



National Waiting Times Centre Board

2019/20 Annual Audit Report to the Board and the Auditor General for Scotland

October 2020



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Key messages







This report concludes our audit of the National Waiting Times Centre Board for 2019/20.

This section summarises the key findings and conclusions from our audit.



Key messages

<p>Annual report and accounts</p>	<p>The first section of this report reproduces the content from our Audit Management Report dated 25 June 2020.</p> <p>The annual report and accounts were considered by the Audit and Risk Committee on 16 June 2020 and approved by the Board on 25 June 2020. Our independent auditor’s report is unqualified.</p> <p>We have drawn attention in our independent auditor’s report to the effects of a material uncertainty, caused by COVID-19, on the property values. Our opinion is not modified in respect of this matter.</p>
 <p>Financial Sustainability</p>	<p>The Board is forecasting a breakeven position for the three years commencing 2020/21.</p> <p>The Board has appropriate arrangements in place to manage its financial position and use of resources, including consideration of its financial sustainability in partnership with other national and regional health boards.</p> <p>The financial impact of the COVID-19 pandemic is incorporated in the mobilisation plan and the board continues to monitor the overall impact on its financial position.</p>
 <p>Financial Management</p>	<p>All three key financial targets for the year were met.</p> <p>The Board has effective arrangements in place for financial management and the use of resources, including a strong track record of achieving savings plans.</p>
 <p>Governance & Transparency</p>	<p>Governance arrangements were found to be satisfactory and appropriate, including the agile arrangements put in place throughout the COVID-19 pandemic to date. Further improvements to the committee structure were introduced in line with the NHS Blueprint for Good Governance.</p> <p>Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.</p>
 <p>Value for Money</p>	<p>The Board has appropriate performance management processes in place that support the achievement of value for money. Performance in 2019/20 was comparable with the previous year in the seven key performance indicators detailed in the Annual Report and Accounts.</p> <p>The Board has supported NHSScotland in its response to the COVID-19 pandemic by creating additional capacity. A local recovery plan has been developed which sets out how the Board will resume its normal activities along with new services including surgical cancer services.</p>

Introduction



We carried out our audit in accordance with Audit Scotland's Code of Audit Practice and maintained auditor independence



Scope

1. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit and Risk Committee at the outset of our audit. The core elements of our work include:
 - an audit of the 2019/20 annual report and accounts and related matters;
 - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
 - monitoring the Board’s participation in the National Fraud Initiative (NFI); and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice



Responsibilities

2. The Board is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
3. We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

4. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
5. We confirm that we complied with the Financial Reporting Council’s (FRC) Ethical Standards. In our professional judgement, we remained independent

and our objectivity has not been compromised in any way.

6. We set out in Appendix 1 our assessment and confirmation of independence.

Adding value through the audit

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

Feedback

8. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

Openness and transparency

9. This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Annual report and accounts

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

In this section we summarise the findings from our audit of the 2019/20 annual report and accounts, as previously reported in our Audit Management Report dated 25 June 2020.

Annual report and accounts

Unqualified audit opinion on the annual report and accounts

The annual report and accounts for the year ended 31 March 2020 were considered by the Audit and Risk Committee on 16 June 2020 and approved by the Board on 25 June 2020. Our independent auditor's report is unqualified.

We have drawn attention in our independent auditor's report to the effects of a material uncertainty, caused by COVID-19, on the property values. Our opinion is not modified in respect of this matter.

Overall conclusion

10. Our independent auditor's report includes:
 - An unqualified opinion on the financial statements;
 - An unqualified opinion on regularity; and
 - An unqualified opinion on other prescribed matters.
11. We have drawn attention in our independent auditor's report to Note 1 Accounting policies, 28. 'Key sources of judgement and estimation uncertainty' of the financial statements, which describes the effects of a material uncertainty, caused by COVID-19, on the property valuation report. Our opinion is not modified in respect of this matter.

Our assessment of risks of material misstatement

12. The assessed risks of material misstatement described in the table below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described below.

Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

Management override

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

Noted in the 2019/20 External Audit Plan

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

Revenue recognition

Under ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

Noted in the 2019/20 External Audit Plan

14. At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for the Board's revenue resource allocation from Scottish Government.
15. Based on audit work performed, we have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we evaluated the Board's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.

Risk of fraud in the recognition of expenditure

Practice Note 10 - *The Audit of Public Sector Financial Statements* recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

Noted in the 2019/20 External Audit Plan

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

Update to our initial risk assessment

17. Planning is a continuous process and our audit plans are updated during the

course of our audit to take account of developments as they arise. We have specifically updated our risk assessment and audit plan in light of COVID-19. We recognised this as a key audit risk¹.

COVID-19

The COVID-19 pandemic is presenting unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. Core areas of service delivery have been suspended or substantially reduced, systems and processes have been amended to support remote working, arrangements for governance, decision making and performance management have been adapted, and many organisations are forecasting large operating deficits due to loss of income and/ or additional cost pressures. It is uncertain how long these challenges will persist.

The implications of these risks and uncertainties are under consideration by the Board, the health sector and the Scottish Government. We continue to monitor government and relevant announcements as they pertain to the audit and have adapted our audit approach as required.

¹ A key audit risk is one which may result in a material misstatement to the financial statements or

significantly impact on our audit judgements and conclusions on the wider scope dimensions.

18. In response to COVID-19 we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion.

- Property valuations
- Stock valuations
- Content of the annual report and accounts
- Access to audit evidence
- Timescales/administrative processes.

Property valuations

19. During the pandemic, the Royal Institution of Chartered Surveyors (RICS) published guidance which outlines the challenges with regard to the valuation of assets during this period, including the potential for valuations to be “qualified” with a “material valuation uncertainty”.

20. The Board, in accordance with its accounting policies, obtains an external valuation of all land and buildings assets on an annual basis. The valuations are carried out in accordance with the RICS Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Scottish Government.

21. In the current year the valuation report received from the external valuers (“Avison Young”) stated the following:

Material Valuation Uncertainty

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020, has impacted global financial markets. Travel

restrictions have been implemented by many countries. Market activity is being impacted in many sectors.

As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuations are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Valuation – Global Standards effective from 31 January 2020. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case.

For the avoidance of doubt, the inclusion of the ‘material valuation uncertainty’ declaration above does not mean that the valuation cannot be relied upon. Rather, the phrase is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case.

**Avison Young Capital
Valuation of Property Assets
as at 31 March 2020, Prepared
for Golden Jubilee National
Hospital**

22. Boards are required to revalue properties with sufficient regularity to ensure that the carrying amount does not differ materially from the current value at 31 March. A material uncertainty in a valuer's report does not mean that the valuation cannot be relied upon or that there is a misstatement. However, it indicates that less certainty can be attached to the valuation than would otherwise be the case.
23. The Board has disclosed this uncertainty within both the Performance Report and Accounting Policies (Significant Accounting Estimates and Judgements). We encouraged the Board to quantify the uncertainty by way of sensitivity analysis disclosure, but this information was not available and so was not included in the financial statements.
24. We concluded that the material uncertainty over the property valuations is of such importance that it is fundamental to users' understanding of the financial statements. Based on our audit work performed and conclusions, we have included an emphasis of matter paragraph in our independent auditor's report which draws attention to the disclosures made in the annual accounts. Our audit opinion is not modified in respect of this matter.

Stock valuations

25. Due to the impact of Covid-19 the Board were unable to perform full stock counts for all areas included within the Board Inventory. All areas where the year-end balances are material had stock counts performed, however clinical areas where the stock movement was low or where access

was restricted were not counted prior to 31 March 2020. We reviewed the Board's approach to stock counts and concluded that this was a reasonable approach and would not result in a material misstatement to the financial statements.

Content of the annual report and accounts

26. In May 2020, HM Treasury issued an addendum to the Government Financial Reporting Manual (FReM) which covered the following:
 - The addendum permits, but does not require, bodies to omit the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication.
 - Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report.
27. The Board took the decision to include the performance analysis section of the Performance Report and make the full disclosures in the Accountability Report.

Access to audit evidence

28. Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.

29. We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.
30. We stayed in close contact with Board finance colleagues right up until the point of accounts signing, to ensure all relevant issues were satisfactorily addressed.

Timescales/Administrative processes

31. In Scotland, the administrative deadline for the submission of audited accounts of health boards and agencies is usually 30 June but this has been extended by three months to 30 September 2020. The legislative deadline for laying accounts in the Scottish Parliament however remains at 31 December 2020.
32. The Board decided to continue with the original timescales and approved the annual report and accounts on 25 June 2020.
33. We worked closely with management throughout the audit to put us in the best position to adhere to this timetable, and did so successfully.

An overview of the scope of our audit

34. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk Committee in February 2020. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course

of the audit to take account of developments that arise.

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

Our application of materiality

37. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout the audit.
38. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater

level of testing on the areas deemed to be at significant risk of material misstatement.

39. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
40. Our initial assessment of materiality for the financial statements was £1.2million. On receipt of the 2019/20 draft accounts, we reassessed materiality and kept it at £1.2million. We consider that our updated assessment has remained appropriate throughout our audit.

	Materiality £million
Overall materiality: Our assessment is made with reference to the Board's Revenue Resource Limit (RRL). Achieving a breakeven position against RRL is a key target for the Board and one of the principal considerations for the users of the financial statements when assessing financial performance.	1.2
Performance materiality: using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	0.9

41. We noted within our External Audit Plan that we would report to the Board all audit differences in excess of 5% of the overall materiality figure, as well as

differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identify when assessing the overall presentation of the annual accounts.

Audit differences

42. We identified no material adjustments to the unaudited annual accounts. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts. There were no unadjusted differences to the unaudited annual accounts.

Group audit

43. The Group comprises the Board and the Endowment Fund. The Endowment Fund is fully consolidated. We did not consider the Endowment Fund to be of individual financial significance to the group or, due to its specific nature or circumstances, include a significant risk of material misstatement to the group financial statements.
44. As part of our audit we reviewed the consolidation entries made within the group accounts and confirmed those entries back to the financial statements.
45. Azets is also the appointed auditor to the Endowment Fund. During our audit we liaised with the Endowment Fund audit team to confirm that their programme of work is adequate for our purposes.
46. We have nothing to report in respect of the following matters:
 - No significant deficiencies in the system of internal control or

instances of fraud were identified by the Endowment Fund auditor; and

- There were no limitations on the group audit.

Other matters identified during our audit

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

Other information in the annual report and accounts

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

The performance report

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

The accountability report

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

remuneration and staff report; and a parliamentary accountability report.

Governance statement

52. We consider the coverage of the governance statement to be in line with our expectations.
53. We have concluded that the governance statement has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions from Scottish Ministers and is consistent with the financial statements.

Remuneration and staff report

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

Regularity

55. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.
56. In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Service auditor reports

57. The Board utilise a number of shared IT systems, IT applications and processes with other Scottish Health Boards. Assurance reports are prepared by service auditors in the health sector under ISA (UK) 402

covering the national systems/arrangements.

Shared service

Service assurance

National IT contract

This contract covers the services provided by ATOS Origin Alliance e.g. controls over the server supporting eFinancials.

NHS National Services Scotland (NSS) procures a service auditor report from KPMG. In May 2020 KPMG reported a qualified audit opinion. We have considered the findings of the report and are satisfied that this does not have a material impact on our audit approach or conclusions reached.

National Single Instance (NSI) eFinancials

NHS Ayrshire & Arran host this eFinancials service including the Real Asset Management system on behalf of all Scottish Health Boards.

NHS Ayrshire and Arran procure a service auditor report from BDO. The service auditor reported no critical or significant risk findings and reported an unqualified opinion.

58. The Board, in its Governance Statement, noted the outcome of the service auditor report from KPMG and do not believe that these findings have any material impact on this Board's accounts and assurance. The Board will monitor progress in the forthcoming financial year.

Qualitative aspects of accounting practices and financial reporting

60. During the course of our audit, we considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our audit conclusions on these qualitative aspects are as follows:

Follow up of prior year recommendations

59. We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 2.

Qualitative aspect considered	Audit conclusion
<p>The appropriateness of the accounting policies used.</p>	<p>The accounting policies, which are disclosed in the annual accounts, are in line with the NHS Accounts Manual and are considered appropriate.</p>
<p>The timing of the transactions and the period in which they are recorded.</p>	<p>We did not identify any concerns over the timing of transactions or the period in which they were recognised.</p>
<p>The appropriateness of the accounting estimates and judgements used.</p>	<p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts.</p> <p>We included an emphasis of matter in our independent auditor's report drawing attention to the material uncertainty disclosure on property valuations.</p> <p>Significant estimates were made in relation to the valuation of liabilities related to the Board's membership of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). These estimates were informed by advice from qualified, independent experts.</p> <p>We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the experts was appropriate.</p>
<p>The appropriateness of the going concern assumption</p>	<p>We reviewed the financial forecasts for 2020/21. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Board will continue to operate for at least 12 months from the signing date.</p>
<p>The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.</p>	<p>We did not identify any uncertainties, including any significant risk or required disclosures, which are not already included in the annual accounts.</p>

Qualitative aspect considered	Audit conclusion
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant financial statement disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention other than the material uncertainty disclosure on property valuations noted above. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statements disclosure.	While disclosure and presentational adjustments were made during the audit there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

Financial sustainability

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



The Board is forecasting a breakeven position for the three years commencing 2020/21.

The Board has appropriate arrangements in place to manage its financial position and use of resources, including consideration of its financial sustainability in partnership with other national and regional health boards.

The Board has incorporated the financial impact of the COVID-19 pandemic into its mobilisation plan and continues to monitor the overall impact on its financial position.

Significant audit risk

61. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities:

Financial sustainability

An Annual Operational Plan (AOP) is in place for 2019/20 along with a financial plan covering the three years from 2019/20. The Board has forecast a breakeven position across each of the three years. This is dependent on the realisation of a savings plan which the Board has recognised will be challenging over the coming years.

The 2019/20 AOP and Financial Plan reflect that the Scottish Government plans to invest significant capital funding over the next five years as part of a major expansion of the Board's services.

A draft Annual Operational Plan for 2020/21 was submitted to the Scottish Government in December 2019. The final submission is due in early 2020.

The achievement of future financial targets will depend on continuing tight control of expenditure and delivery of a challenging savings plan. There is a risk that delivery of the Board's financial plans are at the detriment of services and/or ongoing financial health.

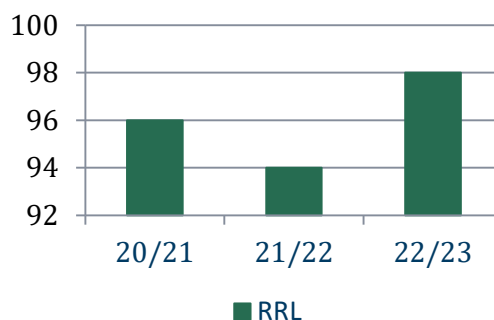
Noted in the 2019/20 External Audit Plan

62. Our detailed findings on the Board's financial framework for achieving long term financial sustainability are set out below.

Annual operational plan

63. Annual operational plans (AOPs) were introduced by the Scottish Government in 2018/19. The Board submitted a draft 2020/21 AOP to the Scottish Government on the 1 April 2020.
64. The 2020/21 AOP is underpinned by a financial plan which considers the outlook for a three-year period. Though Boards are now permitted to plan for a breakeven position over a three-year period, the Board has planned to break even in each year of the plan.

Forecast Core Revenue Resource Limit (£million)



Source: 2020/21 Financial Plan

66. The 2020/21 AOP sets out how the Board will achieve financial balance over the coming years and discusses a range of key issues and assumptions made in forming that view.

Efficiency savings

67. The Financial Plan outlines challenging savings requirements over the next three years. While the Board has a strong record in delivering efficiency savings to date, it still needs to develop plans in respect of 60% of the required 2020/21 savings target.

Efficiency savings

	2020/21	2021/22	2022/23
Savings required	£3.8m	£3.3m	£2.9m
Savings identified	£1.5m	£0.9m	£0.5m
Unidentified savings	£2.3m	£2.4m	£2.4m
% savings unidentified	60%	72%	83%

Source: 2020/21 Financial Plan

68. An Efficiency and Productivity Group has been established, chaired by the Director of Finance. This group has developed a 3-5 year work plan to identify and implement efficiency schemes.

Education for Scotland and NHS National Services Scotland.

70. The Golden Jubilee Hospital includes the West of Scotland Heart and Lung Centre, and through expansion will become the elective centre for the West region.

Regional and National planning

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

71. The Board continues to strive for an integrated approach to healthcare and delivering services. The Board's role of supporting territorial Boards and implementing national regional developments is widely recognised, and a key aspect of medium and long-term financial sustainability.

Capital plans

72. Well established capital planning processes are in place. A capital group meets every two weeks to consider capital requests and requirements against strategic planning objectives. The group

discusses proposed capital projects and approves and monitors capital expenditure.

73. While the Financial Plan outlines the forecast revenue position for a three-year period, capital plans extend out to five years (as in previous years).

5 year capital plan (£million)

CRL	2020/21	2021/22	2022/23	2023/24	2024/25
Formula funding	3.3	7.9	5.2	4.5	4.2
Project funding	19.8	44.6	10.4	4.6	0
Total CRL	23.1	52.5	15.6	9.1	4.2

Source: 2020/21 Financial Plan

74. The capital plan outlines significant capital investment in property, plant and equipment over the next five years, totalling £104.5million. Of that total, £79.41million relates to the major expansion plans:

- phase two: delivery of additional orthopaedic and other surgical elective care capacity.

76. The Board receives updates on the expansion programme at each meeting, providing an overview of progress to date against key milestones.

Expansion plans

75. The 2020/21 AOP and Financial Plan reflect that the Scottish Government plans to invest over £79.41 million over the next five years as part of a major expansion of the Board's services. The planned expansion is a direct result of the success of the Board's service model and comprises two phases:

77. Given the scale of the expansion programme and its significance to service delivery we will continue to monitor developments throughout our term of appointment.

- phase one: delivery of ophthalmology elective care capacity; and

Impact of COVID-19 pandemic on financial plans

78. Management has prepared a mobilisation plan which sets out the financial impact COVID-19 is having on the organisation. The mobilisation

plan sets out the estimated additional costs and savings as a consequence of the pandemic.

79. Looking forward, the achievement of financial balance is dependent on the funding of the additional costs, and moving back to normal activity in line with a phased approach.
80. The Board also relies on income from other health boards, the Golden Jubilee Conference Hotel and research activities to achieve financial balance; and all these sources of income have been negatively affected by the COVID-19 pandemic. During the first four months of the 2020/21 financial year, under recovered income from these sources totalled £2.492million.

Financial management

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



All three key financial targets for the year were met.

The Board has effective arrangements in place for financial management and the use of resources, including a strong track record of achieving savings plans.

Financial performance

- 81. All Boards have to work within the resource limits and cash requirements set by the Scottish Government.
- 82. All key financial targets were met in 2019/20. The Board made a saving against its revenue resource limit of £217,000.

Performance against resource limits

Financial target	Limit £000	Actual £000	Variance £000	Target achieved?
Revenue resource limit (RRL)	91,805	91,588	217	Yes
Capital resource limit (CRL)	18,482	18,482	-	Yes
Cash requirement	92,884	92,884	0	Yes

Delivering financial balance

- 83. The £217,000 under-spend against revenue resource limit (RRL) represents 0.24% of the RRL and is therefore in line with the breakeven position forecast at the start of the year.
- 84. In line with the financial plan, £18.482million was invested in capital projects during the year.
- 85. Throughout the year, the Board forecast to remain within the Capital Resource Limit. A revenue to capital transfer was actioned which allowed the procurement of a CT Scanner. This was discussed and approved by the Scottish Government.
- 86. Phase One of the hospital expansion programme (delivery of ophthalmology

elective care capacity) commenced in January 2019 and was planned to be completed in July 2020. The COVID-19 pandemic, however, delayed completion of this phase and it is now expected to be completed in October 2020 with a view to opening October – November 2020. Phase One is on track to provide a balanced position against its capital allocation. The cost control group continue to review progress noting the effect on the phasing of work. The impact of COVID-19 and additional costs have been included in the forecast outturn and this remains within the overall target cost.

- 87. Phase Two was planned to commence in early 2020. Again, this was delayed due to the pandemic and on site work commenced in July 2020.

Efficiency savings

88. As part of the 2019/20 Financial Plan, the Board was tasked with achieving £4.807million efficiency savings and exceeded its target by £3,000.
89. The Board has a strong record of achieving its efficiency savings target. A key driver this year was the Board's achievement of recurring savings. In 2019/20, 52% of the savings reported were recurring savings (£2.505million).

Systems of internal control

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

Internal audit

92. An effective internal audit service is an important element of a Board's overall governance arrangements. The Board's internal audit service is provided by Grant Thornton. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the Board's total audit resource.

Prevention and detection of fraud and irregularity

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

National fraud initiative

95. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.
96. Participating bodies were required to submit data in October 2018 and received matches for investigation in January 2019.
97. We reviewed the Board's participation in the NFI exercise in February 2020. We confirmed that match investigation work has been completed and the results recorded on the NFI system, with no instances of fraud identified.
98. Overall we concluded that the Board's arrangements with respect to NFI are satisfactory.

Governance and transparency

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



Governance arrangements were found to be satisfactory and appropriate, including the agile arrangements put in place throughout the COVID-19 pandemic to date. Further improvements to the committee structure were introduced in line with the NHS Blueprint for Good Governance.

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

Governance and transparency

Governance arrangements

99. The following changes in the governance arrangements have occurred during the period:
- Jann Gardner took up post as Chief Executive in January 2019, replacing Jill Young, who departed in November 2018.
 - New non-executive members Rob Moore and Morag Brown were appointed. Phil Cox, Kay Harriman and Mark MacGregor's appointments as non-executive directors came to an end over the course of the financial year. Mark MacGregor left prior to assuming the role of medical director (below)
 - Medical Director Mark MacGregor was appointed. Alistair MacFie filled the role temporarily until Mark MacGregor assumed the role in September 2019.
 - Julie Carter, the Director of Finance took up a permanent post at the Scottish Ambulance Service (from July 2019) and Colin Neil was appointed as Director of Finance on 1 July 2019.
100. In view of the number of board-level changes in the financial year, we reviewed the induction process into the organisation and concluded that it provides those charged with governance with the information and platform to do so effectively.

Blueprint for good governance

101. In January 2019, the Scottish Government published the Blueprint

for Good Governance. The document draws on best practice to ensure all boards assess and develop their corporate governance systems.

102. NHS Boards were asked to conduct a self-assessment against the areas outlined within the document.
103. The results of the self-assessment were presented to the Board in April 2019. The self-assessment identified several next steps which the Board was asked to approve as the basis of an action plan.
104. During 2019/20 the Board has made progress as follows:
- The governance structure for reporting and scrutinising information was updated. The new governance committees comprise the Financial, Planning and Performance; Clinical Governance; and Person-Centred Committees;
 - A Head of Corporate Governance and Board Secretary was appointed;
 - Steps to improve employee engagement with the new Board strategy were introduced. The engagement was carried out via electronic communications and an employee drop-in event. Moving forward, a web-based portal is under development to allow direct access to strategy information; and
 - A corporate governance planner has been developed detailing each governance group/committee and planned meetings throughout the financial year. These include

partnership meetings with other health boards, and Board workshops to self-review their own performance.

105. The three new/revised Committees (Financial, Planning and Performance; Clinical Governance; and Person-Centred) commenced in September 2019 and report directly to the Board. The committees provide a platform from which non-executive directors can scrutinise in detail and hold management to account, with minutes and actions brought to the Board for further high-level consideration. Each committee has a standing terms of reference, clear purpose and remit, standing membership and frequency of meetings.

Responding to the COVID-19 pandemic

106. As part of the Board's response to the COVID-19 pandemic, it implemented an Agile Governance Model to ensure the organisation was effectively responding to the pandemic, discharging its governance responsibilities and making effective use of available resources.
107. An Agile Governance Group (comprising the Board Chair, Clinical Governance Committee Chair, Person-Centred Committee Chair, Chief Executive and Executive Directors) was established and met twice per week to provide the Board with assurance that robust processes were in place to manage the organisation's resilience response. The Board continued to meet monthly to monitor the situation and organisational response. A decision however was taken to suspend public

meetings for the safety of all potentially involved.

108. The Board also implemented a command structure to provide a framework for the co-ordination of the organisation's whole system response to the pandemic. The three levels of command are:
- Gold (Strategic consideration)
 - Silver (Tactical consideration)
 - Bronze (Operational consideration)
109. The command structure clearly sets out the chain of command of decision making.
110. The Board has reviewed its strategy in light of the COVID-19 pandemic. The key aims and objectives remain consistent, with updates made over the most effective method of long-term delivery of key services.
111. The risk register was updated early into the pandemic, identifying the additional risks COVID-19 presented to the Board and its ability to continue to operate and deliver services.
112. An additional four risks were added to the risk register. The Board acted swiftly to ensure all appropriate and incumbent mitigations were implemented.
113. Throughout the pandemic the Board has communicated with Scottish Government in terms of its mobilisation plan expectations and financial position.
114. The Board engaged with other Health Boards', allowing surgeons from visiting hospitals to work as a team to deliver services where possible.
115. Throughout the pandemic the Board continued to liaise with NHS Education

for Scotland (NES) with regard to continuing to supply trainee nurses. The Board also liaised with NHS National Services Scotland (NSS) over appropriate PPE for all employees.

116. The Board made hotel rooms available to patients and patients' relatives free of charge during the pandemic in certain cases.
117. The Golden Jubilee was designated as a COVID-19-free site. A testing system was established for patients arriving and, if positive, they were taken to a ward on a separate level from other patients.

Standards of conduct

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

Value for money

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



The Board has appropriate performance management processes in place that support the achievement of value for money. Performance in 2019/20 was comparable with the previous year in the seven key performance indicators detailed in the Annual Report and Accounts.

The Board has supported NHSScotland in its response to the COVID-19 pandemic by creating additional capacity. A local recovery plan has been developed which sets out how the Board will resume normal activities along with new services including surgical cancer services.

Performance management arrangements

119. Following a review of corporate governance arrangements, the performance reporting cycle has been realigned. In order to support the functions of the Clinical Governance, Person-Centred (Staff Governance) and Finance, Performance and Planning Committees an Integrated Performance Report (IPR) has been developed.
120. An IPR is produced monthly as part of a two monthly performance cycle. The key elements of the reporting cycle are:
- IPR produced and shared with Board members monthly.
 - IPR on second month considered by three Committees.
 - Board Summary Report produced including Chairs comments for Board consideration.
121. At each meeting, the three committees consider targets and standards specific to their area of remit using the IPR. The IPR gives each key performance indicator (KPI) a red, amber, green (RAG) rating. Each KPI is assessed against a defined performance assessment methodology which is intended to highlight both areas of concern and areas of sustained improvement.
122. A summary of the Board's 2019/20 performance is provided in the Annual Report and Accounts for the year ended 31 March 2020. The summary provides an analysis of performance against its Annual Operational Plan (AOP) ambitions incorporating Workforce, Elective Care, Heart &

Lung, National Services, Innovation & Research and the Hotel and Conference Centre. These KPIs are part of the suite of indicators included in the IPRs.

123. Performance in 2019/20 was comparable with the previous year in the seven KPIs detailed in the Annual Report and Accounts. The two KPIs which were reported as below target (as in 2018/19) were:
- Sickness absence: 4.65% (target 4%; 2018/19 5.03%)
 - Patients treated within 12 weeks of decision to treat: 72% (target 100%, 2018/19 83%).
124. Since March 2020 performance information on absences due to COVID-19 are presented within the IPRs. In May 2020, COVID-19 related absences accounted for 5.4% of all contracted hours. In July 2020 this had reduced to 3.7% of all contracted hours.

Responding to the COVID-19 pandemic

125. The Board's response to the COVID-19 pandemic had four main elements:
- **Enhanced intensive care service:** Capacity for an additional 16 ventilated patients was provided from 9-20 April 2020 to support West of Scotland ICUs, while they were at 176-195% of baseline capacity. The additional capacity was closed on 12 May.
 - **Cardiology and cardiothoracic services:** The Board restricted its cardiology and cardiothoracic activity to urgent patients, but expanded the catchment to most

of the West of Scotland, and did not repatriate patients. This reduced bed pressures across the West of Scotland, while maintaining a high quality service. Elective cardiology and cardiothoracic surgery were stepped down to release capacity and because of potential risks of operating during the pandemic.

urgent cancer diagnostics and surgery, cardiothoracic services and high volume elective orthopaedics and ophthalmology. Plans have also been developed to increase capacity and enable recovery of its own waiting list.

- **Elective diagnostics and surgical services:** The Board stood down its elective general surgery, ophthalmology and orthopaedic operating on 17-18 March 2020. This was done to provide additional capacity for the COVID-19 response, but also because of concerns about the safety of operations for conditions which could be safely deferred. Very small volumes of urgent surgery continued (predominantly revision arthroplasty patients from the West of Scotland). As of 21 May 2020, the Board recommenced colonoscopy, but with patients selected by territorial boards because of urgency.
- **Urgent elective cancer surgery:** On 12 March 2020, the Board offered to provide facilities for urgent cancer operations to territorial boards, using the capacity released by discontinuing elective surgery. From 26 March, the Board provided support for visiting surgeons to perform osteosarcoma resections, laryngectomies, hysterectomies, gastrectomies and nephrectomies.

126. The Board has developed a local recovery plan which describes how it will resume elective surgery. The Board is being used as a national resource to accelerate recovery in

Appendices



Appendix 1: Respective responsibilities of the Board and the Auditor

Responsibility for the preparation of the annual report and accounts

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

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

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

Board members are also responsible for:

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

Auditor responsibilities

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

- they give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the board and its group's affairs as at 31 March 2020 and of the net expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 FReM ;
- they have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;
- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate or the board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue;
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report is consistent with the financial statements and has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement is consistent with the financial statements and has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

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

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

Wider scope of audit

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

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

Confirmation of independence

We confirm that we have complied with the FRC's Ethical Standards. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and the Board, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Follow up of prior year recommendations

Of the three recommendations included in our 2018/19 annual audit report, two have been closed and one is ongoing, as described below.

Action plan grading structure

The recommendations are rated to help the Board assess the significance of the issues and prioritise the actions required.

The rating structure is summarised as follows:

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

Follow up of prior year recommendations

Publication of key strategic documents

Initial rating	Issue & recommendation	Management comments
Grade 2	<p>Issue</p> <p>The Board does not publish all key strategic documents, such as its Annual Operational Plan.</p> <p>Risk</p> <p>This does not meet the requirements for openness and transparency, and puts the Board out of line with other National Health Boards.</p> <p>Recommendation</p> <p>The Board should review its main strategic documents and publish those that it is able to, consistent with the aim of being open and transparent.</p>	<p>Noted. The appointment of the Board Secretary will ensure this is actioned on an ongoing basis</p> <p>Responsible officer: Head of Corporate Governance and Board Secretary through the Director of Finance</p> <p>Implementation date: August 2019</p>
Current status	Update	
Closed	Key strategic documents are now published.	

GRNI accrual

Initial rating	Issue & recommendation	Management comments
Grade 3	<p>Observation</p> <p>The National ledger system generates automatic accruals for goods received that have not yet been invoiced (GRNI). Where payments are not properly matched on the system there is a risk that automatic accruals are made for items that have already been paid for, effectively double counting expenditure. The Board has a process in place to identify items in the automatic accrual that are not required, however the current process is not efficient.</p> <p>Recommendation</p> <p>The Board should ensure that GRNI accruals that are not required are being promptly amended on the system.</p>	<p>The response is as prior year, due to this being a national system. Management accountants continue to review this on a monthly basis.</p> <p>In addition National Boards are undertaking a review of this to identify where improvements could be implemented to assist with this accrual.</p> <p>Responsible officer: Assistant Director of Finance – Governance and Financial Accounting</p> <p>Implementation date: Ongoing</p>

Current status	Update
Closed	<p>Management plan to address the underlying issues that lead to the accrual i.e. open orders completed but any with residual balances not closed in the system. Undertaking this will address the root causes, allowing us to put more robust processes in place and reduce any work required by management accounts on an ongoing basis which should ultimately see the GRNI reduce significantly and only reflect current open orders. In the meantime, the monthly reviews by the management accountants are considered to reduce the risk to an immaterial level, and we have therefore closed this action.</p> <p>Responsible officer: Assistant Director of Finance – Governance and Financial Accounting</p>

Register of interests

Initial rating	Issue & recommendation	Management comments
<p>Grade 3</p>	<p>Issue</p> <p>As identified in our interim audit report, the register of interests published on the Board’s website was last reviewed in March 2016 and does not show the interests of all current board members. The Board’s website had not been updated by the time of our final audit fieldwork.</p> <p>Risk</p> <p>There is a risk that potential related party transactions are not identified and disclosed in the financial statements. Additionally, the Board is not adhering to best practice as described within On Board.</p> <p>Recommendation</p> <p>The register of interests published on the website should be updated at the earliest opportunity..</p>	<p>The Board did complete the register of interests for 2018/19 as verified at year-end; however the summary register was not published in a timely manner.</p> <p>Responsible officer: Assistant Director of Finance – Governance and Financial Accounting/ Head of Corporate Affairs</p> <p>Implementation date: Immediate. We will ensure that the register of interests is published as soon as is practical after the end of the financial year.</p>
Current status	Update	
<p>Ongoing</p>	<p>We noted on the website that the register of interests has not been updated since 2017/18. While the registers of interests have been prepared these have not been published on a timely basis.</p> <p>Management comments: Agreed</p> <p>Responsible officer: Head of Corporate Governance and Board Secretary.</p> <p>Implementation date: Immediate.</p>	



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