


Improving the quality of NHS annual report and accounts – Governance statement

Good practice note



Prepared by Audit Scotland
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Contents

Introduction.....	2	How can we improve?	15
Purpose.....	2	Other useful resources	16
Background	2		
Summary of issues identified.....	3		
Contact point.....	3		
The requirements for a governance statement.....	4		
Format and structure of the governance statement.....	5		
Cross referencing	5		
Innovative presentation	6		
Signposting and links.....	7		
Content of governance statements	7		
Providing sufficient information	7		
Scope of the governance statement.....	8		
Description of arrangements	8		
Communicating the board’s vision.....	9		
Reporting compliance with laws and regulations	10		
Whistleblowing arrangements	10		
Stakeholders	11		
Significant risks disclosed in the governance statements.....	12		
Improvement checklist.....	15		

Introduction

Purpose

1. The annual report and accounts (the accounts) are a public report on the financial and governance affairs of each NHS board for the financial year and are laid in the Scottish Parliament. As such they should be prepared to the highest standards and presented in a way that is helpful and informative to the user. Audit Scotland previously published [good practice notes](#) on the 2013/14 and 2014/15 accounts which have assisted boards to improve the quality of presentation.
2. This good practice note is designed to build on this work to help all boards improve the disclosures included in the governance statements to meet the requirements of the Scottish Public Finance Manual (SPFM) and to reach the standard of the best seen in 2014/15.

Background

3. It is the responsibility of the Accountable Officer and board members to prepare the accounts. The accounts are an important method of communicating effectively with stakeholders on issues of finance and governance.
4. Boards are required to prepare their accounts in accordance with a direction issued by Scottish Ministers. The direction requires compliance with the accounting principles and

disclosure requirements of the *Government financial reporting manual* (the FReM) and with the requirements of the *NHS boards accounts manual for directors' report and accounts* (the accounts manual). The FReM requires a governance statement to be included with the accounts which should be prepared in accordance with the requirements of the SPFM and supplementary guidance included in the accounts manual.

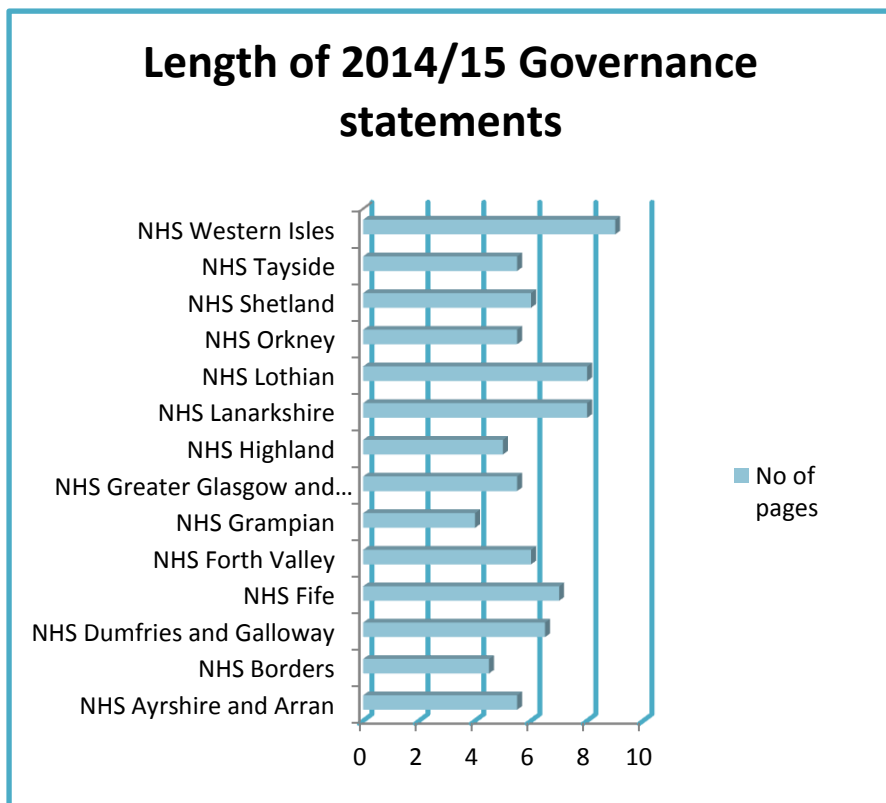
5. The covering letter to the 2015/16 accounts manual highlighted that the Scottish Government Health & Wellbeing Audit and Risk Committee had commented on a

“lack of consistency between boards in terms of governance statements.”

The NHS technical accounting group considered this feedback and concluded that, while the content of governance statements remains a matter for individual boards, each board should review the other boards' governance statements included within the 2014/15 accounts as part of the preparation of their 2015/16 governance statements.

6. Auditors have a role in assisting boards to produce relevant, concise and clear accounts which provide the users with an understandable and balanced assessment of the performance and financial position of the board. They can assist boards in determining when disclosures are not material.

- There is more that can be done to improve the presentation of information and reduce clutter. A quick look at the length of the 2014/15 governance statements highlights the variation in the length of the disclosures.



- Boards need to strike a balance in the level and type of information provided. There is a risk that boards do not fully satisfy the requirements of the guidance as they strive for

brevity. There is also a risk that by providing too much information the significant risks are lost in the detail.

Summary of issues identified

- Audit Scotland has reviewed all the territorial health boards' 2014/15 governance statements to identify instances of good practice, inconsistent approaches and areas for improvement. The issues identified included the following:

- The format and structure could be improved by better use of cross referencing, signposting and links to other documents and innovative methods of presentation.
- The content could be improved by achieving the right balance in the type and amount of information provided to satisfy the requirements.
- identification of significant risks facing the board.

- The following pages discuss these issues and some of the good practice adopted by boards. The examples used are all taken from boards' 2014/15 annual report and accounts.

Contact point

- The contact point for this technical guidance note is Neil Cameron 0131 625 1797 or Helen Cobb 0131 625 1901.

The requirements for a governance statement

12. The governance statement should provide users with a clear understanding of a board's internal control structure and its management of resources.
13. The FReM requires a governance statement to be published as part of the accounts. It states that guidance on the content of the governance statement will be provided by the relevant authority. In Scotland the relevant authority is the Scottish Government and their guidance is included within the SPFM.
14. Although the SPFM does not specify a set format for the governance statement, it sets out the following essential features.

The governance framework of the organisation including

- information about the committee structure
- the coverage of the work

The operation of the governing board during the period

An assessment of corporate governance

- with reference to compliance with best practice and guidance
- explanations where a different approach has been adopted

An assessment of the organisation's risk management arrangements and risk profile including

- details of significant risk-related matters arising during the period

A record of any written authorities provided to the Accountable Officer

Details of any significant lapses of data security

15. All failures of controls (financial or otherwise) should be considered for disclosure in the governance statement along with any remedial actions identified for significant failures. In preparing the governance statement, the Accountable Officer needs to take a view on whether issues are significant enough to be included within the statement. The SPFM provides questions to assist in deciding whether an issue should be included. These include

might the issue prejudice achievement of the business plan or other priorities?

could the issue undermine the integrity or reputation of the organisation?

does the issue put a significant programme or project at risk?

could the issue have a material impact on the accounts?

might financial stability, security or data integrity be put at risk?

16. Further guidance for the boards is provided in the accounts manual. This NHS guidance includes a proforma governance statement that boards should have reference to.
17. The accounts manual provides guidance to boards on what to include under each of the SPFM essential features. The most expansive guidance is provided on the operation of the board. Areas to be covered include:
 - communicating the board vision and intended outcomes
 - ensuring compliance with laws and regulations
 - whistleblowing and complaints procedures
 - ensuring communication with stakeholders.
18. The accounts manual requires the review of the board's risk management arrangements to provide an assessment of the key risks and how these are being managed, along with any new or emerging risks which are considered to be significant.
19. In 2014/15 auditors were required to review the governance statement and report in their independent auditor's report any non-compliance with the guidance set out in the SPFM and the accounts manual. Auditors did not report any non-compliance or include any reference in respect of governance statements in their independent auditors report.

20. From 2016/17 auditors will be required to express an opinion on whether the information given in the governance statement is consistent with the financial statements.

Format and structure of the governance statement

21. As mentioned previously, although the SPFM does not prescribe a format for the governance statement, the accounts manual includes a proforma which boards should have regard to when preparing their statements. It is obvious from our review that boards do follow the accounts manual proforma structure and format. However, areas for improvement are discussed in the following paragraphs.

Cross referencing

22. The SPFM says that the governance statement should provide the reader with a clear understanding of the organisation's internal control structure and its management of resources.
23. Cross referencing is used throughout the annual report and accounts to assist the reader and reduce duplication, but few boards used it effectively in the governance statement.

The Directors' Report (at pages 19-25) of these accounts sets out the structure of the Board's system of corporate governance. During 2014/15 the Board has maintained this structure by updating the membership of committees as and when required, and also reviewing and updating the terms of reference of the staff governance, remuneration,

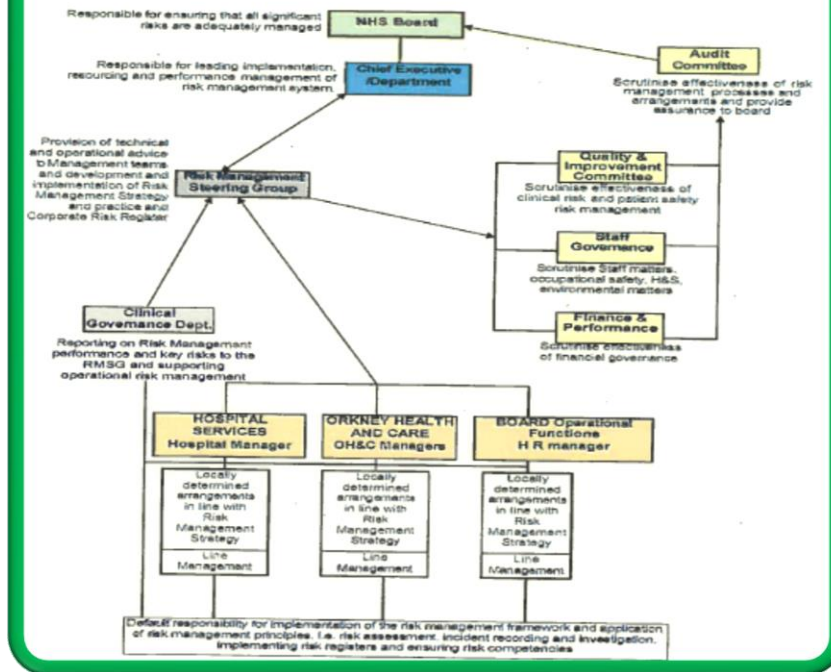
This board reduced duplication and helped the reader identify the required information elsewhere in the accounts

The Strategic Report (at pages 3 - 18) describes the organisation's business model, the Board's approach to setting strategic direction, and how outcomes (in terms of performance) are established.

Innovative presentation

24. There are some good examples in the annual report and accounts in 2014/15 of boards using innovative presentation techniques to convey information in the narrative sections. Graphs, flow diagrams and tables can be very useful in simplifying the presentation of complex information.
25. It is therefore surprising that it appears that the use of diagrams, tables and graphs has not been extended to the governance statement.
26. Only NHS Orkney included a diagram to attempt to explain the risk management arrangements in place at the board.

Governance arrangements can be complex. NHS Orkney used a graphical approach to help clarify the arrangements



27. Other areas covered by the governance statement could also benefit from such presentation including:
 - disclosure of the board's stakeholders
 - risk assessment process and outcomes
 - reporting on the committee structure and remits.

Signposting and links

28. The information provided to enable the reader to gain a clear understanding of the governance and risk management framework can be improved by signposting and including links to other documents and information. Most boards make reference to relevant board publications, including strategy and policy documents. Some boards improve on these references by using links effectively to highlight further information relevant to the governance framework.

NHS Lothian included a link to provide the reader with further general information about the board

Further information on the Board, including its history and details of its services and locations can be found on its website.

<http://www.nhslothian.scot.nhs.uk/OurOrganisation/AboutUs/Pages/default.aspx>

During the year, Healthcare Improvement Scotland carried out an inspection for Older Peoples Services at the Victoria Hospital and the Health Environment Inspectorate carried out two safety and cleanliness inspections at Glenrothes Hospital and Victoria Hospital. The actual reports and follow-up action plans can be accessed at the following sites:

http://www.healthcareimprovementscotland.org/our_work/inspecting_and_regulating_care/opah_fife/victoria_hospital_aug_14.aspx

http://www.healthcareimprovementscotland.org/our_work/inspecting_and_regulating_care/hei_fife

http://www.healthcareimprovementscotland.org/our_work/inspecting_and_regulating_care/hei_fife

Some boards included links to reports by scrutiny bodies on the care provided by the board

Shetland Islands Health and Social Care Partnership

The Cabinet Secretary for Health, Wellbeing and Sport approved the local integration scheme and laid the relevant Order before the Scottish Parliament on 29 May 2015. The services to be covered by the IJB are outlined online at http://www.shetland.gov.uk/Health_Social_Care_Integration/Briefings.asp

While all boards made reference to health and social care integration, only NHS Shetland provided readers with a link to the local integration website

Content of governance statements

Providing sufficient information

29. The Financial Reporting Council paper *Cutting Clutter* highlighted that preparers of accounts can work with auditors to reduce the length and complexity of disclosures in the annual accounts. Accountable Officers need to consider the level of detail that a reader of the accounts requires to gain an understanding of the issue being discussed.
30. Our review of the governance statements identified variation in, not only the number of issues covered but also, the level of detail provided on these issues. Some boards tended to provide more information than was required on description of the arrangements.
31. Areas covered well by boards include the:
- assessment of board performance

- adherence to the principles of best value
- risk management process
- governance arrangements.

32. Areas where disclosures could be improved by some boards, include:

- the scope
- description of arrangements
- communicating the board vision
- reporting compliance with laws and regulations
- whistleblowing and complaints procedures
- identifying the board's stakeholders.

Scope of the governance statement

33. Boards make use of the standardised wording included in the proforma to disclose the scope of the Accountable Officer's role and the purpose of a system of internal control. Four boards tailored the standard wording to change references to "the organisation" to the name of the NHS board. This may be a small point but it highlights that the disclosure has been considered in terms of the boards specific circumstances.
34. The requirements of the *UK corporate governance code* (UK Code) go beyond those included in the SPFM. Compliance

with the UK Code also has specific reporting implications for auditors. Two boards make reference to compliance with the UK Corporate Governance Code in their 2014/15 governance statements. One of these disclosures highlights that not all aspects of the Code are applicable to the NHS.

35. To ensure that they do not need to make additional disclosures, boards should not make reference to the UK Code.
36. Only three boards made specific reference to the endowment funds being covered by the governance statement at the beginning of the statement.

NHS Endowments

In accordance with IAS 27 – Consolidated and Separate Financial Statements, the Financial Statements consolidate the NHS Greater Glasgow and Clyde Endowment Funds. This statement includes any relevant disclosure in respect of these Endowment Accounts.

It is important for readers to understand that the same governance standards are applied to the board's endowment funds

37. The governance statement should also cover events after the year end, where these would assist the user gain an understanding of the boards risk profile.

Description of arrangements

38. There is a difficult balance to strike between describing the governance and risk management processes, and providing

the reader with an assessment of the effectiveness of these processes.

39. Boards are very good at describing the governance and risk management processes and procedures in place. However, in some instances the descriptions can be overly detailed and lack the analysis of the outcome required to identify how effective the processes are.
40. For example, it may not be significant to readers which risk management software is used by the board, but they would want to know the board's response to any risks identified by that system. The best disclosures capture:
 - a concise outline of the risk management process
 - the key risks facing the board
 - the plan the board has developed to tackle these risks.

Communicating the board's vision

41. The main role of the board is to set the strategic direction (the vision) of the board. All boards will have spent time, effort and resources identifying, explaining and communicating their vision for the provision of healthcare in their area. Stakeholders will have been consulted during the preparation of healthcare strategies, mission statements and local delivery plans.
42. The governance statement should include a disclosure of that board vision. The disclosures included in the governance

statement range from almost non-existent to a very good summation of the board's strategy.

NHS Fife made a good, clear disclosure of their vision. It would have benefited from a link being provided to the strategy document

The Board's vision and intended outcomes are described in "Getting Better In Fife" which is the Board's improvement plan for the next 5 years. This plan was agreed by the Board in August 2012 and describes the priority areas for improvement in the delivery of clinical services and underpins NHS Fife's strategic objectives. The plan describes how NHS Fife, working in partnership will respond to the challenges facing it and improve patient experience through reducing harm, waste and variation.

NHS Borders is also clearer than most, but could also have provided a link

NHS Borders Board formally approved the organisational Vision, Values and Corporate Objectives at its meeting on 5th September 2013. The Corporate Objectives recognise Patient Safety as the Board's main priority and is at the heart of all of the services provided by NHS Borders. The Board has clear focus to provide patient care that is safe, effective and affordable.

The Board strategic framework was published in April 2013 as a "A Healthier Future", a statement of values and a strategic vision of how health services should be developed. This was widely communicated and is available to the public and staff on the website <http://www.nhslanarkshire.org.uk/publications/Documents/Healthier-Future.pdf>. This document is consistent with the overarching strategic direction for the NHS in Scotland embodied in the "20:20 Vision" document produced by the Scottish Government Health and Social Care Department.

The Board's overall strategy and objectives are published at the start of the year in 4 key documents; the Local Delivery Plan which is agreed with the Scottish Government Health and Social Care Department, the corporate objectives which are approved by the Board and the Single Outcome Agreement.

NHS Lanarkshire provide a link to the strategy containing the board vision, they also state that this vision is consistent with national strategies and local outcome

43. Some boards did not make any reference to a vision set out in a strategic document, while others made limited reference to their local delivery plan which sets out the objectives for a three year period.
44. The best disclosures provided:
- a brief summary of the board's vision
 - a description of how the board's vision fits into the wider Scottish health strategy
 - links to key board strategic documents
 - references or links to where other information was provided, eg the board's website.

Reporting compliance with laws and regulations

45. The accounts manual requires boards to disclose the arrangements the board has in place to ensure that it complies with all relevant laws and regulations. The disclosure for half of the boards is unclear in how this compliance is delivered and in some boards there is no reference to compliance.

This board provides a good disclosure of the process for compliance, including monitoring this compliance

circulares and other guidance documents. The Board maintains a central register of documents circulated to the appropriate staff for information and action and has a follow up mechanism to monitor compliance with regulations and procedures laid down by Scottish Ministers and the Scottish Government Health and Social Care Directorates.

46. The best disclosures identify that laws and regulations are considered and assigned to the most relevant officer to address. Action plans to deliver compliance are retained at a central point to ensure there are no gaps and progress is monitored.

Whistleblowing arrangements

47. One of the best disclosures of board vision highlights patient safety as the key objective of the board. A key policy to help ensure patient safety is the board's whistleblowing policy. Boards are also required to have a complaints procedure to allow patients and carers to raise concern about the care received. These arrangements may be separate and distinct but they both ensure the board is transparent about patient safety and care. It is essential that the board is transparent to ensure that staff, patients and carers have confidence in the services provided.
48. The accounts manual requires the board to include a disclosure on their whistleblowing policy and references to the complaints procedure. An effective disclosure in the governance statement can help raise the profile of these arrangements.
49. Only seven boards clearly disclose that they have a whistleblowing policy in place. A further two boards make reference to their complaints procedure, without mentioning internal whistleblowing arrangements.

NHS Orkney provides a clear and concise disclosure relating to both whistleblowing and complaints. It includes a link to the whistleblowing policy and the performance in dealing with complaints

NHS Orkney also has in place a well established complaints system, whereby members of the public can make a formal complaint to the Board regarding their care or treatment or how services are organised; information on our complaints system can be accessed through NHS Orkney's website. (The staff whistle blowing policy can be located with this [link](#)).

Complaints must be acknowledged in writing within three days and investigated within 20 working days or as soon as reasonably practicable. For 2014/15, NHS Orkney received 50 complaints of which five were withdrawn, compared with 38 in 2013/14 and one withdrawn. The projected response rate is 79.5%, down from 86.5% at March 2014. This data is however still to be verified officially through Information Services Division (ISD).

50. The best disclosures include:

- a brief description of the procedures in place
- the performance against complaints targets
- a note of improvements or actions plan to address issues raised.

51. No board makes any reference to staff members having raised any concerns under the whistleblowing arrangements. A disclosure to highlight that no concerns have been raised could help the reader form a view on the care provided by the board. Where issues have been raised, a disclosure of the handling of the issue would be good practice. Boards would have to be careful to ensure the confidentiality of any whistleblower.

Stakeholders

52. All the boards make some disclosure relating to the boards stakeholders. Most of these disclosures are at a very high level. The board's relationship with the area's local authorities and the progress towards health and social care integration are generally well disclosed.

NHS Orkney is also committed to working in partnership with its staff, community planning partners (CPP) and the Third sector. In 2014/15 significant progress has been made to review the CPP structure, our CPP priorities and how we work together to drive prevention, inequalities, integration (Integration Fund) and public service reform. In addition significant progress has now been made to support our local health and social care integration agenda. The report can be found with this [link](#).

This disclosure is clear but could go even further

53. Relationships with other partners and stakeholders are less frequently clear. The best disclosures include the relationships and communications with the:

- public
- third sector organisations
- board's staff
- groups consulted on service reviews.

54. Clearer disclosure of who the board's partners and stakeholders include would assist the reader. This could be an opportunity to introduce innovative presentation to the governance statement.

55. Some boards focus on the process behind the relationship with stakeholders through a description of the communication and patient involvement strategies. The best disclosures assess how effective the board has been in engaging stakeholders by highlighting, for example:

- what it has achieved
- responses to consultations
- agreements reached.

Significant risks disclosed in the governance statements

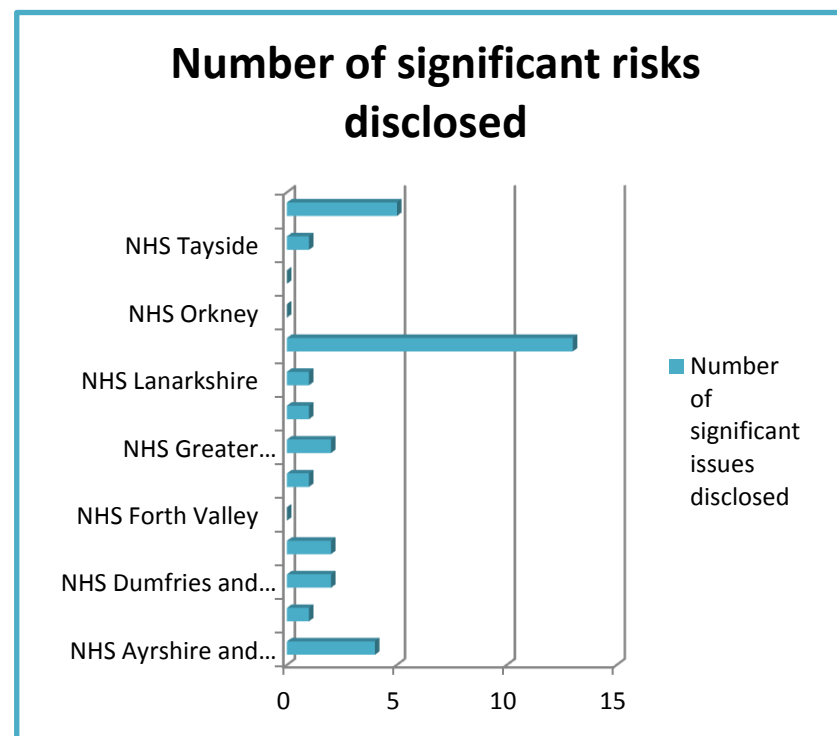
56. The board’s Accountable Officer must consider the evidence provided in determining that all significant risks are identified and consider whether they significant enough to be disclosed in the governance statement.

57. Although not directly applicable, the local authority guidance on the preparation of the governance statement considers that under a rigorous and robust process of review, issues would be identified that the organisation would need to address. It goes on to say that an organisation where the governance statement does not identify any issues risks creating a culture in which problems and concerns are suppressed. It suggests that the absence of any issues to report would, rather than indicating a strong governance framework, signal the reverse.

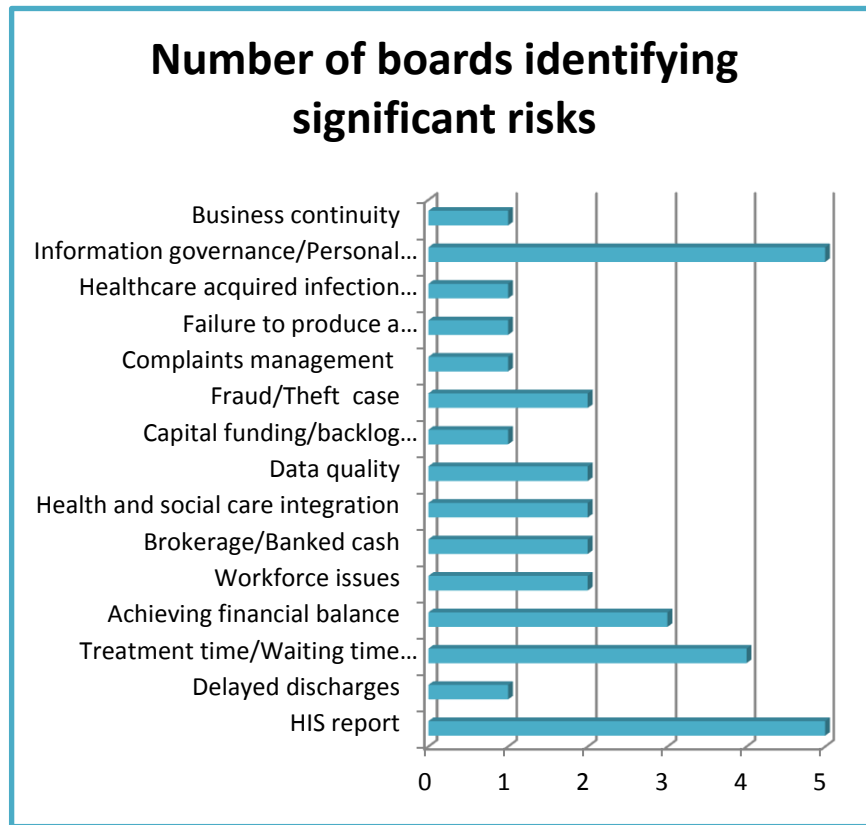
58. Our review identified that the number of risks disclosed varies quite significantly between boards:

- three boards did not highlight any significant risks
- most boards identified one or two significant risks
- NHS Lothian disclosed 13 significant risks.

59. The number of risks identified at each board is highlighted in the following table.



- 60. The range of significant risks across territorial boards is surprising given that they are operating within the same policy, governance and resource framework. There are common risks identified by a number of boards but there is not one significant risk that is common across all boards.
- 61. The following table highlights the issues that have been identified.



- 62. Audit Scotland’s review of the *NHS in Scotland 2014/15* highlighted the pressures that were being faced by boards. It said

“Significant pressures on the NHS are affecting its ability to make progress with long-term plans to change how services are delivered. Tightening budgets combined with rising costs, higher demand for services, increasingly demanding targets and standards, and growing staff vacancies mean the NHS will not be able to continue to provide services in the way it currently does. Together, these pressures signal that fundamental changes and new ways to deliver healthcare in Scotland are required now.”

- 63. Boards need to ensure that they capture these risks within the annual accounts. These type of performance risks could be disclosed in the performance report. However, where these risks highlight wider governance issues they should be disclosed in the governance statement. The failure to achieve waiting time or treatment guarantee targets could be as a result of slow progress towards implementing a board strategy which may be more appropriately disclosed in the governance statement.
- 64. Auditors have also reported these risks in annual audit reports. We would expect boards to consider the risks raised by auditors and disclose these in the appropriate place within the accounts. The Accountable Officer needs to consider whether

these issues require to be disclosed in the governance statement.

65. The *NHS in Scotland 2014/15* highlighted:
- that boards are finding it increasingly difficult to remain within their annual budgets and are facing increasing cost pressures. However, only three boards identified achieving financial balance as a significant issue facing the board.
 - that performance against the Health improvement, efficiency, access and treatment (HEAT) targets has declined in recent years, yet only four boards identified treatment time and waiting time target achievement as a significant issue.
66. The most common risk identified by boards related to information governance and issues raised in Healthcare Improvement Scotland reports. Five boards disclosed these as significant risks.

Improvement checklist

67. The accounts are a public document and should be prepared to the highest standard. The examples highlighted here can be easily addressed by boards. The simple checklist below can be used to assist boards address the issues. With a little effort the governance statement can provide a clear and informative disclosure of the risks facing the board and the governance arrangements in place to manage these risks.

How can we improve?	Yes	No
Have you included clear headings in line with the SPFM?		
Have you clearly addressed the issues raised in the accounts manual?		
Have you considered the 2014/15 governance statements prepared by other boards when preparing their 2015/16 governance statement?		
Have you used cross references to other parts of the annual report and accounts where possible?		
Have you included signposts and links to other documents where possible?		
Have you considered using diagrams, tables or other graphical techniques to present information more clearly?		
Have you discussed with your auditor what they would consider a significant risk for disclosure?		
Has the governance statement been proof read by someone not involved in the preparation to sense check the language used?		

Other useful resources

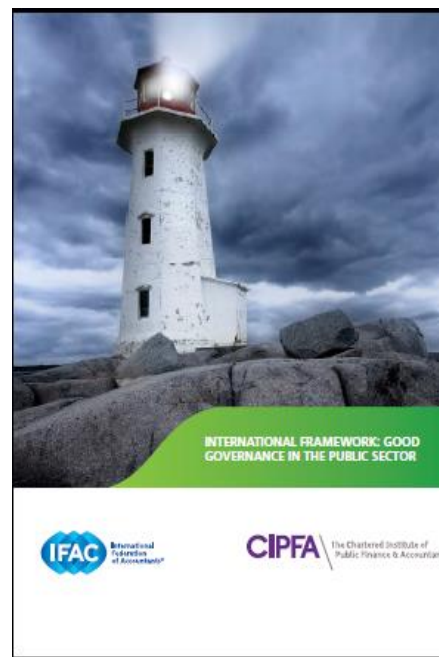
68. There has been a drive by standard setters, professional bodies and government to reduce clutter, streamline and improve the usefulness of accounts. The following documents are by no means the only publications on the subject but represent a useful source of information and can be obtained from the websites below or by following the hyperlinks.



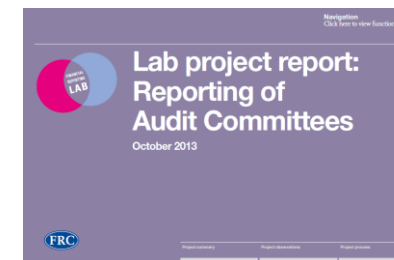
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