intended to be drawn from the service auditor's report and a detailed review of the board's year end ledger reconciliation process with NSS monthly returns.</p> <p>In respect of 2019/20, the service auditor issued qualified audit opinions across the four primary care payment streams due to an absence of evidence to confirm the operation of a range of expected controls. Similar qualifications were provided in respect of the national IT contract.</p> <p>In the absence of the assurances we had anticipated from the service auditor, further discussions with NHS Grampian and a revised audit approach became necessary.</p>	<p>ledger reconciliation process with the following key sources of evidence:</p> <ul style="list-style-type: none"> <li>• Medical: confirmation of the global sum allocation to GPs of £58m which is based on a nationally agreed formula</li> <li>• Dental: review of capitation allowances which totalled £8m and are based on, for example, the number and ages of patients registered with practices</li> <li>• Ophthalmic: a proof in total reasonableness review of eye test payments totalling £8m</li> <li>• Pharmaceutical: review of local scrutiny arrangements in place to monitor the board's expenditure on drugs. A Grampian-wide group involving a range of stakeholders including representation from Integration Joint Boards meets regularly.</li> </ul> <p>Additional disclosures have been added to the Governance Statement to describe local scrutiny and verification of payments to primary care contractors. In addition, a detailed recommendation for improvement covering services provided by NHS NSS and local activities has been included in the Action Plan.</p> <p> <b>Recommendation 1</b> (refer <a href="#">appendix 1</a>, action plan)</p>

### 3. Supporting evidence in respect of staff related accruals

The accounts include accruals for a range of staff related costs (e.g. accrual for untaken holiday leave at 31 March, 'paid as if at work' accrual including additional payments for routine overtime).

The annual leave accrual was based on the previous year's figures and increased by £0.4m to £3.2m to reflect an estimate for additional untaken leave arising during March 2020 as a result of Covid-19. Although the adjustment was based on principles agreed by finance officers at a national level, little evidence was available to support the calculation.

An additional 'paid as if at work' accrual of £0.7m was initially made in 2018/19 representing categories of staff who had not been considered eligible for retrospective payments before and were therefore excluded from the main 'paid as if at work' calculations (i.e. categories of staff within facilities/estates, Royal Cornhill Hospital and ITU). As reported last year, there are ongoing negotiations and uncertainty about the extent of a liability. In the meantime, £0.7m continues to be accrued.

In addition, there is a further accrual of £0.4m covering the period from November 2019 to March 2020 for

On the basis of materiality, we have accepted the amounts accrued as reasonable. Management representation will also be provided.

A contingent liability is already included in the accounts to reflect the uncertain nature of 'paid as if at work' potential claims more generally.

Issue	Resolution
<p>payment of overtime and additional hours during periods of annual leave for staff who routinely receive such payments. Payments subsequently made to staff since the year end identified a potential over-accrual of approximately £90k at 31 March 2020 which reflects an element of uncertainty in the calculations.</p>	
<p><b>4. Additional disclosures in the Governance Statement</b></p> <p>NHS Grampian had to quickly change how it delivered services in response to Covid-19 and the lockdown. The widespread use of virtual working and changes in roles and responsibilities to support the response to the pandemic created a range of potential financial risks and challenges to internal controls. These are important changes which impacted on governance arrangements in March 2020 and during the post balance sheet period but were not initially reflected in the governance statement.</p>	<p>Governance statements are essential accountability reports which, if anything, are even more important this year.</p> <p>Additional disclosures have been added to the audited governance statement to appropriately reflect key operational changes since March 2020.</p>
<p><b>5. Inclusion of other directors in the Remuneration Report</b></p> <p>Following her appointment in April 2019, the chief executive strengthened the senior leadership team to provide additional capacity. As the remuneration report only included executive directors, we requested confirmation that leadership team directors who are not executive directors do not fall within the definition of senior managers (i.e. hold a position of influence) and have correctly been excluded from disclosure in the remuneration report.</p>	<p>Upon further reflection of the arrangements, the chief executive agreed that it would be appropriate to include the Depute Chief Executive in the definition, and for the Director of Nursing to be included from April 2019 rather than when the formal appointment was made in September 2019. The relevant disclosures have now been included in the audited remuneration report.</p>

Source: Audit Scotland

## Due to Covid-19, timescales for audited accounts were rescheduled but some related year end routines were not possible

**20.** In response to Covid-19, the Scottish Government delayed the administrative deadline for the audited annual report and accounts of health boards. A three-month extension applies for NHS audited accounts which are to be published by 30 September 2020.

**21.** During the initial weeks of lockdown, many of the board's finance team were diverted to Covid-19 related duties. Only essential financial duties, necessary to support front-line critical services were being undertaken. It was therefore May 2020 before we were in a position to agree a revised timetable for the production and audit of the annual report and accounts. In accordance with that revised timetable, the accounts were received for audit on 10 June 2020 and the audit was concluded by September 2020, enabling the board to approve the audited accounts on 3 September 2020.

**22.** The format and content of the financial statements remained unchanged and were still required to be prepared in line with the 2019/20 Government Financial Reporting Manual (FRoM). Boards were however permitted to omit the performance analysis section from the Performance Report. NHS Grampian took advantage of this relaxation in requirements.




**23.** The working papers supporting the accounts were of a good standard and the audit team were well supported by finance staff which helped ensure a smooth audit process. With remote working, differences were experienced in the preparation of the annual accounts and in the conduct of the audit. In general, the process took longer than normal but this had been factored into the timetable when the revised plan was agreed with finance. With restrictions on physical access, some standard year end routines were delayed or paused this year, for example,

- physical stock-taking was initially delayed. Except for pharmacy stocks valued at £6.4m, counts have subsequently been completed. Due to ongoing demands on pharmacy staff, it has not yet been possible for them to undertake a count. We have however taken assurance from the operation of the JAC perpetual inventory system. This means that the value of stock held is automatically available and so the year end amount is not dependent on a physical count. There have been no major adjustments to the system as a result of previous year end stock counts and in overall terms, the value of pharmacy stock is below our materiality level.
- we have not been able to inspect title deeds held by the Central Legal Office. This work is normally undertaken centrally on behalf of all auditors but due to access restrictions, it has not been possible this year. While we have relied on work undertaken in previous years, more specific assurances have also been included in our letter of management representation.
- in response to capacity issues and/or as a result of remote working, there were changes in the operation of internal controls. With regard to the annual accounts, no major issues were identified from the extended substantive sampling approach we applied to the year end period. The changes in internal controls will be considered in more depth as part of the 2020/21 audit.

### Materiality was amended to reflect increased risk

**24.** The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. On receipt of the unaudited accounts we reviewed our materiality taking into consideration any changes in circumstances. In light of Covid-19, we reduced our performance materiality, as set out in [Exhibit 3](#), to reflect the additional audit risk due to changes in financial processes and internal controls towards the end of the financial year. The Audit Committee were advised of this change in approach in July 2020.

### Exhibit 3 Materiality values

Materiality level	Plan	Actual
 <p><b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 2020 based on outturn figures (this was previously based on the forecast outturn for 2019/20).</p>	£19.3m	£20.7m
 <p><b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 50% of planning materiality (this was previously 65%).</p>	£12.5m	£10.3m
 <p><b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1.5% of planning materiality or £250,000 whichever is lower.</p>	£250,000	£250,000

## Conclusions on audit work to address risks of material misstatement

**25.** [Appendix 2](#) includes the risks of material misstatement as reported in our Annual Audit Plan and summarises the work we have subsequently undertaken to address these risks. Further information is included at relevant sections throughout the report.

### The board is well prepared to implement new lease accounting requirements in 2021/22.

**26.** International Financial Reporting Standard (IFRS) 16 on leases is being applied by HM Treasury in FReM from 1 April 2021. It had been intended to implement the standard with effect from 1 April 2020 but due to Covid-19, the Financial Accounting Standards Board (FRAB) has delayed implementation until 2021/22. The standard introduces a single lessee accounting model that reflects a better representation of a lessee's assets and liabilities and provides enhanced disclosures to improve transparency of reporting on capital employed.

**27.** Detailed technical guidance is available in the standard itself and HM Treasury have also issued supplementary budgeting guidance. NHS boards were required to provide an assessment of the impact of the standard on capital and revenue resource budgets.

**28.** NHS Grampian has undertaken detailed work and is well prepared to implement IFRS 16 from April 2021. A senior finance officer participated in a short life working group which developed supplementary guidance to assist NHS boards in the practical implementation of IFRS 16. This group reported progress to both the NHS Scotland Technical Accounting Group and the Financial Accounting Network.

**29.** In line with accounting requirements, the board's 2019/20 accounts explain the impact that new standards not yet adopted are likely to have on the financial statements. This information is consistent with the assessment they submitted to the Scottish Government in January 2020.

# Part 2

## Financial management



### Main judgements

NHS Grampian operated within its Revenue Resource Limit reporting an underspend of £0.025m.

Budget processes were appropriate but NHS Grampian continues to rely on non-recurrent savings to meet its targets. Additional costs of £4m were incurred in March 2020 due to Covid-19.

Due to limited staff capacity, and redirection of staff to support the immediate Covid-19 response, it was not always possible to comply with standard internal control arrangements.

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

### NHS Grampian operated within its Revenue Resource Limit (RRL)

30. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within. As illustrated in [Exhibit 4](#), the board operated within all limits during 2019/20.

### Exhibit 4 Performance against resource limits

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	1,099.848*	1,099.823*	0.025*
Non-core revenue resource limit	39.155	39.155	0
<b>Total revenue resource limit</b>	<b>1,139.003</b>	<b>1,138.978</b>	<b>0.025</b>
Core capital resource limit	15.034	15.034	0
Non-core capital resource limit	0	0	0
<b>Total capital resource limit</b>	<b>15.034</b>	<b>15.034</b>	<b>0</b>
<b>Cash requirement</b>	<b>1,189.835</b>	<b>1,189.835</b>	<b>0</b>

\*In accordance with the Manual for the Annual Report and Accounts, this figure excludes financial flexibility adjustments  
Source: NHS Grampian Annual Report and Accounts 2019/20

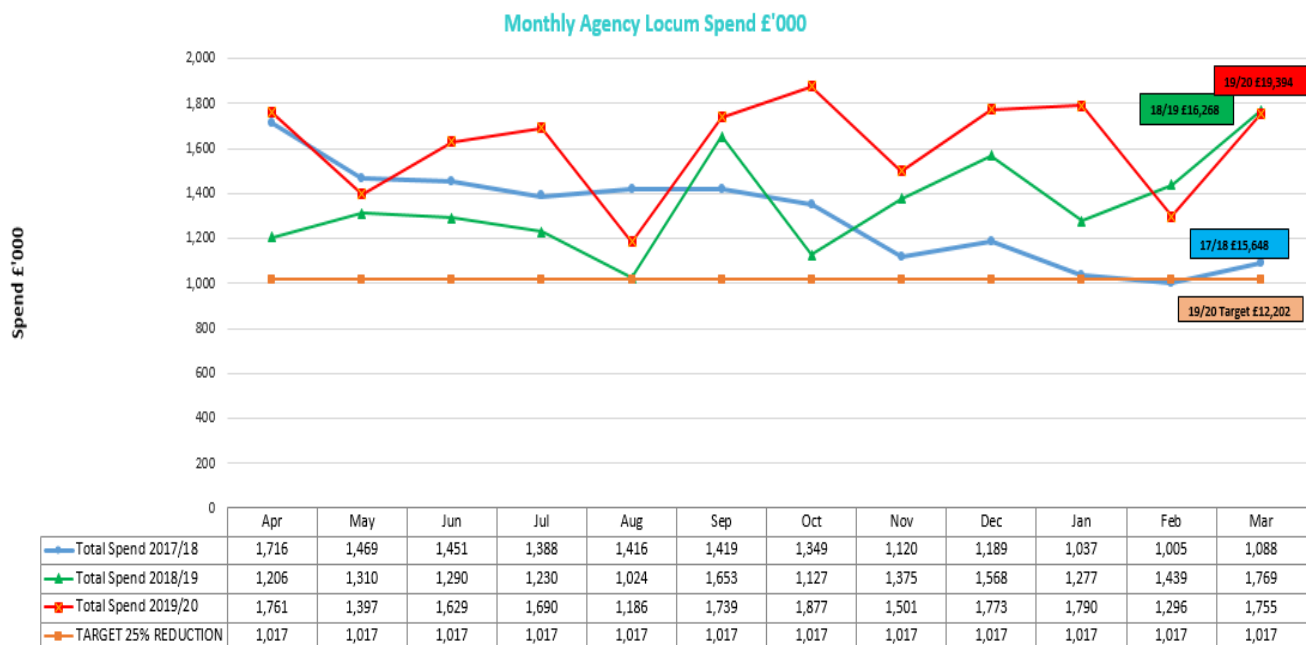
**31.** As part of the Scottish Government's medium term financial strategy introduced in 2018, new flexibility was afforded to boards from April 2019 to manage small under/overspends (within 1% of resource) within an overall breakeven position across a three year planning cycle. This replaced the previous requirement to deliver a breakeven revenue position in each financial year.

**32.** Financial year 2019/20 provided the first opportunity for NHS boards to exercise this flexibility. NHS Grampian banked £1.0m with the Scottish Government on top of the £0.025m underspend shown above making a total underspend of £1.025m on core RRL which is equivalent to 0.1 per cent.

**33.** As in previous years, the board used funding earmarked for other initiatives to achieve its targets. Such funding will need to be replaced in the short-term. This amounted to £14.8m (2018/19 £7.7m) which the Scottish Government provided for specific initiatives or investment in services.

**34.** NHS Grampian continues to face significant workforce supply challenges across a wide range of medical and clinical roles. Agency staff continue to support essential service provision and in addition, capacity was increased in line with the board's waiting times improvement and cancer plans. It currently has the highest spend on agency staff in Scotland. Temporary staff costs amounted to £33.3m (2018/19 £26.0m), an increase of 28 per cent on last year. As shown in [Exhibit 5](#), there was a £7.4m overspend on the medical staffing budget mainly due to the use of agency locums. Nursing budgets, especially in the acute sector and mental health services, also continued to experience pressure with an overall overspend of £3.1m ([Exhibit 6](#)).

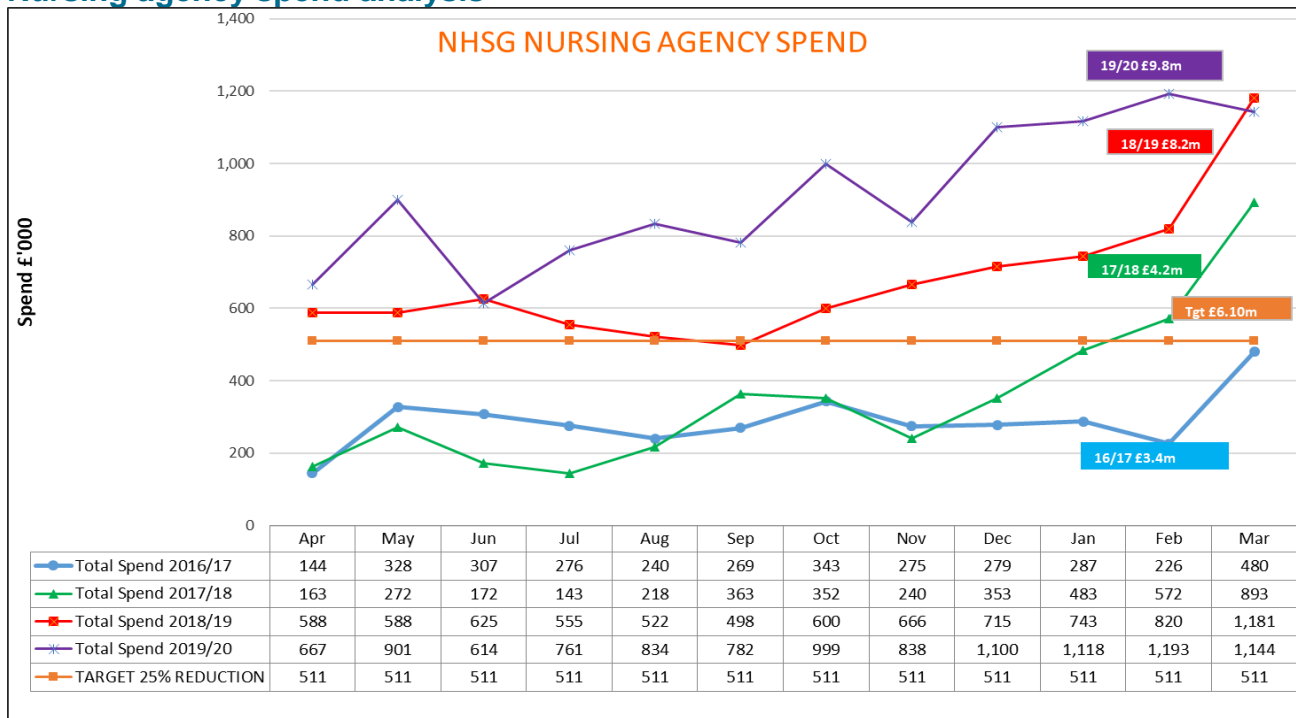
## Exhibit 5 Medical locum trend analysis



**35.** Non pay budgets were overspent by £2.8m largely due to pressure on medical supplies and service contract budgets as a result of a higher level of surgical activity. There was also an overspend of £0.9m in healthcare procured from other health boards. These costs were partially offset by an underspend of £2.7m on hospital drug budgets following the introduction of cheaper biosimilar alternatives.



## Exhibit 6 Nursing agency spend analysis



Source: NHS Grampian

## Integration Joint Boards required additional contributions to cover deficits

36. In 2019/20, NHS Grampian contributed £553m to the three integration joint boards (IJBs) in the area. This included additional contributions of £4.6m to cover the board's proportion of their 2019/20 deficits ([Exhibit 7](#)). The Director of Finance reviews the IJBs' financial positions quarterly with chief officers and chief finance officers so the emerging pressures were known as the year progressed. This enabled the board to build the additional funding need into its rolling forecast at an early stage and identify other compensating savings. With an ageing population in Grampian, IJBs continue to experience pressure on budgets such as older people's residential care and care at home services.

## Exhibit 7 Additional contributions to Integration Joint Boards

IJB	Deficit £m	Additional contribution £m	Deficit funding required to achieve break-even position
Aberdeen City	£0.3	£nil	Funded from IJB's reserve which contained unspent integration and change funds provided by Scottish Government.
Aberdeenshire	£5.6	£3.3	Split between partners in line with the integration scheme.
Moray	£2.1	£1.3	Split between partners in line with the integration scheme.
<b>Total</b>	<b>£8.0</b>	<b>£4.6</b>	

**37.** The Scottish Government's policy is to make progress in shifting the balance of care from hospital-based care into primary, community and social care. [Exhibit 8](#) shows that Grampian's proportion of costs in hospital-based care has increased over the last four years and this is attributed to the increased investment in waiting times, the cost of hospital drugs and the increase in the employer's pension contribution rate over the period. With increasing demands, the scope for disinvestment was considered difficult. Following changes made during the Covid-19 response however, NHS Grampian is now reviewing opportunities to disinvest from hospital-based services and provide more capacity for community based care, particularly for care for the elderly.

## Exhibit 8

### Split of costs between acute hospital and community settings

Year	Hospital proportion (%)	Community proportion (%)
2016/17	50.9%	49.1%
2017/18	50.9%	49.1%
2018/19	51.3%	48.7%
2019/20 (estimate)	51.5%	48.5%

### Budget processes were appropriate

**38.** NHS Grampian continues to have effective budgetary processes in place including budget setting and monitoring arrangements. The budget setting process is now being managed directly through the System Leadership Team (SLT), rather than the Budget Steering Group. SLT have a standing item of performance against budget which will coincide with the monthly finance reports and allows for appropriate cross-system discussion and awareness about the progress of the financial position.

**39.** The Performance Governance Committee (PGC) is responsible for monitoring and reviewing the effectiveness of system-wide performance management, including financial performance, and providing assurance to the board. Although finance reports are reviewed by PGC on a bi-monthly basis, board members routinely receive a finance report on a monthly basis.

**40.** From our review of committee papers including finance reports, and observations from attending board meetings, we are satisfied that senior management and board members receive regular and robust information on the board's financial position which has enabled effective scrutiny of performance during the year.

**41.** NHS Grampian received an additional allocation of £2.768m through the Revenue Resource Limit from the Scottish Government to cover the exceptional costs of the Covid-19 response. This included an increase in:

- prescribed drugs expenditure of £1.726m
- untaken annual leave accrual of £0.402m
- other costs such as cleaning, IT and equipment of £0.500m.

**42.** Additional costs of £1.4m were also incurred to sustain demand led services provided by independent primary care practitioners during the pandemic response. These costs were also met by the Scottish Government.

## Capital Resource Limit (CRL)

**43.** NHS Grampian received a total capital allocation for 2019/20 of £15.0m. Major capital expenditure during the year included the Baird Family Hospital and Anchor Centre, elective care services project, ligature reduction works and medical equipment.

**44.** Having submitted the Baird Family Hospital and Anchor Centre contract for competitive tender, responses from the supply chain were higher than the estimated costs within the outline business case, reflecting changes in the general economy and the construction sector in particular. Additional work was required to review the tender returns and the scope of the project. On completion of this work, in February 2020, the board approved the Full Business Case including costs of £223.6m for submission to the Scottish Government.

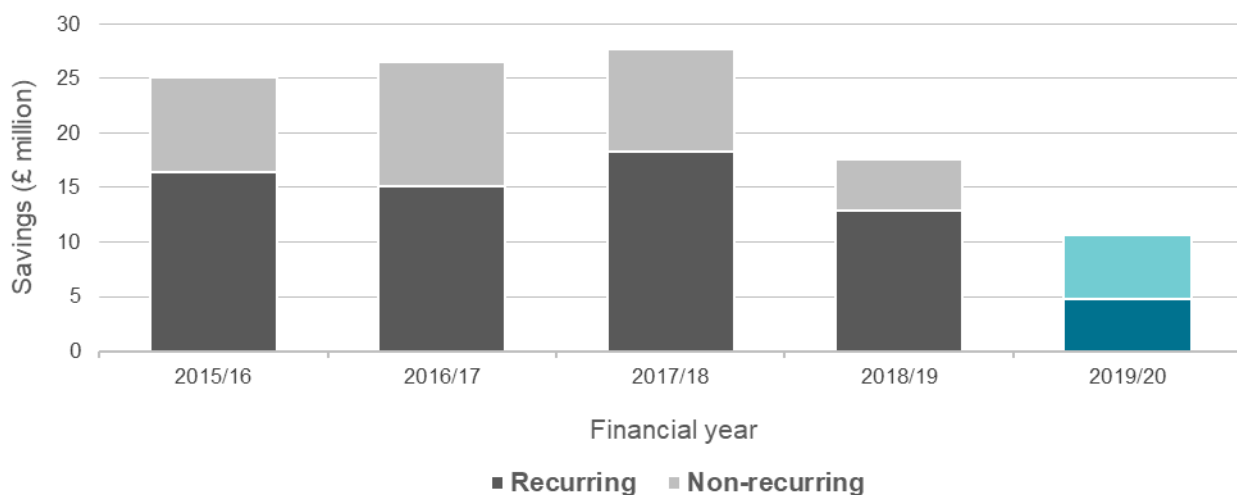
**45.** The project cost included the outcome from actions agreed to address the recommendations from an independent external review of project processes and costs. This was commissioned jointly by the board and Health Facilities Scotland and prepared by the Royal Institute of Chartered Surveyors. For a range of local and wider economic reasons, overall costs are now £60m higher than originally estimated and the project is running two years behind the original schedule.

## NHS Grampian has a good track record of achieving efficiency savings

**46.** In 2019/20, the board was required to make efficiency savings of £10.7m which represented 1.0 per cent of its budget. This was achieved through £4.8m (45 per cent) on a recurring basis and £5.9m (55 per cent) on a non-recurring basis. Recurring savings are savings that, once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

**47.** The baseline funding uplift from the Scottish Government was 2.6% in 2019/20 compared to 1.5% in 2018/19. This resulted in just over £10m in additional funding and, as shown by in [Exhibit 9](#), significantly reduced the level of savings required by the board in comparison with previous years. Savings generated were mainly from lower drug costs using cheaper biosimilar alternatives, slippage in planned investments, procurement and savings in non-clinical areas.

## Exhibit 9 Savings – recurring and non-recurring



## Financial systems of internal control are operating effectively

**48.** As part of our annual audit we identify and assess 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 NHS Grampian has systems for recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**49.** Our management letter was considered by the Audit Committee on 17 March 2020. In addition, assurances are drawn from the work of internal audit in reaching our conclusions on the operation of internal controls. Although there were no significant weaknesses identified from our interim work, two areas for improvement were identified:

- Shifts worked by substantive staff on Healthroster (one of the modules in eRostering) are manually keyed into the Scottish Standard Time System (SSTS), on a weekly basis by two eRostering systems staff who also check each other's work. Due to the level of manual intervention involved, there is an increased risk of error or fraud - a paper is to be considered by the national Payroll Services Programme Board regarding a potential development of an automated process that will transfer rostering data from Allocate to SSTS
- The Audit Committee had not received a report for two years on the board's payment verification activity to ensure that payments made to primary care contractors are timely, accurate and valid. This recommendation was actioned immediately and the Audit Committee received a report in March 2020.

**50.** Standard internal controls could not be applied during the pandemic due to a shortage in staff capacity, limitations posed by working from home and competing priorities. Changes to financial controls and processes included:

- limited interaction between management accountants and budget holders as the former were diverted to critical financial accounting services only such as payment of key suppliers, and other duties
- a lapse in the need for journals to be prepared and approved by different staff. Due to limited staff availability and a need to process transactions, journals were frequently prepared and approved by the same person
- some supplier invoices, especially from critical suppliers, were paid without proper receipting from designated staff.

**51.** As highlighted in the Governance Statement in the 2019/20 Annual Report and Accounts, appropriate challenge was delegated to senior finance officers where it was not possible to follow standard financial controls to expedite authorisation of commitment, procurement and payment in support of Covid-19 mobilisation plans.

**52.** The operation of internal controls changed from March 2020 due to the pandemic, and in some cases, standard internal controls were by-passed in order to carry out critical processes. Based on our review of controls during the year and the increased substantive approach we applied over the year-end period, we found no inappropriate postings and consequently, we are satisfied that there is no material misstatement in the annual accounts.

## Shared systems

**53.** 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 (NSI) eFinancials service.

**54.** We have considered the content of service auditor assurance reports, and any associated external audit report. This year both the primary care payments and IT Services service audits resulted in qualified opinions. A qualification in a service audit report relates to the design or operating effectiveness of controls in order to meet the stated control objectives rather than indicating that the underlying transactions are necessarily incorrectly processed. An adverse opinion would occur where controls were absent or failed.

**55.** Qualifications were made for four out of five control objectives in the Practitioner and Counter Fraud Services (P&CFS) ISAE 3402 Type II independent service auditor's assurance report. Findings include lack of formal documentation and retention of the verification and reconciliation activities performed; control design failures on payment claim authorisation and the addition and removal of authorisers from the approvers' list; and lack of documentation on the checks performed to verify that requests had come from verified sources.

**56.** NSS also provide a range of IT services under the NHS Scotland National IT Services Contract. The IT control environment directly supports the P&CFS controls. Within the scope of their work, the service auditor issued qualifications relating to three out of six control objectives during the period. Control weaknesses relate to access, change management and interface.

**57.** The Audit Committee considered the service auditor's reports in July 2020 and requested that the Director of Finance discuss the matter with the Director of Finance at NHS NSS with a view to making improvements for 2020/21. As outlined in [Exhibit 2](#) (page 9), we have considered the service auditor's report with a range of other assurances to support payments to primary care practitioners.

## Internal audit

**58.** We reviewed the board's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could use the work of internal audit. With regard to 2019/20, we concluded that internal audit operated in accordance with Public Sector Internal Auditing Standards which enabled us to place reliance on their work in respect of key financial controls. We also used other internal audit reports to inform our wider dimensions consideration of the board's arrangements.

## Appropriate arrangements are in place for the prevention and detection of fraud

**59.** NHS Grampian is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, the board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

**60.** NHS Grampian's counter fraud and irregularity procedures are well-established and documented for example, the board's Voicing Concern (Whistleblowing) Policy and its Prevention, Detection and Investigation of Suspected Fraud, Theft and Corruption Policy, as well as its Codes of Conduct. We found these documents to be appropriate, current and readily available on the staff intranet.

**61.** Our management letter also reported the results of the most recent National Fraud Initiative exercise in which the board received around 5,000 matches. We concluded that the board was fully engaged with all stages of the exercise. No fraud was identified by staff from the 'matches' reviewed which provides positive assurance on the systems and processes the board has in place.

**62.** Appropriate arrangements are 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.

# Part 3

## Financial sustainability



### Main judgements

NHS Grampian has a three-year, medium-term financial plan. Pre-Covid-19, this identified a financial funding gap of £28m over three years.

The initial estimated impact of Covid-19 on NHS Grampian's 2020/21 financial position is £63m.

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

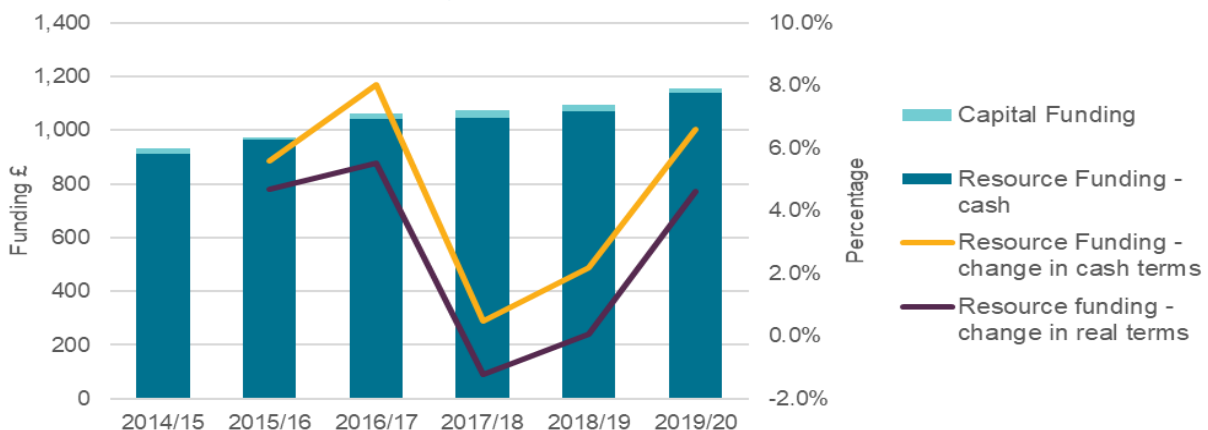
### Revenue funding has grown in real terms by 9.6 per cent over the last five years

63. Revenue funding to NHS Grampian from the Scottish Government has grown by 6.6 per cent in cash terms and 4.6 per cent in real terms compared to 2018/19 ([Exhibit 10](#)) but this includes additional funding for waiting times and the response to the Covid-19 pandemic.

64. NHS Grampian continues to manage financial pressures and relies on natural slippage from new development funding to balance its financial position. This is however a short-term measure as any 'borrowed' development funding will need to be replaced in the medium term.

### Exhibit 10

#### Cash and real term core funding to NHS Grampian



Source: NHS Grampian accounts/ Audit Scotland

## NHS Grampian has a medium-term financial plan, but has yet to develop a longer-term plan

65. In February 2020, NHS Grampian submitted its draft Integrated Plan to the Scottish Government accompanied by a three-year financial plan. Underspends of £3.0m were originally planned in 2019/20 and 2020/21, with an expected overspend of £6.0m in 2021/22, based on the revenue funding requirements to support two major capital projects scheduled to become operational in 2021/22 (i.e. the Baird Family Hospital and Anchor Centre). A proposal was made to the Scottish Government to change the board's projected outturn for the three-year cycle to reflect a breakeven position within its Medium-Term Financial Strategy as shown in [Exhibit 11](#).

### Exhibit 11 Three year project outturn

Year	2019/20	2020/21	2021/22
2018/19 Finance Plan Target	£3.0m surplus	£3.0m surplus	£6.0m deficit
2019/20 Finance Plan Target	Breakeven	Breakeven	Breakeven

### Pre-Covid-19 savings plans for 2020/21 and beyond contain gaps

66. When financial plans were set, NHS Grampian and the IJBs had challenging cost reduction programmes that had to be delivered if financial balance was to be achieved. With the necessary focus on Covid-19, it is unlikely that planned savings will be met.

67. The pre-Covid financial plan shows a break-even position for 2020/21 based on the assumptions of a 3.0% uplift in base funding and full achievement of a 2.0% cost reduction efficiency savings target (CRES) across all areas of NHS Grampian. The board has already highlighted that it will be extremely challenging for operational areas to achieve such savings without affecting performance. Until CRES plans are developed, £5.0m of the total £17.5m savings target remains as unidentified ([Exhibit 12](#)). This relates to £3.0m for directly managed services and £2.0m for IJBs.

### Exhibit 12 Savings forecast 2020/21 to 2022/23

	2020/21 £m	2021/22 £m	2022/23 £m
Recurring	11.25	6.60	6.60
Non-recurring	1.25	1.30	1.30
Unidentified	5.00	4.54	18.45
<b>Total</b>	<b>17.50</b>	<b>12.44</b>	<b>26.35</b>
% of RRL	2.0%	1.0%	2.0%

Source: NHS Grampian draft Financial Plan for 2020-23 submitted to the Scottish Government on 28 February 2020

**68.** Savings of £12.5m already identified are expected to be generated from reduced temporary staffing costs of £5.0m, estates, procurement and non-clinical services £2.4m, service redesign £2.0m and drugs and other sources including financial flexibility £3.1m.

**69.** The financial years 2021/22 and 2022/23 also show unidentified savings of £4.5m and £18.5m respectively. The board highlights that it will need to develop savings schemes to mitigate these financial gaps and reduce the level of the recurring deficit over the period of the plan. It also acknowledges the need for service redesign to deliver the level of savings required.

### **The existing financial plan should be revised to reflect the impact of Covid-19**

**70.** In March 2020, the board was required to provide the Scottish Government with best estimates of the additional costs caused by the pandemic through to March 2021. An initial mobilisation plan was submitted on 20 March 2020 with regular updates thereafter. For NHS Grampian, the additional cost is estimated at £62.7m split between services directly managed by the board (£29.1m) and services delegated to the three IJBs which includes costs for social care services (£33.6m).

**71.** Estimates are based on a range of assumptions which are being kept under review, for example:

- additional cost of externally provided services such as personal protection equipment, recruitment costs, agency workers
- acute bed requirements – bed modelling between ITU beds and Covid-19 beds is an evolving picture which is being kept under review
- delayed discharge reduction – costs associated with relocating existing and expected future delayed patients to release capacity in acute hospitals e.g. additional care home beds, care at home costs and other support costs to avoid delays
- temporary and supplementary staffing costs – the numbers of returners, student nurses and medics is in the process of being finalised and the cost established
- unrealised savings – as a result of Covid-19, a significant proportion of planned savings are unlikely to be met.

**72.** Due to Covid-19, the Integrated Plan and financial plan could not be finalised and formally approved by the board nor agreed by the Scottish Government. As a result, the Integrated Plan is being regarded as a 'baseline' from which a Recovery Plan can be developed.



#### **Recommendation 2**

**The three-year financial plan should be revised to reflect current priorities and a longer-term financial strategy developed as a tool to support service redesign and manage existing longer-term commitments.**

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## Workforce supply continued to be an area of challenge

**73.** The board has continued to face significant workforce supply challenges, particularly in relation to the recruitment of a range of medical and clinical roles including nurses, midwives and allied health professions. This in turn has resulted in the higher use of agency staff.

**74.** There was no mid-year update to the Staff Governance Committee on the board's progress with its various workforce initiatives. The Workforce Strategic Intent and action plan is aimed at mitigating workforce risks. While risks in this area are regularly discussed by the Workforce SLT sub-group, given the significance and persistence of workforce issues and their financial impact, it is important that the Staff Governance Committee has the proper opportunity to scrutinise action being taken and challenge officers accordingly. There is a risk that the board's workforce is not sustainable, leading to failure in delivering safe, timely and effective healthcare services.

**75.** As highlighted in the board's annual report and accounts, in response to Covid-19, a range of government sponsored initiatives have been promoted with the aim of accelerating recruitment of clinical staff returning to the health service and fast-tracking doctors and student nurses in the final stages of their training.

**76.** At 31 May 2020, NHS Grampian had successfully increased the workforce to meet the requirements during the Covid-19 response through 111 returning professionals, 746 medical, nursing and midwifery students, 96 junior doctors and 29 fourth year nursing students. A further 176 domestic and portering staff and 72 health and community social work assistants were also appointed.

**77.** New workforce planning guidance was introduced in autumn 2019 which requires boards to publish workforce plans for health and social care (including primary care and the third/voluntary sector). This will be on a 3-year cycle with the first publication due by 31 March 2021 with an annual update on progress.



### Recommendation 3

**It is essential that the board continues to work with its partners to find solutions together to build capacity and improve service delivery.**

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## Brexit preparations continued in 2019/20

**78.** Progress reports outlining the position regarding preparedness for the withdrawal of the UK from the European Union continued to be provided to the Audit Committee during 2019/20. The area where NHS Grampian may be more impacted compared with the rest of the Scotland is in relation to care staff where intelligence would indicate that there is a higher percentage of EU nationals employed in this sector within Grampian.

# Part 4

## Governance and transparency



### Main judgements

**NHS Grampian continued to review and strengthen its governance arrangements during the year including ongoing support and scrutiny of service development at Dr Gray's Hospital, Elgin.**

**In response to Covid-19, revised arrangements were put in place to enable the board to work effectively with partners. These arrangements have been described in the Governance Statement included in NHS Grampian's annual report and accounts.**

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 and transparency arrangements are in the process of being strengthened

**79.** Although NHS Grampian had been preparing for Covid-19 since January 2020, the likely scale of the pandemic became widely apparent in March 2020. For most of the 2019/20 financial year, the board's governance arrangements were appropriate and largely as we reported in the previous year. We routinely consider:

- the board and committee structure and conduct
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption
- the openness of board and committee meetings
- public access to information via websites and social media
- performance reporting and whether this is fair, balanced and understandable.

**80.** Regular progress reports were provided to the Audit Committee during the year covering action taken in response to the board's self-assessment against the Scottish Government's 'Blueprint for Good Governance'. While progress has been made in relation to reaffirming the board's vision and values, updating the assurance framework, and strengthening assurance reporting by committees to the board, the new risk assessment process is expected to take another 12-18 months to become embedded. This is discussed further in Part 5.

**81.** In addition, further actions arising from the board's consideration of the 'Blueprint' are scheduled for implementation in 2020/21. These include:

- agreeing a board seminar forward plan focused on engaging board members in emerging and developing strategies
- updating the remit of the Performance Governance Committee to include responsibility for monitoring the progress of the board's strategic plans
- responsibility for overseeing the implementation of the Health and Care (Staffing) (Scotland) Act 2019 will become the role of the Clinical Governance Committee

- reviewing the terms of reference of the Innovation and Transformation Group with a view to this becoming the Sustainability group with a focus on future strategic planning
- developing a revised clinical strategy for consideration by the board by December 2021.

### Areas for improvement have also been identified in the governance arrangements with partners

**82.** NHS boards have completed a self-assessment template 'Progress under Integration' with their council partners and IJBs. Common themes and actions were drawn from those identified by the three IJBs and, will be addressed with NHS Grampian and the respective council partners. These include:

- set aside budgets, system wide planning and developing the North East approach - redesign of the six acute based specialities which have the highest levels of unscheduled care activity to create a pathway of care which will be sustainable as the profile of the population continues to change
- corporate support from NHS Grampian for IJBs and health and social care partnerships - corporate support to the IJBs would benefit from a review as a result of changes to corporate systems and re-organisations
- public engagement - further improvement in working with the public
- collaborative leadership and the North East Partnership - to ensure that the collaborative leadership demonstrated by all partners is continued
- review of Integration Schemes and governance arrangements – to assess commonalities among the three councils and what requires to be unique. To reflect on other governance arrangements including how assurance works between the IJBs and NHS Grampian.

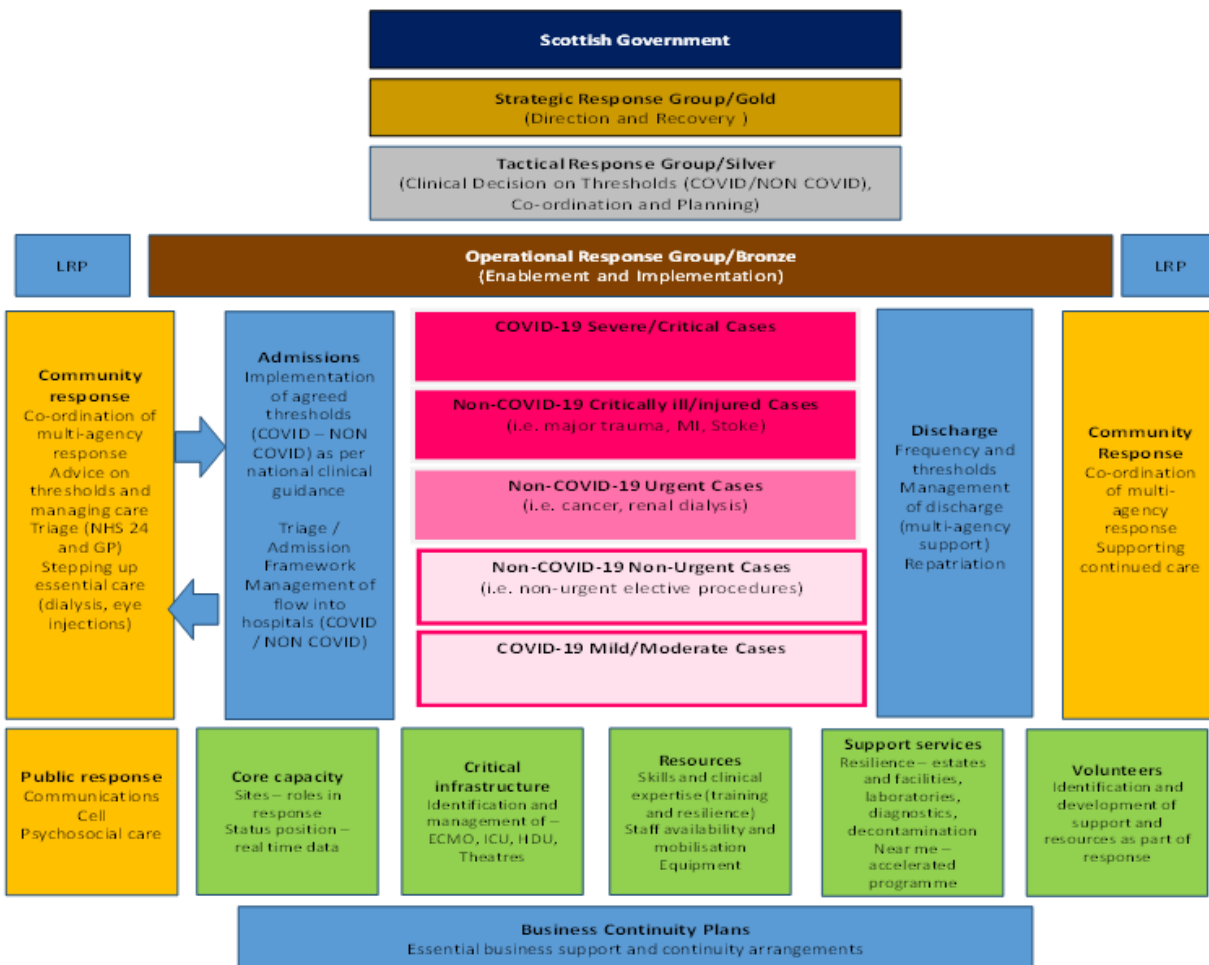
### The Covid-19 response required different governance arrangements

**83.** As set out in the Governance Statement contained within the board's annual report and accounts, emergency planning arrangements were swiftly implemented in March 2020 in response to Covid-19. In particular, the following changes in governance were implemented to enable the board and senior leadership team to prioritise their response to the outbreak:

- revisions to the board's standing orders including suspension of meetings in public. Meeting minutes and papers did nonetheless continue to be made available publicly via the NHS Grampian website
- revisions to governance arrangements to ensure the board was informed and assured on key decisions made within the Gold, Silver and Bronze structure which was used as a framework for directing operational activities ([Exhibit 13](#))
- submission of initial mobilisation plan and subsequent re-mobilisation plans to the Scottish Government
- early appointment of an officer with designated responsibility for all personal protective equipment
- establishment of the Supporting Ethical Decision-Making Group, in line with the Scottish Government's Ethical Advice and Support Framework (3 April 2020)
- implementation and upscaling of remote working solutions, including further investment in IT
- implementation of the Finance department business continuity plan.

## Exhibit 13

### Covid-19 cross system response plan



Source: NHS Grampian

84. In addition, Operation Rainbow, NHS Grampian’s Tactical Operating Model, along with a supporting video presentation, was shared with staff, the Board, IJB members, the Local Resilience Partnership and the Scottish Government. Following positive feedback from the Scottish Government, the video was released publicly on 16 April 2020.

85. We found that the revised arrangements provided NHS Grampian with timely and clear lines of direction, decision making and communication both internally and with its partners, including the Scottish Government. The revised framework allowed NHS Grampian to respond to the pandemic effectively while continuing to support good governance and accountability.

### Additional resources have been invested to increase IT management capacity

86. Internal audit reported an overall high risk rating on conclusion of their review of ‘cyber security of medical devices’. Areas of concern included inadequate cyber security governance and controls, and a lack of a clearly defined control framework to effectively manage security and privacy risks in relation to medical devices. A Cyber Security Group was promptly convened to address the matters raised. Internal audit also revisited the board’s implementation of the General Data

Protection Regulations and highlighted the information risk register as an area of ongoing high risk.

**87.** The SLT and Audit Committee continue to receive progress reports on implementation of IT related recommendations. With new appointments in Information Governance, there is additional capacity to address the remaining risk areas. In February 2020, it was also reported that the digital strategy was out for consultation with stakeholders.

### **Safety risks found in the staffing model at Dr Gray’s hospital are being addressed**

**88.** Paediatric and Maternity Services at Dr Gray’s Hospital (DGH) in Elgin were reconfigured in July 2018 due to difficulties with staff recruitment and retention. The reconfiguration involved the provision of some specialist aspects of these services at Aberdeen Maternity Hospital. There were however concerns that this would lead to a reduced quality of care for users of these services in Moray.

**89.** NHS Grampian responded robustly to these concerns during 2019, implementing a phased plan for the recovery of these services and commissioning an externally led review. Good progress was made with development of the Paediatric Service; however, the review (published November 2019) found potential safety concerns associated with DGH Maternity Service’s hybrid model of care, that had been initiated during Phase 1 of the plan. The review further recommended that DGH transition from the hybrid model to a “Best Start Hub Model of Midwifery Led care as soon as it is safe to do so.”

**90.** Throughout 2019, the board had maintained a proactive approach to the ongoing support and scrutiny of service development at DGH, with the timeline for Obstetric Service delivery initially set for April 2020. However, the regional and national response necessitated by the outbreak of Covid-19 in early 2020 caused DGH development work to be paused, the intention being to resume this as a matter of priority during NHS Grampian’s Recovery phase. We will continue to monitor the board’s progress with DGH service development during 2020/21.

### **Public performance reporting could be more accessible**

**91.** Openness and transparency in how a body operates and makes decisions is an area of continuing public interest. 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.

**92.** From November 2019, the format and content of the performance report was changed to present data in a wider context. Each report provides a more in-depth analysis by focusing on a given theme based on performance issues which are considered enduring or topical. While this will assist decision making and future planning, there is scope to provide a simpler, more user-friendly alternative for the public (e.g. Red/Amber/Green (RAG) traffic light reporting). This should include performance against national waiting times targets and local indicators of interest to the public. The use of trend analysis and benchmarking with other boards and national averages would assist readers and promote openness and accountability.



#### **Recommendation 4**

**Ongoing projects to assist in providing more accessible public performance reporting should be progressed.**

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# Part 5

## Value for money



### Main judgements

**NHS Grampian continues in the transition phase of implementing a new assurance framework which includes an improved approach to risk management.**

**Although still below national waiting time targets, performance has improved compared to the previous year. In particular, waiting times for child and adolescent mental health services are now within 5% of the national target.**

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

### NHS Grampian's assurance framework is at varying stages of implementation across the organisation

**93.** *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. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

**94.** In November 2019, NHS Grampian adopted the Performance, Assurance, Improvement, and Risk (PAIR) Assurance Framework designed to streamline and strengthen the governance arrangements and management of strategic risks across the board in a clear and coherent manner with SLT having an oversight of the process. Implementation is still in transition and it is anticipated that a further 12-18 months will be required for the process to evolve and become fully embedded.

**95.** The existing seven sub-groups of SLT were established against the seven identified organisational risks – infrastructure, compliance, quality and safety, workforce, sustainability (formerly innovation and transformation), collaborative working and engagement and participation. A Brexit subgroup was also added to ensure that there is a focus of the specific issues related to the UK's withdrawal from the EU. Each sub-group will provide assurance reports to SLT for review and challenge and thereafter will be presented to the relevant committee bi-annually.

**96.** As at 31 March 2020, the first assurance reports for quality and safety, infrastructure, sustainability and compliance sub-groups had been presented to their respective committees. Workforce, involvement and engagement and collaboration subgroups have yet to produce their respective first assurance reports.

**97.** Except for infrastructure and quality and safety which are at a more advanced stage, initial reports have in the main been "process" orientated, i.e. establishing memberships, terms of reference, reviewing current risks and developing reporting formats.

**98.** We would expect subsequent reports to be more outcome orientated, i.e. provide assurance to the board that performance against strategic objectives, standards, regulation and other requirements are met and improving, actions are developed to mitigate risks in a timely manner and that the PAIR process is working as intended by delivering robust governance arrangements across the board.

### Early use of benchmarking to improve performance

**99.** Recently, a proposal has been made for NHS Grampian to use a tool called Discovery which is an NHS National Services Scotland product that provides comparative healthcare information drawn from national datasets. There are various overviews of performance containing national targets:

- hospital intelligence dashboard (access times, length of stay, infection rates)
- local delivery plan dashboard (old LDP standards)
- health board and local authority dashboard (access, prevention, preventable admissions)

**100.** It allows boards to benchmark against peers, helping them to identify variation and efficiency. In particular, the health board dashboard with its drill down at local authority level provides comparative trends on a range of health system measures.

**101.** It is encouraging to see that the board is exploring ways to benchmark more meaningfully with other boards to identify and explore opportunities that can add value and generate efficiencies.


### Although still below national waiting time targets, performance has improved compared to the previous year





**102.** Except for the four hour Accident and Emergency (A&E) standard which remains above the national average, performance has improved across all key standards since 2018/19. In April 2020, following the outbreak of Covid-19, the Scottish Government suspended Local Delivery Plan targets. Despite this, [Exhibit 14](#) demonstrates NHS Grampian's improvement, particularly in child and adolescent mental health services (CAMHS) waiting times, which are within 5% of meeting the national target.

**103.** NHS Grampian's performance across key national waiting times standards has improved during 2019/20. The board has worked effectively to achieve this improvement within its budget parameters, as well as during the times of unprecedented challenge it faced in the final part of the financial year.



## Exhibit 14

### Performance against key national waiting time standards

Standard/Target	Performance at March 2020	Action being taken by Board
<b>A &amp; E attendees seen within four hours</b>	98%*  91.6% (PY 92.8%)	NHS Grampian's commitment to continuous improvement in unscheduled care is supported by its participation in the National Unscheduled Care Programme. Via the Grampian Unscheduled Care Delivery Group, the board works collaboratively across all sectors, building networks to optimise efficiency and patient outcomes. The board's safety brief model has continued to evolve and it maintains a robust approach to resilience planning. NHS Grampian's performance in unscheduled care remains consistently above the national average.

Standard/Target		Performance at March 2020	Action being taken by Board
<b>Delayed Discharges</b>  <i>0% of patients with delayed discharge waiting more than 2 weeks (excluding code 9)</i>	0%	 44.8% (PY 45.7%)	<p>NHS Grampian maintains close working relationships with other agencies to streamline processes around discharge. As evidenced by the reduction since 2018/19 in delayed discharges, the board has succeeded during 2019/20 in reducing bed days spent in hospital by patients awaiting discharge. Twice daily huddles remain a key element of this success; however, the board also continues to develop new approaches to improve outcomes. The board is working at a strategic level with Grampian's three Health and Social Care Partnerships, to examine and address common issues, extend staffing capacity and improve timely and safe flow out of hospital.</p>
<b>Child and Adolescent Mental Health Services (CAMHS) patients seen within 18 weeks</b>	90%	 85.9% (PY 43.3%)	<p>With the assistance of Scottish Government investment and community fundraising efforts, NHS Grampian has invested effectively in improving its CAMHS, delivering its innovative centre of excellence at Aberdeen City Hospital, in July 2019. Close links between this centre and Elgin's Rowan Centre are maintained, to ensure consistency of care across Grampian. The board's hosted Mental Health and Learning Disability Service works closely with Grampian's three Health &amp; Social Care Partnerships, to ensure a high quality, patient-centred service. Successful delivery of its Choice and Partnership Approach, along with the availability of remote NearMe consultations, have also contributed to NHS Grampian's significant improvement in this standard over the past year. The board's new Psychological Resilience Hub service was implemented in April 2020.</p>
<b>Patients starting cancer treatment within 62 days (referral to treatment)</b>	95%	 83.3% (PY 76.4%)	<p>The NHS Grampian Cancer Local Improvement Plan aims to ensure continued improvement in outcomes for cancer patients, which remains a board priority. The current focus is on improving resourcing, accommodation and staffing. Several actions are being progressed to address backlog in the short term, as well as to build a sustainable service in the long term. Work is underway on the construction of the board's new ANCHOR centre, with a completion target of 2022. NHS Grampian continues to conduct cancer research in partnership with the University of Aberdeen.</p>
<b>18 weeks referral to treatment time</b>	90%	 70.4% (PY 62.0%)	<p>The board aims to increase its permanent workforce and reduce its dependence on temporary staffing and the independent sector. The board's Clinical Strategy identifies that new, longer term models of care must be progressed through the board's Elective Care Programme, as well as the wider population focus on prevention and self-management. Surgical activity reduced at the outbreak of Covid-19 and capacity was initially managed dynamically, depending on staffing availability. Going forward, the board's re-mobilisation plan aims to clear the backlog of time critical surgical activity in the first instance.</p>



Standard/Target		Performance at March 2020	Action being taken by Board
<b>Day case or inpatients who waited less than 12 weeks for treatment</b>	100%	 58.8% (PY 47.4%)	NHS Grampian has conducted extensive modelling of demand and capacity at speciality level and has identified a range of improvement options and costs. Scottish Government funding has been secured to support the retention of additional capacity sourced in 2018/19, whilst the board progresses plans for its new diagnostic and treatment centre. Meanwhile, target operating plans are being implemented to maximise efficiency.
<b>Outpatients waiting less than 12 weeks following first referral</b>	100%**	 72.5% (PY 64.6%)	NHS Grampian has increased its internal and external capacity, working in partnership with Health and Social Care Partnerships and Primary Care, as well as utilising the independent sector, to reduce the number of patients waiting for outpatient appointments. Members of the board's leadership team monitor the waiting time position weekly. Despite the outbreak of Covid-19, specialities continue to accept all outpatient referrals.

Key: Red = standard missed; Amber = within 5% of target. PY = previous year (i.e. 2018/19)

\* The 4 hour A&E standard is 95%, with boards expected to work towards 98%.

\*\* The 12 week Outpatient waiting time standard is 95%, with boards expected to work towards 100%.

Note 1: Figures from Public Health Scotland as at Q4 2019/20, apart from 18 weeks referral to treatment, which is as at Q3 2019/20. Outpatients waiting less than 12 weeks is as at March 2020.

Source: Public Health Scotland

## National performance audit reports

**104.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2019/20, the following reports were published which are of direct interest to the board:

- NHS workforce planning (part 2) – August 2019
- NHS in Scotland 2019 – October 2019

**105.** The NHS Overview Report on the 2019/20 audits will include a review of the response to Covid-19 by the NHS in Scotland along with a report on financial and operational performance. This is due to be published early in 2021.

# Appendix 1

## Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Payments to independent family health service practitioners</b></p> <p>With annual payments to independent practitioners totalling around £250m each year, this is a complex area.</p> <p>There is scope to enhance local performance monitoring arrangements within and between the Integration Joint Boards and to introduce quarterly assurance reporting to the audit committee.</p> <p>In addition, assurances should be sought from NHS National Services Scotland (NSS) that regular updates on the improvement plan arising from the service auditor's 2019/20 qualified reports will be shared with relevant boards.</p> <p><b>Risk</b></p> <p>The board does not receive sufficient assurances over the management and verification of payments to practitioners.</p>	<p><b>An improvement plan to enhance existing performance monitoring arrangements should be developed by the Chief Finance Officers within each of the Health and Social Care Partnerships.</b></p> <p><b>To raise awareness on a complex area and provide assurance on the management of independent Family Health Services contractors including payment verification work, the Audit Committee should receive a regular report covering the effectiveness of overall arrangements for each contractor payment stream. The report should also include any issues and updates concerning the services provided to NHS Grampian by NHS NSS.</b></p>	<p>The Chief Finance Officers for the Health and Social Care Partnerships and the Board's Deputy Director of Finance will be asked to jointly review arrangements for the monitoring of financial performance for Family Health Services Contractors and to consider development of an improvement plan to enhance existing arrangements.</p> <p><b>Chief Finance Officers/Deputy Director of Finance</b></p> <p><b>March 2021</b></p> <p>The frequency of reporting on FHS Payment Verification will be amended to ensure the Audit Committee receive a report on progress for all FHS contractors at each meeting. The scope and content of each report will be widened to include any other issues that affect the control and management of primary care contractors and in particular the effectiveness of financial performance management arrangements.</p> <p><b>Assistant Director of Finance/Head of Service, Moray Health and Social Care Partnership</b></p>
2	<p><b>Longer term financial planning</b></p> <p>The introduction of a three-year financial plan is an important step towards more effective longer-term planning. Prior to Covid-19, NHS Grampian's plan had a savings shortfall of £23m and current</p>	<p><b>The three-year financial plan should be revised to reflect current priorities and a longer-term financial strategy developed as a tool to support service redesign and manage existing longer-term commitments.</b></p>	<p>A financial plan covering 2021/22 and beyond will be incorporated in the next Annual Operational Plan submission. This will include the longer term financial consequences of service transition and developments</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>estimates show that the impact of the pandemic will require an additional £30m in 2020/21 to cover the board's directly managed services.</p> <p><b>Risk</b></p> <p>With the impact of Covid-19, financial plans may no longer support the board's priorities.</p>		<p>both in revenue and capital terms.</p> <p><b>Director of Finance</b></p> <p><b>March 2021</b></p>
3	<p><b>Workforce</b></p> <p>While the board continues to seek new initiatives to grow the workforce, it continues to rely on agency staff to manage vacancies but also to ensure that services are provided safely.</p> <p><b>Risk</b></p> <p>Services are not sustainable, and redesign will not keep pace with rising demand and increased pressures.</p>	<p><b>It is essential that the board continues to work with its partners to find solutions together to build capacity and improve service delivery.</b></p>	<p>The use of agency staff has decreased significantly in the first part of 2020/21. The labour market is improving in light of the economic impact of Covid-19 with a higher proportion of vacancies being filled recently. This pattern is expected to continue for some time.</p> <p>The board have recently appointed a new Director of People and Culture who is leading a review of workforce planning arrangements including how this may be developed jointly with local and national partners.</p> <p><b>Director of People and Culture</b></p> <p><b>March 2021</b></p>
4	<p><b>Public performance reporting and openness</b></p> <p>In 2018/19, we highlighted that the board's performance information was not readily accessible for residents and the public.</p> <p>In addition, there was no process in place to confirm that the team cascade arrangements were operating as intended for those staff who did not have regular access to email.</p> <p><b>Risk</b></p> <p><b><i>The board does not meet expectations around openness and transparency.</i></b></p>	<p><b>Projects should continue to be developed which will assist in providing accessible public performance reporting, including the use of social media and the website, to enable stakeholders to better engage, and for them to know how the NHS is performing locally and making a difference to their lives.</b></p> <p><b>Processes being developed to improve engagement with staff and the public should be progressed to ensure that the board is being as open and transparent as possible.</b></p>	<p>In line with the board's mobilisation plan, the following key milestones have been agreed:</p> <ul style="list-style-type: none"> <li>• establishment of rolling quarterly engagement surveys <b>31 October 2020</b></li> <li>• enhanced social media measurement and analysis <b>31 October 2020</b></li> <li>• complementary use of dynamic social media surveys/questionnaires <b>31 March 2021</b></li> <li>• trial of digital applications to support meaningful engagement and co-</li> </ul>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p><b>2019/20 update</b></p> <p>During 2019/20, the board had work ongoing to make improvements in these areas, for example: quarterly engagement surveys with the public, a review of social media performance including the use of the website and consideration of digital applications to improve communication with staff.</p>		<p>production <b>31 March 2021</b></p> <ul style="list-style-type: none"> <li>launch improved NHS Grampian website and intranet with enhanced functionality <b>March 2021</b></li> </ul> <p><b>Director of Marketing and Communications</b></p> <p>In addition, the board will seek to use a forthcoming staff culture survey to understand how effective communication ‘through the line’ is perceived to be.</p> <p><b>November 2020</b></p> <p><b>Director of Marketing and Communications</b></p>

# 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 to our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries</p> <p>Review of accounting estimates</p> <p>Focused testing of accruals and prepayments</p> <p>Cut off testing procedures on income and expenditure transactions at year-end</p> <p>Evaluation of significant transactions that are outside the normal course of business</p>	<p><b>Results:</b> Other than the issues outlined in <a href="#">Exhibit 2</a> re staff accruals which are not material to the audit opinion, our testing procedures were satisfactory.</p> <p><b>Conclusion:</b> Satisfactory</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>In addition to Scottish Government funding, NHS Grampian receives a significant amount of income from other sources.</p> <p>The extent and complexity of income and expenditure means that, in accordance with ISA240, there is an inherent risk of fraud</p> <p>Practice Note 10* 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. Similar to other public sector bodies, NHS Grampian is a net expenditure body where the risk of fraud in expenditure is higher.</p> <p>*Practice Note 10 relates to the audit of financial statements of public sector bodies in the UK</p>	<p>Analytical procedures on income streams and expenditure transactions</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk</p> <p>Reliance on Internal Audit's review of Key Financial Controls under ISA 610</p> <p>Consideration of service auditor's report (refer to Page 12) covering the financial ledger, IT contracts and Practitioners Services Division under ISA 402</p> <p>Cut off testing procedures on income and expenditure transactions at year-end</p> <p>Review of the board's National Fraud Initiative (NFI) matches investigation</p> <p>Monitoring of frauds and false exemptions reported.</p>	<p><b>Results:</b> Additional assurances were sought to support the service auditor's findings as set out in <a href="#">Exhibit 2</a>. Otherwise satisfactory.</p> <p><b>Conclusion:</b> Satisfactory</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas such as revaluation of land and buildings, clinical negligence provisions, and certain staff accruals.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Reliance on 'the work of an expert' under ISA 500 in respect of the professional valuer and the Central Legal Office.</p> <p>Review accounting treatment of property revaluation and ensure it accords with the requirements of FReM</p> <p>Review the basis and calculation of accruals and provisions for bias and subjectivity including reasonableness of methodology and consistency with prior years and guidance</p> <p>Review Central Legal Office (CLO) reports covering clinical negligence claims</p> <p>Focused substantive testing of key areas.</p>	<p><b>Results:</b> As explained in <a href="#">Exhibit 2</a>, the valuer provided a material uncertainty opinion in respect of the valuation of land and buildings.</p> <p>Otherwise satisfactory</p> <p><b>Conclusion:</b></p> <p>'Emphasis of Matter' paragraph has been added to the audit opinion in respect of the valuation of land and buildings. Otherwise satisfactory.</p>
<p><b>4 Group accounts and IJB balances</b></p> <p>Delays were incurred in confirming balances for two of the three IJBs for two years in a row, primarily due to late receipt of information from council finance teams. This is despite early discussions between NHS Grampian, IJB and council officers.</p> <p>There is a risk that the board's statutory reporting deadline is not met.</p>	<p>Held early discussions with senior Finance officers on the planned timetable for group accounts including expectations from group accountants</p> <p>Discussed progress during the year as appropriate.</p>	<p>IJB accounts were received later than anticipated but reconciliations were agreed and audit queries resolved before the final deadline.</p> <p><b>Conclusion:</b> Satisfactory</p>
<p><b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b></p>		
<p><b>5 Performance</b></p> <p>The board continues to struggle in meeting its waiting times performance targets.</p> <p>There is a risk that planned actions are not effective resulting in significant exposure to both clinical and reputational risks and failure to meet statutory targets.</p>	<p>Reviewed performance reporting to the board to assess the response by management and the impact of the board's improvement plans</p> <p>Assessed how quality outcome indicators are managed within the board's risk framework</p> <p>Reviewed clinical negligence claims for trends.</p>	<p>Commented on our findings - refer Part 5 of the report.</p>
<p><b>6 European Union (EU) withdrawal</b></p> <p>While most Brexit preparations covering the supply and procurement of medicines are</p>	<p>Reviewed update reports to committees</p> <p>Discussed status with senior officers.</p>	<p>Commented on our findings - refer Part 3 of the report.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>led and co-ordinated at the UK and Scottish level, NHS Grampian is more exposed around workforce issues. For example, a higher percentage of EU nationals are employed as care staff in Grampian.</p> <p>There is a risk that the level of preparedness is not adequate leading to disruptions in services and potential casualties.</p>	<p>Reviewed actions being taken by the board to mitigate risks.</p>	
<p><b>7 Workforce issues</b></p> <p>The board continues to face significant workforce supply challenges, particularly in relation to some medical specialties, Nurses and Midwives, Allied Health Professions and small occupational groups such as Healthcare Scientists resulting in high locum and bank spend; an ageing workforce and the implications for working longer; and GP recruitment.</p> <p>There is a risk that the board's workforce is not sustainable leading to failure in delivering safe, timely and effective healthcare services.</p>	<p>Review the board's current workforce strategy and plans to mitigate identified risks</p> <p>Review the board's consideration of the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver NHS Grampian's services</p> <p>Consider Internal Audit's findings on appointment and monitoring of locums.</p>	<p>Commented on our findings - refer Parts 2 and 3 of the Report.</p>
<p><b>8 Financial position</b></p> <p>The results for the eight months to November 2019 show a year to date overspend of £2.5m compared with £1.2m for the same period last year. The level of overspend continues to be above the financial trajectory agreed with the Scottish Government due to high medical locum staffing costs.</p> <p>While the board continues to forecast a break-even position for the year, this as in previous years is likely to be heavily underpinned by its inability to spend some earmarked funding allocations from the Scottish Government.</p> <p>There is a risk the board is not able to sustain operational overspends in the longer term.</p>	<p>Reviewed finance reports</p> <p>Monitored progress with delivery of efficiency savings and financial targets</p> <p>Regular discussions with senior officers to understand how the board is managing cost pressures.</p>	<p>Commented on our findings - refer Parts 2 and 3 of the Report.</p>

# NHS Grampian

## 2019/20 Annual Audit Report

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