

## **Greater Glasgow and Clyde NHS Board**

**Board Meeting**  
**Tuesday 23 June 2015**

**Director of Finance**

**Board Paper No. 15/28**

### **Audit Scotland's Annual Report on the 2014/15 Audit**

#### **RECOMMENDATION**

The NHS Board is asked to note the attached report by the external auditors, Audit Scotland, on the 2014/15 audit of NHS Greater Glasgow and Clyde. The report has been reviewed with the Director of Finance and has been scrutinised by the Audit Committee.

#### **BACKGROUND**

The report is addressed to both the NHS Board and the Auditor General for Scotland, and sets out Audit Scotland's findings arising from the 2014/15 audit of NHS Greater Glasgow and Clyde.

The draft report was scrutinised by the Audit Committee at its meeting on 16 June 2015. The report covers four main topics:

- Audit of financial statements
- financial management and sustainability
- governance and transparency
- best value

Appendix IV to the report shows the issues identified by Audit Scotland. Management have considered these issues and have agreed actions to address them.



# NHS Greater Glasgow and Clyde

2014/15 Annual audit report for the Board of NHS Greater Glasgow and Clyde and the Auditor General for Scotland



June 2015

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The Auditor General for Scotland appoints external auditors to NHS bodies in Scotland.

([www.audit-scotland.gov.uk/about/ac](http://www.audit-scotland.gov.uk/about/ac))

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

The Auditor General has appointed Gillian Woolman as the external auditor of NHS Greater Glasgow and Clyde for the period 2011/12 to 2015/16.

This report has been prepared for the use of NHS Greater Glasgow and Clyde and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the health board. The information in this report may be used for Audit Scotland's annual overview report on the NHS in Scotland published on its website and presented to the Public Audit Committee of the Scottish Parliament.

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# Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none"><li>We have issued an unqualified opinion in the independent auditor's report that the 2014/15 financial statements show a true and fair view.</li></ul>
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none"><li>All financial targets in 2014/15 were met.</li><li>A surplus of £1.2m was achieved against the Revenue Resource Limit.</li><li>Total savings of £61.4m were achieved, all on a recurrent basis.</li><li>Financial management is strong and soundly based.</li></ul>
 <p>Governance and transparency</p>	<ul style="list-style-type: none"><li>The board has sound and well-established governance arrangements in place. However new arrangements are being established to reflect the implementation of integrated joint boards and the opening of the new South Glasgow Hospitals and consequent closure of a number of acute sites.</li><li>Systems of internal control operated effectively during 2014/15. Management have responded swiftly to one matter of concern which was raised in relation to the confirmation of agency payments.</li><li>The board has an effective internal audit function and robust anti-fraud arrangements.</li><li>Progress is being made by each of the integrated joint boards. Five of the six integrated joint boards will be legally established on 27 June 2015.</li></ul>

 Best Value	<ul style="list-style-type: none"><li>The board has a well developed performance management framework in place.</li><li>The Quality and Performance Committee receives regular updates on all aspects of performance and actions being taken to improve performance.</li><li>It was reported that, for the month ending March 2015, NHSGGC was the best performing Scottish health board in relation to the outpatient maximum 12 week wait from referral.</li><li>Of the 27 HEAT targets reported, 13 met the targets, 3 were within 5% of achieving the target and 10 missed the target (one remains in progress).</li><li>The board is making progress in addressing HEAT targets although there have been some areas of deterioration.</li></ul>
 Outlook	<ul style="list-style-type: none"><li>The migration to the new South Glasgow Hospitals together with the resultant closure of a number of sites has led to a major change in the delivery of services. The successful implementation of ward bed and staffing models and the achievement of delayed discharge targets are necessary for performance targets to be achieved.</li><li>The board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less while at the same time having to make major changes to service delivery to reflect the Scottish Government's 2020 Vision and health and social care integration. Achieving sustainability in the medium term will require innovation and vision to design and deliver the services needed to serve the future needs of citizens.</li><li>Efficiency savings and the recognition of new or increased income are necessary in order to bridge the funding gap and achieve the forecast breakeven position.</li></ul>

# Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of NHS Greater Glasgow and Clyde (NHSGGC). The report is divided into sections which reflect our public sector audit model.
2. The management of NHSGGC is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of NHSGGC, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports,

summarised at **Appendices II and III**, include recommendations for improvements.

6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that NHSGGC understands its risks and has arrangements in place to manage these risks. The board should ensure that it is satisfied with proposed actions and has a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures. Consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Audit of the 2014/15 financial statements

<b>Audit opinion</b>	<ul style="list-style-type: none"><li>• We have completed our audit and issued an unqualified opinion that the financial statements of NHSGGC for 2014/15 give a true and fair view of the state of its affairs and of its net operating cost for the year.</li></ul>
<b>Regularity of income and expenditure</b>	<ul style="list-style-type: none"><li>• In our opinion, in all material respects the expenditure and income in the financial statements was incurred or applied in accordance with relevant legislation and guidance.</li></ul>
<b>Other information</b>	<ul style="list-style-type: none"><li>• We review and report on other information published with the financial statements, including the Management Commentary, Governance Statement and Remuneration Report. We have nothing to report in respect of these statements.</li></ul>
<b>Consolidation template</b>	<ul style="list-style-type: none"><li>• The board's consolidation template has been audited to confirm that the figures are consistent with the audited financial statements. The template and accompanying assurance statement will be submitted to the Scottish Government by 30 June 2015.</li></ul>

## Submission of financial statements for audit

9. We received the unaudited financial statements on 11 May 2015, in accordance with the agreed timetable. The working papers were of a high quality and finance staff provided good support to the audit team which assisted the delivery of the audit to deadline.
10. We assessed NHSGGC's 2013/14 financial statements against the Good Practice Note "Improving the Quality of NHS Accounts". We are pleased to note that only a few minor issues were identified and these were discussed with the Assistant Head of Financial Services who agreed to consider their impact on the 2014/15 financial statements.

## Overview of the scope of the audit of the financial statements

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the audit committee on 24 February 2015.
12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

13. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which either involved a high degree of judgement or had significant impact on the financial statements. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

17. We summarised our approach to materiality in our Annual Audit Plan. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that we were able to revise our original planning materiality for 2014/15 to £30.3m (1% of gross expenditure). We report all misstatements greater than £100,000. Performance materiality was calculated at £11.4m, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

## Evaluation of misstatements

18. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the financial statements in respect of a number of instances. There was no impact on either net operating costs or the balance sheet. None of these amendments were material.
19. A number of other misstatements were identified which were not processed through the financial statements by management and have been classified as unadjusted misstatements. The most significant of these items related to:
- £2.377m (reduction in accruals) relates to a number of items of expenditure which more correctly relate to 2015/16. These mainly relate to funding received in relation to specific health programmes which had not been spent or committed by the year end

- £2.168m (reduction in accruals) relates to records of goods having been received prior to 1 April 2014 but where no invoices have yet been received and for which there is no evidence in support of the accrual
- £0.770m (increase in accruals) to incorporate expenditure which should have been charged to 2014/15
- £0.495m (increase in accruals) to reflect an increase in the untaken holiday pay accrual
- £0.171m (reduction in provisions) in respect of other provisions for which there was no supporting evidence.

20. While we request that all errors be corrected, management considered that these misstatements are not material to the financial statements. This decision was supported by those charged with governance having taken account of advice from officers.

## Significant findings from the audit

21. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
  - Significant difficulties encountered during the audit
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management
  - Written representations requested by the auditor

- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
- 22.** During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you.

## Significant findings from the audit

Issue	Resolution
<p><b>Equal pay.</b> In previous years, we commented that the board, on advice from the Central Legal Office (CLO), was not able to provide any financial quantification of equal pay claims. Consequently, equal pay claims were disclosed as an unquantified contingent liability in the accounts.</p> <p>We note that there have been developments in 2014/15 including the offer for settlement in relation to certain claims. Based on this new information, and advice received from the CLO, the Director of Finance of NHS Scotland has advised that equal pay claims should now be included as a provision in the accounts of NHS boards. NHSGGC has been advised of the estimated value of the provision.</p>	<p>The provisions note in the board's accounts includes an amount in respect of the board's estimated liability arising from equal pay claims and the board have followed appropriate guidance.</p>
<p><b>Additional contribution to the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS).</b> The financial statements include a provision of £96.25m in relation to CNORIS. NHS boards record the liability to pay, as advised by the Central Legal Office, and the associated reimbursement, to be received through the CNORIS scheme. Revised guidance was issued during 2014/15 which required boards to recognise their contribution to the national CNORIS scheme. As a consequence a further provision has been recognised in the 2014/15 financial statements for £96.25m and a prior year adjustment made.</p>	<p>The board correctly processed the opening balance and prior year adjustments in line with IAS 8 and as advised by the Scottish Government. The board has received AME funding to cover the accounting changes so that there is no impact on the board's outturn position.</p>

Issue	Resolution
<p><b>Revaluation of land and buildings.</b> A full revaluation of land and buildings was undertaken in 2013/14. However a decision was taken by management to move towards a five-year rolling programme of revaluations. With the opening of the new South Glasgow Hospitals, these assets together with a number of other smaller land and property assets, were subject to revaluation in 2014/15. As a consequence, the new hospitals were impaired by £37.8m. A formal plan has yet to be agreed with the valuer to ensure that all assets will be revalued over the five year cycle. This was highlighted in our report 'Review of property, plant and equipment' submitted to officers in May 2015.</p>	<p>A formal plan is being agreed with the District Valuer to value approximately 20% of the estate over each of the next four years to ensure that the estate will have been fully revalued within the five year timescale. This plan will apply revaluation policies to each asset within a given class of assets.</p>
<p><b>Non current assets.</b> We had previously reported that in advance of the move to the new hospitals, all sites identified for closure had been subject to a review for impairment and we were satisfied that the residual values reflected the remaining economic useful lives of the hospitals affected. During 2014/15 the Victoria, Mansionhouse and Southern General Hospitals and the Royal Hospital for Sick Children were further impaired to reflect a remaining useful life of 6 months (until September 2015). However we are aware that some elements of these hospital sites may remain operational while an upgrade is effected to the Gartnavel General site to relocate some patient services. The valuation of some assets therefore may not reflect the ongoing use of the asset. We have therefore asked management for assurances that the non current assets are properly stated in the financial statements and that there is no material misstatement.</p> <p><b>(action point 1)</b></p>	<p>While we are satisfied with the position as at 31 March 2015, we have sought assurances from management that residual lives and values are fairly stated based on the most up to date operational plans of the board.</p>

Issue	Resolution
<p><b>Trades payables – accruals.</b> Our audit review identified a number of year end accruals for which no goods or service had been received or where evidence was not available to support the accrual. In addition we also identified specific funding from the SGHSCD for projects, where, due to the nature of those projects, not all of the funding had been spent by year end. We are able to record that the quality of evidence provided has improved in 2014/15. As a number of these accruals were unsupported, management agreed that accruals are overstated by £2.4m. We have discussed with the Director of Finance the need to review this area in conjunction with the SGHSCD and NHSGGC finance staff to ensure that liabilities are only accrued when there is a constructive obligation and that funding for special projects better reflects the planned phasing of expenditure. (<b>action point 2</b>)</p>	<p>We have reviewed the associated working papers and are able to accept the evidence provided. Management have advised that they will continue to improve the working papers in support of the accruals.</p>
<p><b>Goods received not yet invoiced (GRNIs).</b> Included within trade payables are accruals for GRNIs. Our audit testing identified a number of GRNIs which referred to goods received in prior years. While officers could provide some evidence to support a number of the accruals, they were unable to provide sufficient evidence to support £2.2m. We have asked for assurances that the remaining amounts included within trade payables are reasonable and reflect the proper and full liability to pay. We have also discussed the need for officers to undertake a full review of the underlying systems and processes which provide the information for inclusion within the financial statements. (<b>action point 3</b>)</p>	<p>In addition to our review of the associated working papers, we have asked management for assurances that the purchasing system used to calculate the accruals provides a fair reflection of the actual liability.</p>

Issue	Resolution
<p><b>Trades payable: holiday pay.</b> The supporting documentation for this accrual was received late and at £25.7m is £0.5m more than the figure included in the draft annual accounts. The misstatement of £0.5m has been included in the schedule of unadjusted errors.</p> <p>Through our audit work we gained assurance that there has been no change to the methodology used in the calculation of the accrual. We are dependent on management's extrapolation of a sample to estimate the average level of leave carried forward at the year end.</p>	<p>We have reviewed the calculation provided and have assessed the estimation basis as being reasonable. In addition, we have asked management for assurances that the estimation basis is consistent with prior years and is a fair reflection of the actual liability.</p>
<p><b>Endowment funds.</b> IAS27 <i>Consolidated and Separate Financial Statements</i> requires host boards to consolidate endowment funds established by the National Health Service (Scotland) Act 1978 into their financial statements. The endowment funds figures used in the consolidation process were based on a draft set of endowment fund accounts. Whilst the audited accounts have not yet been published, the auditors of the endowment funds have completed their audit. We await confirmation that there are no matters identified that would impact on the figures consolidated into the board's accounts. The audited accounts for the endowment funds are due to be signed on 23 June 2015.</p>	<p>We await sight of the wording of the audit certificate on the endowment funds before signing the group audit certificate.</p>

Issue	Resolution
<p><b>Heritage assets.</b> Heritage assets ought to be included in the financial statements and the board is currently showing none. A review of heritage assets has been ongoing across a number of NHSGGC sites for 18 months. While management do not consider there to be any material heritage assets, it is essential for this review to be concluded and for the board to demonstrate it is fulfilling its stewardship responsibilities in accordance with the Government Financial Reporting Manual. (<i>action point 4</i>)</p>	<p>Management have agreed to assess the findings of the review undertaken so far and ensure that the review is concluded as soon as practicable.</p>

## Future accounting and auditing developments

### Revisions to the financial reporting manual

23. The financial statements of the board are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:
- The adoption of IFRS 13 Fair value measurement
  - Restructuring the annual audit report.
24. **(IFRS) 13 Fair value measurement.** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. However, the 2015/16 FReM requires surplus assets to be measured at fair value in accordance with IFRS 13. The board will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.
25. **Restructuring of the annual report.** The 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:
- a performance report which will give a fair, balanced and understandable analysis of the board's

performance and will include an overview section and a performance analysis section

- an accountability report incorporating the following three main sections:
  - a corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
  - a remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
  - a parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.

### Health and Social Care Integration

26. Integrated Joint Boards (IJBs) will be accountable for overseeing the provision of functions within the scope of health and social care integration on, or before, 1 April 2016.
27. IJBs will be required to produce financial statements in compliance with the Code of Practice of Practice on Local Authority Accounting in the UK.

# Financial management and sustainability

Core revenue  
resource limit  
£2,125.4m

Outturn  
CRRL  
£2,124.2m

Underspend  
CRRL  
£1.2m

Non-core  
revenue  
resource limit  
£133.5m

Outturn  
NCRRL  
£133.5m

Underspend  
NCRRL  
£0

Capital resource  
limit  
£159.3m

Outturn  
CRL  
£159.3m

Underspend  
CRL  
£0

Total savings  
target  
£61.4m

Recurrent  
savings  
£61.4m

Non-recurrent  
savings  
£0

## Financial management

29. In this section we comment on the NHSGGC's financial outcomes and assess the board's financial management arrangements.
30. Budget funding is agreed with the Scottish Government Health and Social Care Directorates (SGHSCD). It is a statutory requirement for the board to ensure expenditure is within the Revenue Resource Limit (RRL) and Capital Resource Limit (CRL) set by the SGHSCD. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

### Financial outcomes

31. Health boards are required to work within the resource limits and cash requirements set by the SGHSCD. The board's final RRL (£2,259.0m) and CRL (£159.4m) were agreed with the SGHSCD on 29 April 2015.
32. The board achieved all of its financial targets in 2014/15 and delivered total efficiency savings of £61.4m in line with planned efficiencies for 2014/15.
33. The board had budgeted to break-even against its RRL in 2014/15. The actual out-turn position was a cumulative surplus of £1.2m. Until February 2015 the board had been reporting an overspend whilst forecasting a year end break even position. However in March 2015 the underspend rose from £0.1m to £1.1m. The finance report presented to the Quality and Performance Committee in May 2015 noted that the board was able to identify a further

£5.0m of in-year funding to meet the commissioning costs of the new hospitals during the early months of 2015. Actual expenditure was £0.85m less. This additional underspend was discussed with the SGHSCD.

34. The SGHSCD agreed that the board can carry forward the £1.2m surplus. Together with the £10m surplus banked in 2013/14 for double running costs during the migration to the new sites, this gives the board some additional flexibility in managing its finances. The draft financial plan for 2015/16 reflects the application of £10m transitional funding.
35. The board achieved its savings target of £61.4m in 2014/15 on a recurring basis, of which £32.9m were cash releasing savings and £28.5m were non-cash releasing.

### Capital expenditure 2014/15

36. The board spent a total of £159.3m on capital projects during 2014/15. This amount was within its final CRL of £159.4m; during the year £15m was returned to the SGHSCD on the understanding that the funding would be available for spending in 2015/16.
37. The key area of the 2014/15 programme was the continuing work on the new South Glasgow Hospitals project. £115m was spent on this project during the year, giving a total of £797m spent to date out of the overall budget of £842m.
38. The total project is now largely complete and within budget. The date for completion was brought forward to the end of January 2015 and staff started to transfer in April 2015. Patients from the

demitting hospital sites have transferred during April and May 2015 on a rolling basis with the final service transferring (from the Royal Hospital for Sick Children at Yorkhill) in mid June.

39. Approximately £75m remained within assets under construction at 31 March 2015 and was represented by the Administration Block, the Teaching and Learning Centre and equipment. A further £45m is reflected in the note to the accounts as capital commitments. The construction of the Teaching & Learning Centre (a joint project with the University of Glasgow) and the Administration Block remain on programme and on budget.
40. There have been some early issues identified as the new hospital beds in and deals with the transfer in of staff and patients and variable volumes of activity. In addition, there continue to be matters raised in relation to transport links and car parking. The board will be continuing to address public concerns until staff and service users adapt to their new surroundings.
41. As previously noted, the board has carried forward a surplus of £11.2m to fund double running costs for the migration to the new hospital. Until the new hospitals become fully operational there may be a diminution in operational performance.
42. Expenditure during 2014/15 on other major capital projects included eHealth ICT (£5.0m), East Pollokshields Health Centre (£2.4m), older people's mental health project (£3.3m) and medical equipment (£14.7m).

## Backlog maintenance

43. In March 2015, the annual State of NHS Scotland's Assets and Facilities report was published by the Scottish Government. It identified backlog maintenance of £797m across Scotland which is required in order to bring assets to a satisfactory condition. NHSGGC accounts for 24% of this total. The report acknowledges that this will reduce by some £12m once the new hospitals are fully operational and the older buildings vacated and closed.
44. Of the 10 NHS Scotland hospitals with the highest total cost for backlog maintenance (£290m), NHSGGC has 3 hospitals with backlog maintenance costs of £97m. NHSGGC has plans in place to address this backlog as part of an ongoing investment programme. Prioritisation of investment on these properties would make a significant contribution to reducing NHS Scotland's backlog maintenance burden.
45. In recognition of the backlog maintenance, a transfer from capital to revenue funding of £3m was agreed by the SGHSCD in 2014/15. There remains a challenge in ensuring the older estate remains fit for purpose.

## Financial management arrangements

46. As auditors, we need to consider whether health bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
  - the Director of Finance has sufficient status to be able to deliver good financial management

- standing financial instructions and standing orders are comprehensive, current and promoted within the board
  - reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance
  - members provide a good level of challenge and question budget holders on significant variances.
47. The board's standing financial instructions and standing orders are updated annually and we are able to conclude that they are comprehensive and current. The board's standing financial instructions and standing orders are also available to all staff on NHSGGC's intranet.
48. Financial monitoring reports (both revenue and capital) are submitted to all meetings of both the board and the Quality and Performance Committee. Management have been reviewing and revising the monitoring reports to ensure they provide members with a more comprehensive range of financial information. Reports are necessarily at a strategic level and we consider them to be appropriate and relevant. More detailed monthly financial monitoring reports are provided to budget holders.
49. As auditors we attend a number of board and committee meetings each year. Members provide a good level of challenge and question management on significant variances and service performance issues.

## Conclusion on financial management

50. We have concluded that the board has strong financial management arrangements that support the review and scrutiny of financial performance.

## Financial sustainability

51. Financial sustainability is concerned with whether the board has the capacity to meet the current and future healthcare needs of the communities it serves. In assessing financial sustainability we are concerned with the board's financial performance, financial planning, capital programmes and asset management, and workforce management.

## Financial planning

52. The board is required to prepare a Local Delivery Plan (LDP) each year which aligns strategic priorities with financial plans, workforce plans and asset plans. The LDP recognises that the vast majority of resources are already committed on a recurring basis before the start of each year and there is limited flexibility available to the board.
53. The board's five year plan for the period 2015/16 to 2019/20 is a key element of the LDP. The draft plan has been compiled to reflect a break-even position in each of the five years. The plan also recognises the significant cost pressures facing the board going forward, notably staff pay costs, the growing costs of drugs and other new technologies, and rising pension costs. Also, there is a

rising demand for services particularly among the elderly. All these pressures exacerbate a tightening financial position.

54. While facing significant cost pressures the board will also have to deal with reduced funding, in real terms, over the period of the 5 year plan. The basic funding uplift for 2015/16 is 1.8% although further funding uplifts have been made available to cover the integrated care fund, drug cost pressures and delayed discharges. In each subsequent year the funding uplift is assumed to be a flat rate of 1.8%.
55. New/orphan drugs costs present a particular challenge. In particular the 2015/16 estimated cost of Hepatitis C drugs is £20m. As a consequence, NHSGGC has built into the budget an additional £11.6m to cover this cost pressure. The full impact of this is not yet clear but has been highlighted as a high risk in the board's financial plan.
56. Savings will therefore play a significant part in maintaining financial balance over the 5-year period and the realisation of savings will become progressively more challenging year on year.
57. Total savings of £40.9m are required for 2015/16 (per the draft financial plan) which will need to be planned for on a recurrent basis. A further £18.7m will be required in order to meet the SGHSCD's target of 3% overall efficiency savings.
58. It has been estimated that savings will be achieved through service productivity (£16.7m), general prescribing (£10.2m), estates and facilities (£12.0m) and support services and workforce (£13.1m).

However, £6.7m of efficiency savings projects remain to be identified. Whilst the board is confident that it will be able to identify these further savings during 2015/16 there remains a risk that the required efficiency savings are not achieved. The board should ensure formal plans are produced covering all the required savings for 2015/16 as a priority. (**Action point 5**)

59. The 5 year financial plan is currently in draft form and requires some refinement and updating for the years subsequent to 2015/16. It is anticipated that it will be finalised and presented to the board on 23 June for approval and final submission to the SGHSCD.

## Workforce management

60. Workforce planning is integral to the board's strategic planning process and is a key element of the Local Delivery Plan.
61. We reviewed agency costs and the related controls as part of our 2014/15 audit work and we reported our findings in May 2015 to management and the audit committee. Costs increased from £17.4m in 2013/14 to £22.6m in 2014/15, an increase of 30%. NHSGGC, like many other health boards, is finding it difficult to recruit and retain staff at certain grades; the difficulty is particularly acute in those locations outwith the Glasgow area and which do not offer the broad range of services provided elsewhere. The increase was also partly due to the impact of transitioning from the various acute sites to the new hospital.
62. There are particular locations and specialties across the board where agency usage is high. For example, the Acute Division,

(Emergency Care & Medicine) has a high agency usage (in particular, Inverclyde Royal Hospital and the Vale of Leven); Rehabilitation & Assessment (mainly for elderly care) is another speciality with high agency usage (in particular Royal Alexandra Hospital). Within the Partnerships Division, Inverclyde CHCP has seen costs increase for external agency consultants and agency junior doctors.

63. We are aware there continues to be close monitoring of the position at the highest level within the board and that there is an ongoing programme of recruitment. While efforts continue to recruit substantively to consultant vacancies there remains the risk that continued reliance on such staff could have an impact on the board's plans to achieve the savings required for longer term sustainability.
64. As with other health boards, NHSGGC is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence. Overall the annualised sickness absence rate at 31 March 2015 was 5.32% which is slightly above the Scottish average of 5.14%. The board is committed to managing sickness absence downwards.
65. The 2014/15 financial statements include £0.468m of costs relating to 11 exit packages (2013/14: 30 packages, £0.925m). These relate to settlement agreements which have been acknowledged by the board as offering a recognised way for employees to leave the organisation on a mutually agreed voluntary basis. We tested a sample of payments and noted that each agreement was as a result

of a service redesign process, was supported by a business case, and had been appropriately authorised.

66. NHSGGC changed the wording in its settlement agreements to clarify that signing such an agreement is not a bar to reporting workplace concerns; however the agreements still contain confidentiality clauses. As a result of concerns raised nationally regarding the use of these so-called "gagging clauses" in settlement agreements, and revised national guidance, the board has advised that, going forward, confidentiality agreements will be used only in very specific circumstances.

### Cost of pension provision

67. The UK Government has been pursuing a programme of reform of public service pensions across the UK, including in Scotland. As a result, new Career Average public service pension schemes are being created from 1 April 2015.
68. A revaluation of the NHS in Scotland pension scheme was carried out using pension scheme data as at 31 March 2012. This new valuation is being used to set a new employer contribution rate payable from 1 April 2015 to 31 March 2019. The new rate will be 14.9% of pensionable pay, compared to the rate of 13.5% which has been paid since 1 April 2009. The impact on employer costs in 2015/16 has been assessed by NHSGGC at approximately £17.0m recurring and has been reflected in the board's 2015/16 draft financial plan.

## Public Finance Initiative (PFI) / Public Private Partnerships (PPP) costs

69. NHSGGC has a number of PFI commitments which are disclosed in the accounts. Seven contracts are reported on balance sheet and include the Stobhill and Victoria Hospitals ambulatory care and diagnostic treatment centres and elderly and mental health facilities. The capital value of these projects has been included as part of the board's non current assets at a value of £249.1m. The associated recurrent revenue cost of these schemes is £29.7m with gross minimum lease payments of £537m due over the remaining repayment periods.

## Clinical Negligence and Other Risks Indemnity Scheme (CNORIS)

70. Included within the other payables balance at 31 March 2015 is £34.8m in respect of 6 structured settlements (4 cases in 2013/14). These debtor balances represent compensation claims which have been legally agreed by the board and have been settled on the basis of an initial lump sum with annual payments being made over the life of the claimant. The balance has increased by £6.4m as a result of a reassessment of the methodology applied and 2 additional cases. The accountable officer has provided written representation on the adequacy of the basis for estimation in the absence of national guidance to calculate the liability.

## Conclusion on financial sustainability

71. Overall, we are able to conclude that the board's financial position is sustainable currently although significant challenges lie ahead.

## Outlook

72. The board is predicting a balanced budget in each of the five years from 2015/16 to 2019/20. This is dependent on significant efficiency savings each year to bridge the gap between available funding from current sources and the cost of services. Also, the board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less.

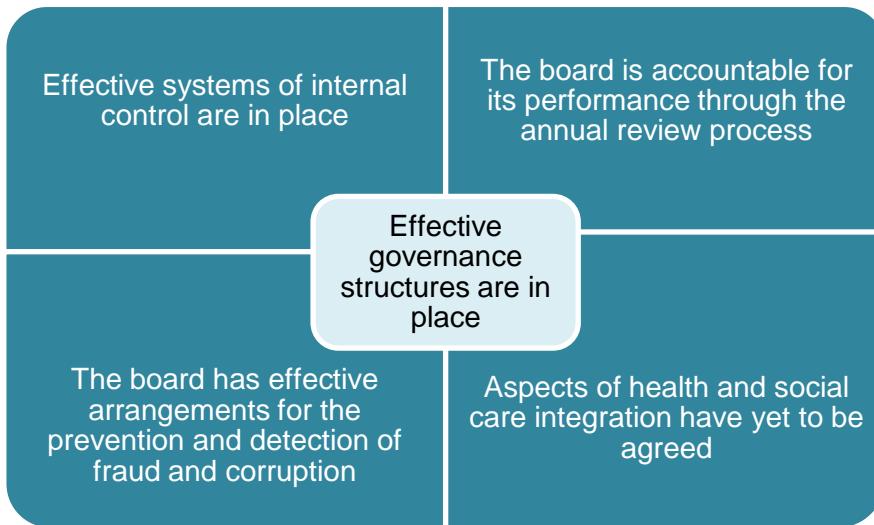
73. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years and this makes it more challenging for the board to deliver balanced budgets in future. Management have advised that most services within the board area have already been subject to redesign and in their view, to achieve further savings of the scale required, more significant structural change will be necessary. This will in turn require further changes to the current service provision and may require significant changes to current HR policies if these are to be implemented.

74. The board is also faced with significant challenges arising from increases to its cost base. As already noted, from 2015/16 pension reform will increase employer contribution rates by an additional £17.0m. Furthermore from 2016/17 changes in national insurance will result in a further increase in the cost base. It is likely that the

board will have to meet this recurrent expenditure without any additional funding from the Scottish Government.

75. At the same time there will be increasing cost pressures from the introduction of new drugs and technologies and healthcare inflation in the UK is higher than general inflation. Over the last 20 years, general inflation in the UK averaged just 2% a year while health service costs rose by 3.6% a year.

# Governance and transparency



- 76. NHSGGC is governed by a board of Executive and Non-Executive Directors and is accountable to the Scottish Government through the Cabinet Secretary for Health and Wellbeing.
- 77. The board is responsible for the strategic leadership and governance of NHSGGC. It is supported in this role by a number of standing committees as illustrated below:

Quality and Performance Committee (QPC) (oversees the Staff Governance Sub-Committee which in turn oversees the Remuneration Sub-Committee)

Audit Committee

Area Clinical Form

Primary Care (Disciplinary Committees)

Pharmacy Practices Committee

Endowments Management Committee

- 78. The board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHSGGC and for monitoring the adequacy of these arrangements.

## Corporate governance

- 79. The corporate governance framework within NHSGGC is centred on the board which is supported by a number of standing committees. The key committee for overseeing governance and performance monitoring is the Quality and Performance Committee (QPC). It meets six times a year and can often have a very full agenda. An Audit Scotland representative attends the meeting as an observer and we note that scrutiny is exercised across a number of key areas.

80. The audit committee exercises scrutiny in its consideration of internal audit work programmes and outputs and receives all external audit reports. In addition fraud updates are regularly reviewed and the corporate risk register periodically reviewed.
81. It was agreed during the year that risk management arrangements should be reviewed and as a consequence the Risk Management Steering Group was re-established. This group has met recently and is currently reviewing documentation and procedures. It will then make recommendations on the appropriate form and level of reporting to the audit committee.
82. Based on our observations and audit work our overall conclusion is that governance arrangements within NHSGGC are operating effectively.

## Transparency

83. The performance of all NHS boards is subject to an annual review process. The annual review aims to encourage dialogue and accountability between local communities and their Health Boards. The annual review for NHSGGC was held on 19 August 2014 and was hosted by representatives from the board including the Chief Executive and led by the Chair. There was an open session where members of the public could attend to ask questions of the Chief Executive and the board.
84. Members of the public can also attend meetings of the board and have ready access to board papers on the internet. The board papers provide comprehensive information on all aspects of

- performance including waiting times and access targets, and measures being taken to address them.
85. The board's website has recently been redesigned and includes useful information on how to access services. It includes details of board members and has a register of members' interests. An on-line register of interests for all board staff was also re-developed and is available on the staff intranet.
  86. Overall we concluded that the board is open and transparent. However some committees (e.g. Quality and Performance, Audit and Staff Governance) are held in private in accordance with the board's standing orders.

## Internal control

87. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain sufficient audit evidence to support our opinion on the board's financial statements.
88. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the board's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
89. However, we reported to management that there is no direct confirmation that amounts being charged by third parties for agency costs agree to the approved rates. We are aware of some

mitigating controls: any outliers and unusual transactions are subject to review and the budgetary control process would highlight significant variances. In response, management has agreed to undertake a full review of the process and introduce a range of appropriate controls.

## Shared Services

90. There are a number of systems where NHSGGC is dependent on another NHS body for the provision of services. NHS National Services Scotland (NSS) provides Practitioner Services and National Information Technology systems and contracts. From 1 April 2013 the board has been using the eFinancials National Single Instance (NSI) to record financial ledger transactions. NHS Ayrshire & Arran has responsibility for the support of these finance systems.
91. In accordance with International Standard on Assurance Engagement 3402 (ISAE3402), NHS Ayrshire & Arran and NHS NSS commissioned service auditors to provide independent assurance that key controls and processes are operating satisfactorily. All opinions from service auditors were unqualified for 2014/15 but some matters arising were identified. Management should continue to work closely with the host boards to ensure adequate resolution of the matters identified for improvement.

## Internal audit

92. Internal audit provides the board and Accountable Officer with independent assurance on the board's overall risk management,

internal control and corporate governance processes. We are required by International Standards on Auditing to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

93. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. Internal audit completed all planned work on key financial systems for 2014/15. We were able to place formal reliance on aspects of internal audit work for several key financial systems.

## ICT audit

94. ICT is a key area of control because it underpins all systems used by the board. As part of our planning process we carried a high level review of ICT covering a number of areas. In addition we carried out a Your Business @ Risk (YB@R) information governance and security survey. The survey can help bodies quickly assess procedural, cultural and ethical compliance risks that have the potential to undermine the effectiveness of their information governance policies. Our letter was issued to officers in May 2015.
95. We also followed up prior year action points from three previous ICT reports and we intend to report shortly to management.
96. We had originally planned to undertake a focused computer services review which was due to conclude by end July 2015. We

have agreed to postpone this review until later in 2015 due to internal operational pressures.

97. Based on our work undertaken to date we are able to conclude that the board's ICT arrangements are satisfactory and we are not aware of any specific issues that require to be brought to the attention of members.

## Arrangements for the prevention and detection of fraud

98. We assessed the board's arrangements for the prevention and detection of fraud during the planning phase of our audit. This involved reviewing policies and procedures in a number of areas including whistleblowing and liaison with Counter Fraud Services (CFS).
99. The board's fraud liaison officer also works closely in partnership with CFS to promote anti-fraud activity and provides regular updates to the audit committee advising of current investigations within the NHS in Scotland.
100. We concluded that the board has effective arrangements for the prevention and detection of fraud.

bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.

102. Auditors are required to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
103. The NFI database has identified a total of 6,273 data matches for NHSGGC of which 6,173 have been categorised as 'high quality' and 780 have been highlighted as recommended matches for investigation. Officers have so far investigated 301 cases with a further 37 cases currently in progress. Investigations to date have focused on the recommended matches with high priority, in particular payroll related data matches.
104. To date, there has been one confirmed fraud/error as a result of the investigation of a match on the NFI system, which amounted to a value of £27,697. This was found as a result of matching Payroll and UK Visa records. The individual concerned was found not to have a current visa and was dismissed.
105. Progress on the NFI is regularly reported to the audit committee and there are no issues of concern that we require to include in this report.

## National Fraud Initiative in Scotland

101. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It uses computerized techniques to compare information about individuals held by different public

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

106. The board has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for officers and members. Also, there are established procedures for preventing and detecting corruption including annual reviews of Standing Financial Instructions and Standing Orders.
107. Based on our review of the evidence we concluded that the board has appropriate arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

## Freedom of Information (FOI) requests

108. As reported to the QPC in May 2015, NHSGGC completed 89.6% of FOI requests within the 20 day statutory time limit compared to the target of 90%. The Head of Board Administration is currently finalising the annual Freedom of Information monitoring report for 2014/15 which will be submitted to the board in August 2015. We have no significant concerns about the procedures followed by the board in processing FOI requests.

## Vale of Leven Inquiry

109. The Vale of Leven Hospital Inquiry Report into the circumstances contributing to the high occurrence of C.difficile at the Vale of Leven Hospital was published in November 2014. Following publication of

the report health boards were required to carry out a self-assessment of progress against the 65 recommendations directed at health boards.

110. The board accepted the conclusions of the report, that there were deficiencies in nursing and medical care as well as governance and managerial failures. The January 2015 meeting of the QPC endorsed the self assessment return to the Scottish Government along with the actions being taken to fully address the Inquiry's recommendations. The board assessed itself as having fully implemented 31 of the 65 recommendations, 21 recommendations had been mostly implemented, with 12 only partially implemented. One recommendation was deemed not applicable to NHSGGC; this related to the Link Nurse system, which is not in operation within the board. Actions are in place to address those recommendations which have not fully been addressed.

## Healthcare Associated Infection (HAI)

111. The Healthcare Environment Inspectorate (HEI) process provides assurance to the board on the effectiveness of infection control. 5 HEI inspections of Safety and Cleanliness took place across NHSGGC in 2014/15 which resulted in 2 recommendations and 17 requirements. The board is working to address all issues raised by the HEI and actions to address the issues raised have been put in place.
112. Internal audit's report to the November 2014 audit committee found the board's Infection Prevention and Control Service (IPC) was a low risk. The report reviewed the IPC's activities against previously

agreed national and local recommendations. Of 20 recommendations reviewed, 18 were already fully implemented and 2 were partially implemented with revised dates agreed.

113. We conclude that the board takes all independent reports and clinical governance matters very seriously and puts action plans in place with agreed timescales. The board are taking action designed to help reduce healthcare associated infection risk to patients.

## Health and Social Care Integration

114. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. The statutory deadline date for the implementation of integrated care arrangements is 1 April 2016.

115. There are six local authorities within the board's area working with the board towards creating Integrated Joint Boards (IJBs) comprising non-executive members from both NHSGGC and the relevant councils. Each IJB submitted a draft Integration Scheme to the Scottish Government by the statutory deadline of 30 March 2015. Five out of the six integration schemes have been laid in Parliament with the IJBs established from 27 June 2015. We understand that the Glasgow City scheme remains with the Scottish Government for approval.

116. The six schemes all cover the minimum services required by the Act (adult social care, primary care, community adult healthcare, and community children's healthcare). Four schemes also include

children's social care. Strategic plans for each IJB are currently being developed, with planned approval dates by the IJBs varying from autumn 2015 to April 2016, the final statutory deadline for approval.

117. At the time of this report, six Chief Officers and five Chief Finance Officers have been appointed. A technical working group has been established with members from all parties and its remit is to build on national guidance and develop it for local use across each IJB. This includes the development of financial regulations and principles for budget management within IJBs. We are aware that Internal Audit intend to review this work as part of a due diligence process.
118. The complex nature of health and social care service delivery will present challenges for the new organisations. Given the organisational and financial issues still to be resolved there is a risk that the formal arrangements may not be fully developed in all six IJBs by the statutory deadline date.

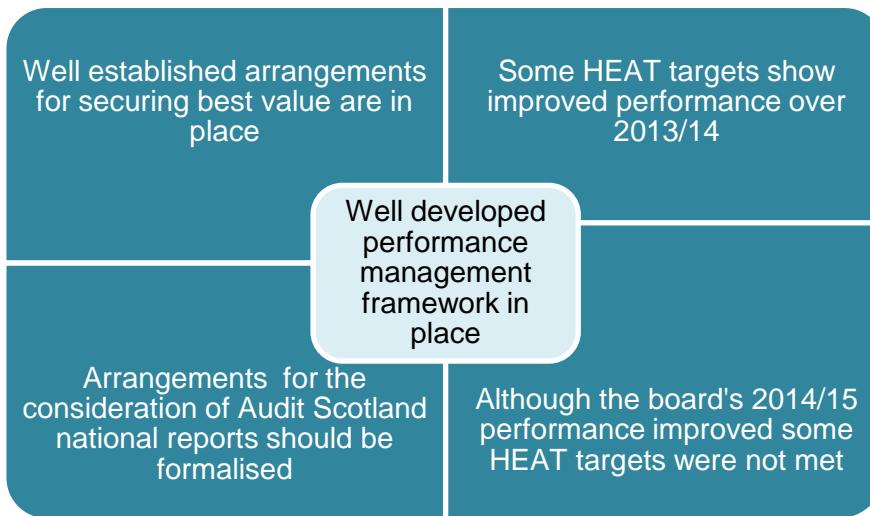
## 2020 Vision

119. The Scottish Government's vision is that by 2020 everyone is able to live longer healthier lives at home, or in a homely setting. The board has been addressing this challenging agenda through its Clinical Services Fit for the Future programme which was established in 2012 to review current services for the delivery of the 2020 vision. This Clinical Services Review was taken forward by key clinicians and the resulting Strategy for 2015-20 was presented

- to the board by the Medical Director in January 2015. It is now in the process of widespread consultation with stakeholders.
120. The Strategy will provide a blueprint to develop redesigned services to meet future demands. The main elements of this are the development of supported care, developing the ambulatory approach to hospital care, developing primary care and improving the interface between community and hospital. Overall the aim is to change how care is delivered by shifting the focus of care from acute hospital settings to community settings.
121. Health and social integration is a key element of the strategy and the board will engage with IJBs across its area to adopt the Strategy as a shared approach.
- ## Outlook
122. Changes in Scotland's population mean that demands for health and social care will increase significantly over the next 20 years, at the same time that budgets are tightening. The NHS will not be able to continue to provide services in the way that it currently does, given the scale of changes required. It needs to do more to plan for how it will make the changes needed to provide sustainable care for the future.
123. Increasing demand is already putting pressure on services. NHS boards need to better understand their demand, capacity and how patients move through the complex health and social care system so that they can match their capacity with current and future needs.
124. NHSGGC will use the Clinical Strategy and consultation responses as the basis for engagement for further consultation on specific change proposals. This work will aim to achieve the objectives of the 2020 Vision.
125. Health and social care integration is also an important element in supporting the delivery of the Scottish 2020 Vision. A lot of work remains in order to ensure that the board and its council partners are well placed to successfully deliver on this important strand of the Scottish Government's reform agenda.
126. The progress of integration arrangements will also see changes to the board's structure and reporting arrangements. The Quality and Performance Committee's role in scrutiny across financial, service and clinical governance will be replaced by a scrutiny body within each of the new IJBs and a new Committee which will scrutinise the performance of acute services.
127. The board has indicated that 2015/16 will see further changes to all operational management structures, due partly to the creation of the Integrated Care Partnerships but also the opening of the new South Glasgow Hospitals and closure of other sites. The post of Chief Operating Officer was filled during 2014 and the new Director of Finance was in post from April 2015. The Director of Human Resources will be retiring in June 2015 and a new Director has been appointed. A revised management structure with three territorial and three cross-system directors is being introduced from June 2015. In addition the tenure of the current board Chair will expire on 30 November 2015 and is currently being advertised. There is a

risk of loss of experienced senior personnel and protracted uncertainty at a time of substantial change. This may impact on staff morale which may affect successful service delivery and achievement of performance targets. (*action point 6*)

# Best value



128. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.

## Arrangements for securing best value

129. Best value arrangements are considered to be part of business as usual within the board. They are embedded in its planning processes, governance arrangements and its performance management.
130. The board's Governance Statement includes a review by the Accountable Officer of the system of internal control. This is

informed by assurance statements from executive managers, by internal audit and external audit reports.

131. The audit committee also receives a report from the Financial Governance and Audit Manager on the Review of the System of Internal Control. This report outlines the board's commitment to best value and provides evidence as to how best value is delivered.
132. Overall, we were able to conclude that the board has well-developed arrangements for securing best value and continuous improvement.

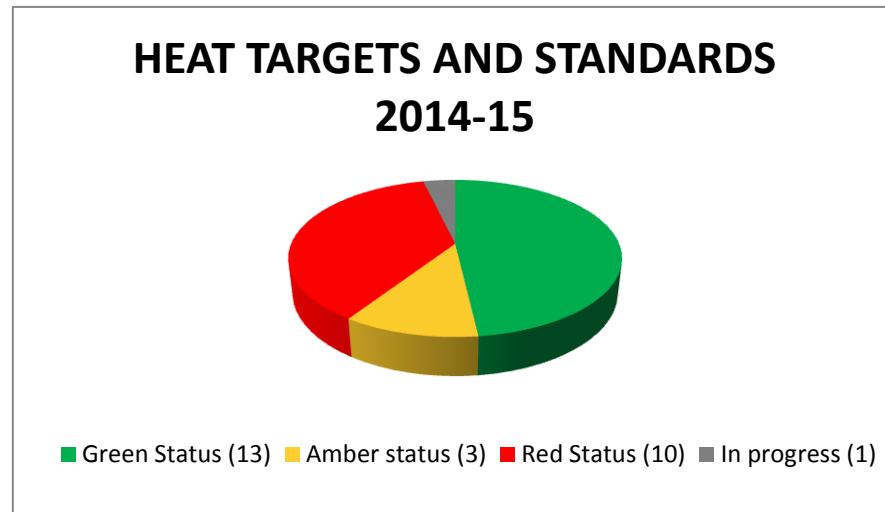
## Performance management

133. The performance of NHSGGC is monitored by the Scottish Government against a number of HEAT targets and standards which support the delivery of the Scottish Government's national performance framework. These targets and their trajectories are set out in the board's 2014/15 Local Delivery Plan (LDP).
134. Performance against HEAT targets and standards is presented to each meeting of the Quality and Performance Committee in the form of a balanced scorecard. These performance reports also include progress against local performance indicators. The performance reports are accompanied by a narrative setting out actions being taken to support the achievement and sustainability of the HEAT targets and standards. Furthermore, performance is discussed at the Annual Review meeting referred to previously.

135. We concluded that the board had a well established performance management framework in place during 2014/15. This was supported by effective performance monitoring.

## Overview of performance targets in 2014/15

136. The board's performance against its 27 HEAT targets and standards as reported in May's Integrated Quality and Performance Report, and based on the most up to date data available is summarised in the diagram below.



137. Excluding the one indicator in progress, thirteen were categorised as green, three amber and ten red, where:

- Green means meeting or better than trajectory
- Amber means within 5% of trajectory
- Red means outwith 5% of meeting trajectory.

138. Those HEAT standards and targets currently being met include the 12 week outpatient wait, IVF treatment within 12 months and all cancer treatments within 31 days.
139. Some areas of performance are slightly behind target (amber status). These include the percentage of patients urgently referred with a suspicion of cancer beginning treatment within 62 days of their referral, and the percentage of patients accessing treatment from Child and Adolescent Mental Health Services (CAMHS) within 18 weeks of referral.
140. Areas of performance which fell short of the heat targets by over 5% (rated as red) included MRSA/ MSSA Bacteraemia cases per 100,000 bed days; the admissions to the stroke unit on the day or day after admission to hospital and delayed discharges over 14 and 28 days.
141. Explanations for those measures not being met are provided to each QPC meeting together with actions to address performance and a timeline for improvement. Performance in relation to a number of the HEAT targets is also referred to in the financial statements. Areas of particular interest to the QPC include:
142. **MRSA/MSSA Bacteraemia.** This target was narrowly missed. Two new standard operating procedures have been developed in order to reduce the incidence of SAB cases and a range of actions have been set out to improve performance.
143. **Unscheduled Care.** A&E waiting time performance against the 4 hour target of 95% was 88.5%. Pressure has been identified across

all sites resulting from a wide variation in type and volume of emergency presentation throughout the day. The Scottish Government support team, working with local teams at Royal Alexandria Hospital, Western Infirmary and Glasgow Royal Infirmary identified measures on how to improve the admission and discharge of patients from A&E. Action plans were formed as a result of this work and learning from these has been shared across other sites.

144. A&E waiting times are now being published weekly and significant issues are currently being raised primarily as a result of the opening of and move to the new South Glasgow University Hospital. The board is aware of these and is taking immediate action to remedy the issues identified.
145. **Stroke Unit Admissions.** 82.9% of patients suffering a stroke were admitted to a stroke unit on the day, or the day following their presentation to hospital, falling short of the 90% target. Actions to address performance have been established and timelines for improvement at individual sites have been agreed.
146. **Delayed Discharges.** The issue of delayed discharges continues to challenge all parties. The board has been continuing its work with its local authority partners to identify and address the issues causing delays. There has been a particular focus in working with councils to achieve discharge for patients in facilities due to close in order to avoid their transfer to the new hospital. With the pressure on hospital beds in general, the board and its partners need to achieve immediate and continuing reductions in the number of delayed discharges.

## Local performance audit reports

147. Our local performance audit work is focusing on the collection of baseline information in respect of financial capacity in public bodies, specifically on finance departments and the impact on financial planning and the control environment across the public sector. This work is currently underway and we shall report our findings in due course.

## National performance audit reports

148. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the board. These are outlined in appendix III.
149. We have previously reported that national reports and the board's responses to the findings have not been routinely considered by management or the audit committee. While we are pleased to note that some action is being taken to ensure relevant reports are formally considered there still remains a number of national reports which have yet to be formally considered.
150. We have recommended that officers introduce a more formal process to ensure that Audit Scotland's national reports are considered by officers. The audit committee should be advised of the board's position in comparison to the findings contained within these reports and should be apprised of any proposed actions to address weaknesses identified.

## Equalities

151. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
152. NHSGGC published its full monitoring report covering 2013-2015 in April 2015. The report highlighted that there was significant uptake of equalities learning opportunities for staff such as e-modules and face-to-face learning opportunities. However, issues were identified in relation to engagement with patients and equality groups. The report highlighted 12 points as requiring further work in 2015/16; these related to a range of protected characteristics.

## Outlook

153. In the annual overview of the NHS in Scotland, the Auditor General highlighted that there are increasing signs of pressure on NHS boards' ability to meet demanding performance targets. The strong focus, particularly in relation to waiting times targets, may not be sustainable when combined with the additional pressures of increasing demand related to demographic changes and the overall NHS budget starting to decrease in real terms.
154. The effort that NHS boards are putting in to meeting challenging financial and performance targets each year contributes to the challenge to focus on the long-term planning required to achieve the 2020 Vision.

155. In common with other NHS boards, NHSGGC faces challenges in meeting its HEAT targets. Whilst the board has put in place a range of measures to improve performance, areas of significant challenge remain due increasing demand for improved services arising from changing demographics, lifestyles, health inequalities and increasing public expectations. The board will need to continue to redesign services and improve quality, while also making services more efficient and sustainable. Furthermore, at a time of transition with the transfer of services from several hospitals to one, it has been difficult to achieve all performance targets. (**action point 7**)
156. The opening of the new hospital is a major element in the redesign of NHSGGC's acute services and involves the transformation of a number of existing processes. The expected impact of the new hospital relies on the successful migration of staff and services together with the implementation of staffing and bed models which, in turn, rely on the need to keep delayed discharges to a minimum.

# Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<b>Risk of material misstatement due to fraud in revenue recognition</b> NHSGGC receives a significant amount of income in addition to Scottish Government funding, as set out in the Statement of Comprehensive Net Expenditure. Particular areas for concern include: FHS income, cash receipts, non-mainstream income generating activities. ISA 240 presumes an inherent risk of fraud where income streams are significant. <b>Risk</b> The size and diversity of income streams flowing to the board means that there is an inherent risk that income could be materially misstated.	<ul style="list-style-type: none"> <li>• We evaluated accounting policies for income and expenditure and reviewed accounting estimates.</li> <li>• Detailed testing of journal entries at year end was undertaken.</li> <li>• We evaluated the effectiveness of systems of internal control for income recognition and recording. We also undertook substantive testing of income transactions to confirm occurrence and accuracy of amounts in the financial statements.</li> <li>• Analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income.</li> <li>• Monitoring of frauds and false exemptions reported and examination of the NHS National Services service auditor report covering Practitioner Services.</li> </ul>	<ul style="list-style-type: none"> <li>• Reviewed the financial monitoring reports presented to the board and QPC. Scrutiny is considered to be robust.</li> <li>• Reviewed accounting policies in the financial statements. Policies were deemed appropriate.</li> <li>• We assessed the controls in place for income recognition and undertook substantive testing of material year end balances focusing on external income transactions. No issues were identified and we were able to conclude that controls were operating effectively.</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Risk of management override of control</b> ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p><b>Risk</b> There is a risk that management manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• We tested the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements.</li> <li>• We reviewed the accounting estimates applied for bias.</li> <li>• We evaluated any significant transactions are outside the normal course of business.</li> <li>• We focused our testing on the regularity and cut-off assertions during the financial statements audit.</li> </ul>	<ul style="list-style-type: none"> <li>• We substantively tested a sample of journal entries at year end and agreed to source documentation. There were no issues to report.</li> <li>• Our testing focused on the regularity and cut-off assertions. There were no matters to report.</li> <li>• We did not identify any instances of management manipulating accounting records or overriding controls.</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<b>Other financial statements risks</b>		
<p><b>Financial Sustainability</b> NHSGGC faces challenges in dealing with a range of actual and anticipated funding and cost pressures.</p> <p><b>Risk</b> There is a risk that the board fails to achieve its planned year end financial position.</p>	<ul style="list-style-type: none"> <li>• We monitored updates to the Financial Plan and review financial monitoring reports to the board and QPC.</li> <li>• We reviewed monthly financial returns to SGHSCD.</li> <li>• We tested of a sample of transactions taken from both pre- and post-year end to confirm expenditure and income had been accounted for in the correct financial year.</li> <li>• We reviewed the efficacy of a sample of settlement agreements.</li> <li>• Review the controls relating to the use of agency staff.</li> <li>• Monitored progress on the new South Glasgow Hospitals project.</li> </ul>	<ul style="list-style-type: none"> <li>• The board has a year end underspend of £1.233m against its Core RRL. This is in excess of that forecast throughout the year where breakeven was anticipated.</li> <li>• We conclude on financial sustainability within this report.</li> <li>• Our review identified some control issues in relation to the checking of agency payments.</li> <li>• We identified some issues in relation to settlement agreements to be considered by management in order to ensure compliance with the SPF M.</li> <li>• In the coming months, the board will face significant pressures to deliver patient services and meeting performance targets. More detail on the migration to the new hospital is provided below.</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Accruals</b> In previous years there have been challenges obtaining adequate evidence to support year end accruals.</p> <p><b>Risk</b> There is a risk that a financial misstatement will occur if accruals are raised inappropriately.</p>	<ul style="list-style-type: none"> <li>• Early discussions were held with management in order to discuss potential issues arising.</li> <li>• A meeting with management accountants was held prior to the year end audit to discuss the proper accounting treatment of accrual entries.</li> <li>• Testing of an extensive sample of accruals at year end.</li> </ul>	<ul style="list-style-type: none"> <li>• The results of our year end testing again found a number of accruals which we considered to be invalid, either due to accruing for goods/services not received in the reporting year, or where the board had accrued for unspent 2014/15 budget for a number of programmes. This resulted in a number of unadjusted errors which were agreed with management.</li> </ul>
<p><b>Equal Pay</b> NHSGGC, in common with other NHS boards, has not been able to quantify the extent of its liability for Equal Pay claims.</p> <p><b>Risk</b> Whilst the risk is reducing, there remains a risk that settlement of equal pay claims could have a significant impact on the board's future financial position.</p>	<ul style="list-style-type: none"> <li>• We reviewed the accounting treatment at year end relating to Equal Pay.</li> </ul>	<ul style="list-style-type: none"> <li>• Guidance provided during the year allowed boards to make a provision within their financial statements. The presentation within note 17 of the accounts complies with that guidance.</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Provisions</b> The board has disclosed significant provisions in its financial statements.</p> <p><b>Risk</b> Due to their subjective nature, there is a risk that provisions could be incomplete, not valid or incorrectly valued. A prior year adjustment will be required to reflect revised accounting treatment for contributions to CNORIS to meet future obligations.</p>	<ul style="list-style-type: none"> <li>• We reviewed the accuracy, validity and completeness of the provisions and tested the year end balances substantively.</li> <li>• We reviewed the board's assessment of on-going legal cases, potential provisions resulting from vacating old sites, Vale of Leven Inquiry report and other significant issues.</li> <li>• We reviewed the revised accounting treatment of provisions at year end, including the revised treatment for contributions to CNORIS.</li> </ul>	<ul style="list-style-type: none"> <li>• We reviewed all significant provisions and substantively checked these to appropriate source documentation.</li> <li>• We identified an element of the restructuring provision which could not be adequately substantiated. This was included as an unadjusted error.</li> <li>• From review of the prior year adjustment relating to CNORIS contributions, we are satisfied that the adjustments are presented appropriately in compliance with SGHSCD guidance.</li> </ul>

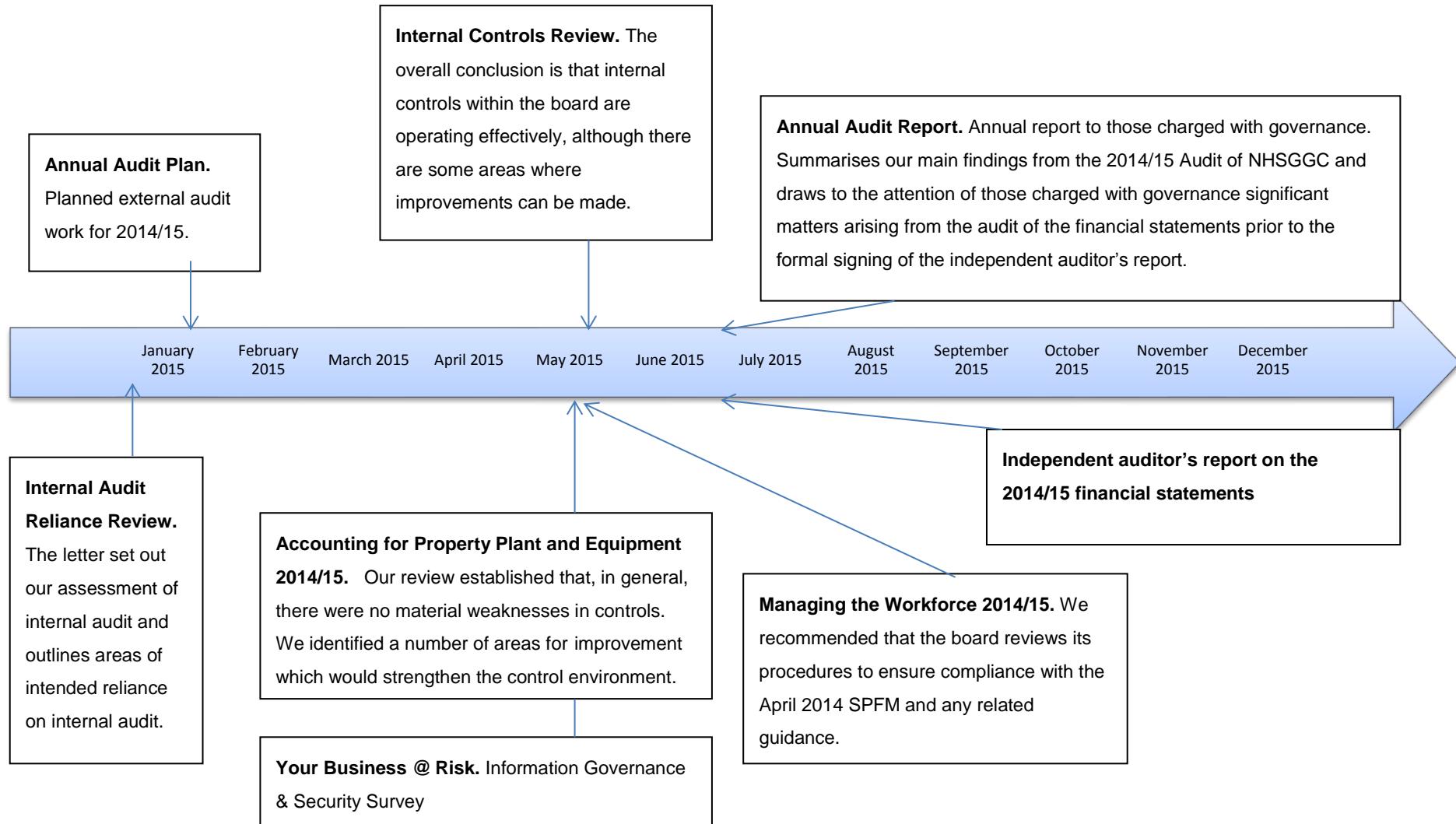
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Improving the quality of NHS Annual Report and Accounts</b></p> <p>The Financial Reporting Council has an initiative aimed at making annual accounts clearer, more concise, and more focused on ensuring annual accounts provide relevant information to the users of accounts. In response Audit Scotland has developed a good practice note entitled '<i>Improving the quality of NHS Annual Report and Accounts</i>'. NHS bodies should use this guidance to ensure the 2014/15 annual accounts are clearer, more concise and more focused on the needs of the users.</p> <p><b>Risk</b></p> <p>There is a risk that the 2014/15 annual accounts may not provide concise information which is relevant to users of the accounts.</p>	<ul style="list-style-type: none"> <li>• We assessed NHSGGC's 2013/14 financial statements against the Good Practice Note "Improving the Quality of NHS Accounts".</li> </ul>	<ul style="list-style-type: none"> <li>• We are pleased to note that only a few minor issues were identified and these were discussed with the Assistant Head of Financial Services.</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p><b>Migration to new South Glasgow University Hospital</b></p> <p>A major reconfiguration of service will take place when the new South Glasgow University Hospital opens. The transfer to the new hospital in 2015 places significant pressures on service provision and performance targets. The move is scheduled to take place over a 6 week period.</p> <p><b>Risk</b></p> <p>There is a risk that the move is delayed causing disruption to the hospital users. In addition, there may be an impact on staff as they co-locate and apply new ways of working. It is likely that performance targets will not be achieved.</p>	<ul style="list-style-type: none"> <li>• We reviewed progress reports and monitored progress towards completion of project and transfer of staff and patients.</li> <li>• We considered whether there is any impact on our audit approach at the year end as a result of the transition on, for example stock levels, asset values.</li> </ul>	<ul style="list-style-type: none"> <li>• We attended, as an observer, all meetings of the Acute Services Strategy Board until it was wound up in January 2015.</li> <li>• The new hospitals were completed in January, ahead of schedule and under budget. Staff and patients have been transferring on a phased basis since April with the last patients transferring from the Royal Hospital for Sick Children in mid June.</li> <li>• There was no major impact on stock levels but there was a major impact on non current assets</li> <li>• Early issues have been identified regarding waiting times and there are public and staff concerns over car parking and transport links.</li> </ul>

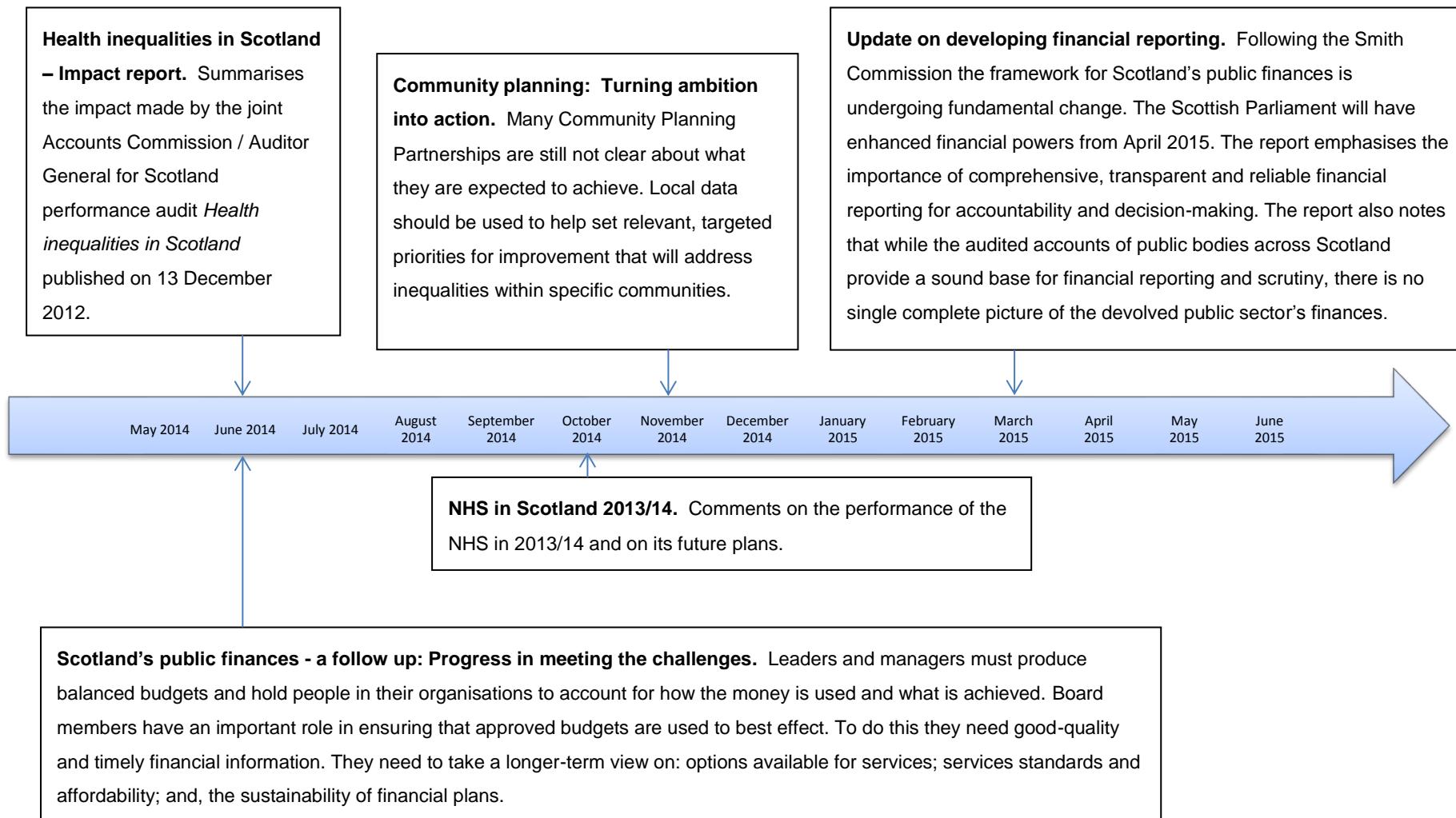
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Health and social care integration</b></p> <p>The integration of health and social care services in Scotland should be implemented locally from 1 April 2015 while full integration arrangements must be in place by 1 April 2016.</p> <p><b>Risk</b></p> <p>There is a risk that the board and its local authority partners will not be fully prepared by 1 April 2015. Financial pressures could also adversely impact on the effectiveness of the move to full implementation of health and social care integration. This could adversely impact on service delivery.</p>	<ul style="list-style-type: none"> <li>• Review of progress included meetings with the board's Director of Planning and Performance, and two of the Integrated Joint Board's (IJB) designated Chief Officers.</li> <li>• We monitored the proposed governance arrangements for the integrated boards although these remain to be finalised.</li> <li>• We reviewed of minutes and reports to the Quality and Performance Committee and shadow integration joint boards.</li> </ul>	<ul style="list-style-type: none"> <li>• Good progress is being made by all IJBs. At the date of reporting, five out of the six Integration Schemes have been approved by the Scottish Government and these IJBs will be established from 27 June 2015.</li> <li>• All Strategic Plans setting out the full integration arrangements are required to be in place by 1 April 2016.</li> <li>• Sound arrangements are in place for agreeing and standardising financial procedures across the 6 IJBs.</li> <li>• The agreement of financial resources remains a challenge.</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Health Information &amp; Technology (HI&amp;T)</b></p> <p>The board continues to work in an ever changing environment. The rationalisation of the patient management system, the migrating of GP systems and the impact of providing the ICT provision to the new hospitals mean that the HI&amp;T Directorate is having to react and adapt to new circumstances. Staff also need to be aware of the risks associated with data handling and information security as their ways of working changes.</p> <p><b>Risk</b></p> <p>There is a risk that the change in practice and the increased workload impact on the internal control environment and has an adverse effect on the eHealth ICT service provision.</p>	<ul style="list-style-type: none"> <li>• We planned to undertake a focused computer services review and intended to place reliance on the relevant internal audit reviews undertaken during 2013/14 and 2014/15.</li> <li>• We offered to conduct a 'Your Business at Risk (YB@R)' online survey to help inform the board's understanding of staff attitudes, behaviours and working practices towards data handling and information security.</li> </ul>	<ul style="list-style-type: none"> <li>• Our planned focused computer services review has been delayed due to client operational pressures.</li> <li>• Internal Audit reviews will be considered when we undertake our review in Autumn 2015.</li> <li>• We undertook a YB@R information security and governance survey and provided the results for management to consider.</li> <li>• No major matters identified.</li> </ul>

# Appendix II: NHSGGC local audit reports 2014/15



# Appendix III: Audit Scotland national reports 2014/15



# Appendix IV: Action plan

No. / Page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 / 12	<p><b>Non current assets</b></p> <p>During 2014/15 the Victoria, Mansionhouse and Southern General Hospitals and the Royal Hospital for Sick Children were impaired to reflect a remaining useful life of 6 months (until September 2015). However some elements of these hospital sites may remain operational while an upgrade is effected to the Gartnavel General site to relocate some patient services.</p> <p><b>Risk</b></p> <p>There is a risk that non-current assets have been impaired prematurely and will have a nil value while still remaining operational. Non current assets are not depreciated resulting in an inaccuracy of the charge to net operating costs.</p> <p><b>Recommendation</b></p> <p>The board should review its plans for asset utilisation and/or disposal.</p>	<p>There are currently on-going discussions taking place about potential changes to the timings of the ASR decommissioning of sites. As at the year-end the proposals remained - that the ASR sites would be decommissioned within the second quarter of 2015/16 and consequently the sites were all impaired as at 30/9/15.</p> <p>If there are developments in this area then the impairment dates of any site affected will be reviewed in the event of any decision to formally retain a site beyond the current date of impairment.</p>	Director of Finance	September 2015

No. / Page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 / 13	<p><b>Trades payables – accruals</b></p> <p>A number of projects were inappropriately accrued at the year end and resulted in a number of unadjusted errors.</p> <p><b>Risk</b></p> <p>There is a risk that if expenditure is not accounted for in the correct accounting period, there is a loss of transparency in financial reporting. This has implications for subsequent resource allocation.</p> <p><b>Recommendation</b></p> <p>The board should review its processes for accruing expenditure to ensure that only valid obligations are accrued.</p>	<p>The point is accepted and we will review the processes in 2015/16 to address this issue.</p> <p>The main issues were in relation to ring fenced allocations available in 2014/15, but not fully committed in the financial year and required in 2015/16.</p>	Director Of Finance	September 2015

No. / Page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
3 / 13	<p><b>Goods received not yet invoiced (GRNIs).</b></p> <p>We identified a number of GRNIs which referred to goods received in prior years. Officers were unable to provide sufficient evidence to support GRNIs totalling £2.2m which referred to goods received in prior years.</p> <p><b>Risk</b></p> <p>There is a risk that expenditure is not accounted for in the correct accounting period resulting in a loss of transparency in financial reporting.</p> <p><b>Recommendation</b></p> <p>The board should review the processes for the accruing of GRNIs to ensure that only valid obligations are accrued.</p>	<p>There will be a full review of outstanding GRNs in 2015/16. This should alleviate the problems that arose in 2014/15.</p>	Head of Financial Services	September 2015

No. / Page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
4 / 15	<p><b>Heritage assets</b></p> <p>From 2011/12 boards were required to separately disclose any heritage assets. No heritage assets have been disclosed by NHSGGC and the ongoing review has yet to conclude.</p> <p><b>Risk</b></p> <p>There is a risk that the board is unable to fulfil its stewardship responsibilities and follow the principles of FRS 30 Heritage assets.</p> <p><b>Recommendation</b></p> <p>The board should assess the findings of the review undertaken to date and ensure the review is concluded.</p>	<p>There is currently a significant exercise underway, including the decommissioning of sites as part of the Acute Services Review.</p> <p>At this stage there have been no heritage assets identified.</p>	Director of Finance	December 2015

No. / Page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
5 / 21	<p><b>Savings target</b></p> <p>The delivery of the cost savings plan for 2015/16 and subsequent years will continue to remain challenging. £6.7m of the 2015/16 savings target has not yet been identified.</p> <p><b>Risk</b></p> <p>Whilst the board is confident that it will be able to identify these further savings during 2015/16, there remains the risk that the required efficiency savings will not be achieved.</p> <p><b>Recommendation</b></p> <p>The board should ensure that formal plans are produced covering all the required savings for 2015/16.</p>	Plans to close the unidentified gap are currently being prepared. At the same time the Board is planning for 2016/17 savings and will continue to develop schemes for implementation in future years but achieving these levels of savings is becoming increasingly difficult to sustain as most services have now been subject to service redesign programmes.	Director of Finance	March 2016

No. / Page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
6 / 32	<p><b>Organisational review</b></p> <p>A major restructuring of the organisation and its management structures is currently being undertaken as a result of the integration of health and social care services and the move to the new hospitals.</p> <p><b>Risk</b></p> <p>There is a risk of loss of experienced senior personnel and protracted uncertainty at a time of substantial change. This may impact on staff morale which may affect successful service delivery and achievement of performance targets.</p> <p><b>Recommendation</b></p> <p>The board should ensure that communication channels remain open with all staff during this turbulent period.</p>	<p>The organisational change process, establishment of Integrated Joint Boards and the move to the new hospitals is nearing conclusion. Management Structures for Acute Directorates have now been finalised and populated and most Integrated Joint Boards have appointed to their management structures. This has not resulted in a significant loss of experience to the organisation. In addition, permanent Directors of Finance and Human Resources have been appointed during 2015/16 and arrangements for the forthcoming vacancies for Nurse Director and Director of Public Health are currently being finalised.</p> <p>The Board has made significant investment in communicating with staff during this period and this will continue as these major changes are completed.</p>	Chief Executive	March 2016

No. / Page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
7 / 36	<p><b>Performance against HEAT targets</b></p> <p>The board did not achieve all its performance targets in 2014/15.</p> <p><b>Risk</b></p> <p>There is a risk that in a climate of reducing funding and competing priorities, performance targets are not achieved or maintained.</p> <p><b>Recommendation</b></p> <p>The board should monitor investment designed to improve performance and determine whether specific areas / specialties require more detailed scrutiny or additional actions to be taken.</p>	<p>The Board will continue to strive to achieve and monitor performance against all key targets through its organisational performance processes at Directorate and Partnership level. Overall Board performance is scrutinised by the Board and its Committees throughout the year. Scrutiny processes will be extended further when Integrated Joint Boards go live during 2015/16.</p>	Chief Executive	March 2016