

INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

NHS Health Scotland

Annual audit report for 2005-06 to members of NHS Health
Scotland and the Auditor General for Scotland

30 June 2006

AUDIT

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Notice: About this report

This report has been prepared in accordance with the responsibilities set out within Audit Scotland's *Code of Audit Practice* ('the Code') and *Statement of Responsibilities of Auditors and Audited Bodies*.

This report is for the benefit of only NHS Health Scotland and is made available to Audit Scotland (together the beneficiaries), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

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Executive summary

Financial statements

On 30 June 2006 we issued an audit report expressing an unqualified opinion on the financial statements of the Board for the year ended 31 March 2006 and on the regularity of the financial transactions reflected in those financial statements.

The Board achieved all three financial targets set by the Scottish Executive Health Department for 2005-06. The saving against the revenue resource limit of £127,000 (2004-05 £447,000) is within the 1% carry forward permitted by the Scottish Executive.

The 2005-06 outturn represents concerted efforts by management to defray additional revenue allocations made available late in the year. Capital expenditure incurred in the year was committed mainly on IT and office equipment. The £1.690 million excess cash drawn down represents allocations received in relation to Scotland Against Drugs.

During 2005-06 the Board's revenue resource limit again increased significantly, with a number of additional allocations being made late in the year. This resulted in concentrated expenditure on health improvement initiatives towards the end of the year. Management drew down cash to fund this activity. However, a number of suppliers had not invoiced the Board by 31 March 2006. This therefore contributed to the deficit position on the general fund.

Corporate governance

The 2005-06 statement on internal control prepared by management does not disclose any major weaknesses. The internal auditors have concluded that "internal audit reviews carried out identified no fundamental areas of control weakness in relation to key financial control systems. In addition, we are satisfied that in our opinion, there are no identified control weaknesses which would significantly impact on the achievement of business objectives."

We have not identified any significant control weaknesses in relation to fraud and irregularity, standards of conduct or prevention of corruption.

The action plan in this report includes a number of areas for improvements in financial control. There remains an issue over the timing of notification of revenue resources by the Scottish Executive. The initial revenue resource limit approved by the Scottish Executive increased by 64% during the course of the year (2004-05, 55%). This represents a significant uplift and impacts the ability of the Board to meet financial targets and defray public money effectively.

Performance audit

In response to Audit Scotland's 2005-06 priorities and risks framework we reviewed the Board's systems and controls in place to mitigate key risks. The action plan in this report includes a number of weaknesses. Significant matters requiring management attention include:

- the finalisation of the revenue resource limit with the Scottish Executive at the start of the financial year. We understand that improvements have been made to this process in 2006-07; and
- the Board has yet to develop and implement a formal performance management system to measure the performance of the Board in meeting its strategic objectives.

Our assessment of arrangements to secure best value identified that the Board's arrangements are well developed in six of the ten areas under review. The remaining four areas are under development.

In response to the efficient government agenda, the Board has identified efficiency savings of £970,000 for the three years to 31 March 2008. Whilst management should be able to calculate efficiency savings in these areas relatively easily, there is no formal system in place for measuring inputs against outputs and changes in efficiency ratios. It is expected that such a system will be developed early in 2006-07 and that this will include a formal reporting mechanism to the board.

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Introduction

Background

2005-06 was the final year of our five-year appointment as external auditors of NHS Health Scotland. This report summarises our opinion and conclusions and highlights significant issues arising from our work.

The framework under which we operate under appointment by Audit Scotland is as outlined in our annual plan¹. The scope of the audit was to:

- provide an opinion on, to the extent required by the relevant authorities, the financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Auditing Practices Board;
- review and report on the Board's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, and prevention and detection of corruption; and the Board's financial position; and
- review and report on the Board's arrangements to manage its performance, as they relate to the economy, efficiency and effectiveness in the use of resources.

Priorities and risks

In September 2005, Audit Scotland published the *Priorities and Risks Framework: A National Planning Tool for 2005/06 NHSScotland Audits* ("PRF") setting out nine areas for consideration during the audit. We built on and updated our understanding of the Board's processes and management arrangements in these areas in focusing our audit effort. In addition, our own planning process identified a number of other areas for specific attention:

- failure to meet financial targets;
- non-compliance with legislation and financial regulations;
- the impact of discontinuation of operations related to Scotland Against Drugs ("SAD") on the financial statements; and

- planning considerations relating to relocation and the potential loss of directly employed staff.

Basis of information

External auditors do not act as a substitute for NHS Health Scotland's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff of NHS Health Scotland. Except to the extent necessary for the purposes of the audit, this information has not been independently verified. The contents of this report should not be taken as reflecting the views of KPMG LLP except where explicitly stated as being so.

Acknowledgement

Our audit has continued to bring us into contact with a wide range of NHS Health Scotland staff. We wish to place on record our appreciation of the continued co-operation and assistance extended to us by staff in the discharge of our responsibilities.

It is our intention to minimise the disruption to NHS Health Scotland from a change in auditor through briefing and liaison on unresolved issues with the incoming auditor's staff.

¹ Strategic planning memorandum: 2005-06 annual plan (13 January 2006)

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Introduction

Corporate governance is concerned with structures and processes for decision-making, control and behaviour at the upper levels of the organisation in accordance with the fundamental principles of openness, integrity and accountability. Management is responsible for establishing arrangements for the conduct of its affairs, including compliance with applicable guidance, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. The *Code* requires auditors to review aspects of the corporate governance arrangements as they relate to:

- the board's review of its systems of internal control;
- the prevention and detection of fraud and irregularity;
- standards of conduct, and the prevention and detection of corruption; and
- its financial position.

Systems and controls

As part of our audit, we reviewed the design and operating effectiveness of controls over a number of financial and non-financial systems to assess if they were operating effectively to prevent or detect a material misstatement of the financial statements or had implications for NHS Health Scotland's governance framework.

The revenue resource limit for 2005-06 increased by 64% during the course of the year. This impacts the ability of the organisation to meet its annual financial targets and in 2005-06 resulted in significant activity towards the end of the financial year, contributing to the deficit on the general fund. We do, however, recognise that the board is limited in its ability to finalise the revenue resource limit earlier in the financial year and that improvements have been made to processes in 2006-07.

The outline business case for the organisation's relocation from Edinburgh was submitted to the Scottish Executive in January 2006. To date, while some matters have been clarified in discussions, there has not been a formal response from the Scottish Executive. There is now a significant risk that the initial deadline for relocation of May 2007 will not be met and that preferred options become unavailable.

The board has yet to develop and implement a formal performance management system to measure performance in meeting its strategic objectives, although we understand that senior management are currently investigating possible performance measures and ways in which to monitor and report on performance.

Internal audit

In completing our audit, we sought, where appropriate to rely on the work carried out by the internal auditors². The relevance of internal audit reports and changes to the internal audit plan have been subject to review throughout our audit to maximise the reliance placed on their work.

The internal auditors have concluded that "internal audit reviews carried out identified no fundamental areas of control weakness in relation to the Board's key financial control systems. In addition, we are satisfied that in our opinion, there are no identified control weaknesses which would significantly impact on the achievement of business objectives."

Statement on internal control

As part of the development of corporate governance, public sector bodies are required to make a statement of how they have applied the principles of corporate governance. We are required to review this to assess whether the description of the process adopted in reviewing the effectiveness of the system of internal control appropriately reflects the process.

² Strategic planning memorandum: 2005-06 annual plan (13 January 2006)

Corporate governance (continued)

We are not required to provide an opinion on the systems of internal control, but note that the statement for 2005-06 demonstrates continued progress in strengthening the control environment, including arrangements in relation to risk management.

Fraud and irregularity, standards of conduct, integrity and openness

Work in these areas has been addressed over the duration of our appointment. In relation to fraud, we have had regard to relevant auditing standards when completing our work. Work in relation to standards of conduct etc has included monitoring of NHS Health Scotland's arrangements for adopting and reviewing standing orders and financial instructions, schemes of delegation and compliance with applicable codes of conduct. We have not identified any significant weaknesses in these areas.

Audit committee

Oversight of the internal control and reporting arrangements is provided through the audit committee. The committee is chaired by a non-executive member with a formal accountancy qualification. No other non-executive members of the board have recent, relevant professional financial expertise.

Financial position

The Scottish Executive Health Department sets three financial targets on an annual basis. These, together with actual performance, are summarised in Figure 1. The main reason behind the 2005-06 saving of £127,000 against the revenue resource limit is the decision by the Scottish Executive to incorporate elements of Scotland Against Drugs into the "Scottish Centre for Healthy Working Lives" within NHS Health Scotland. As a result, a number of Scotland Against Drugs initiatives were wound down in the year, resulting in a £71,000 underspend. In prior years, management have deferred Scotland Against Drugs income where funds have not been fully spent. However, since Scotland Against Drugs ceased on 31 March 2006, management have recognised the full Scotland Against Drugs allocation in 2005-06.

The remaining £56,000 saving against the revenue resource limit is primarily due to additional Scottish Executive revenue allocations being made late in the year and management being unable to defray these funds by 31 March.

Figure 1: outturn against financial targets

Target	Achieved	2005-06 results (£'000)	2004-05 outturn (£'000)
Revenue resource limit ("RRL") – expenditure should not exceed the RRL	✓	Target: £19,672 Actual: £19,545 Outturn: £127	£447
Capital resource limit ("CRL") – capital expenditure should not exceed the CRL	✓	Target: £33 Actual: £33 Outturn: £Nil	£33
To remain within the cash limit	✓	Target: £20,000 Actual: £20,000 Outturn: £Nil	£Nil

Source: NHS Health Scotland (June 2006)

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Financial statements

Audit opinion

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Audit completion

An important measure of proper financial control and accountability is the timely closure and publication of audited financial statements. We have summarised in Figure 3 the three key elements of the audit process with which we require the Board to engage.

Figure 3: key elements of the audit process

Completeness of draft financial statements

We received a draft set of financial statements on 30 May 2006 in line with the agreed timetable. A number of disclosures had not been completed for the first draft and a fully completed draft was not provided until 8 June 2006, primarily due to the resource requirements involved in the change in the reporting deadline to 30 June.

Quality of supporting working papers

In accordance with our normal practice, we issued a 'prepared by client' request that set out a number of documents required for our audit of the financial statements. The documentation provided was to a high standard. In future years we would encourage management to cross reference the supporting working papers to the 'prepared by client' list in advance of the audit.

Response to audit queries

We are pleased to note that all audit queries were dealt with in a timely manner.

Financial adjustments

Only one adjustment of £7,000 was agreed during the audit process to reflect the cost of capital on net relevant liabilities. Presentation changes were agreed for operating lease commitments and senior employee banding disclosures. These had no impact on the operating cost statement.

Confirmations and representations

We confirm that as of 30 June 2006, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of audit staff is not impaired. This has been confirmed separately in writing to the audit committee.

In accordance with auditing standards, we obtained representations from the board on material issues prior to signing our opinion.

Significant accounting issues

Relocation

In July 2005, the Scottish Ministers announced that NHS Health Scotland was to relocate to east Glasgow by May 2007. An outline business case summarising possible locations was submitted to the Scottish Executive in January 2006. While there have been requests for clarification on matters, no formal response has been received from the Scottish Executive in relation to the outline business case.

Management has received assurances from the Scottish Executive that costs associated with the relocation will be met by them. No provisions have been established in relation to this decision in the financial statements for the year ended 31 March 2006. Management have performed an impairment review of their tangible fixed asset base in 2005-06 in light of this decision and have determined that the carrying value reflected in the balance sheet is appropriate given the last revaluation at 31 March 2005.

Financial statements (continued)

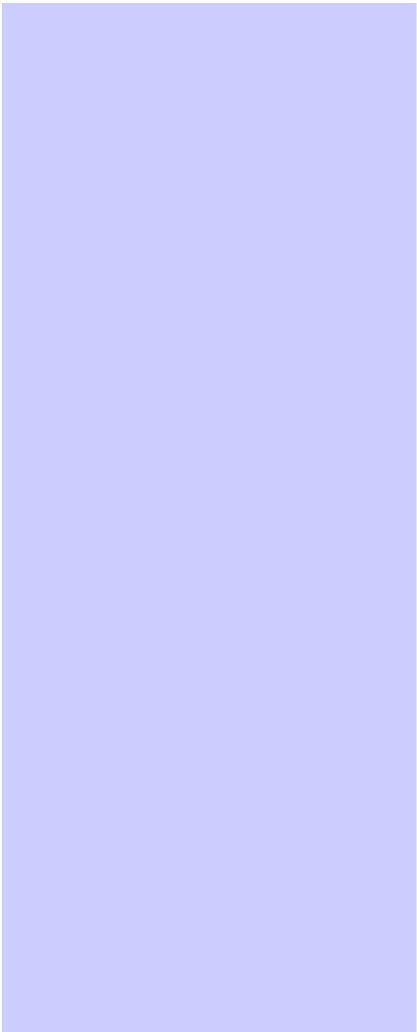
Early retirement costs

An senior employee of the board was awarded early retirement during 2005-06. Management has correctly accrued the full cost of the award (£367,000) in the 2005-06 financial statements. Since management intend to make a one-off capital sum payment to the Scottish Public Pensions Agency during 2006-07 to discharge this liability, the amount has been included within *creditors due within one year* in the balance sheet. Approval for the early retirement was given by the remuneration committee.

Scotland Against Drugs

£1.637 million was received in 2005-06 as allocations specifically intended for Scotland Against Drugs. Scotland Against Drugs expenditure of £1.566 million was incurred in the year, leaving an underspend of £71,000. In prior years any unspent allocations relating to Scotland Against Drugs have been recognised as deferred income. However, during 2005-06, the Board was notified that elements of Scotland Against Drugs would be incorporated within the NHS Health Scotland "Scottish Centre for Healthy Working Lives" satellite unit. Management have therefore recognised Scotland Against Drugs allocations in full in 2005-06, contributing to the saving against the revenue resource limit. These savings will be used to fund "Scottish Centre for Healthy Working Lives" programmes in 2006-07.

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Performance audit

Priorities and risks framework

Audit Scotland's 2005-06 *Priorities and Risks Framework: A National Planning Tool* ("PRF") set out nine areas for consideration during the audit. We built on and updated our understanding of processes and management arrangements in each of the PRF areas considered in prior years. We have also performed a detailed review of management's arrangements over efficient government following the inclusion as a specific area in the 2005-06 PRF. Figure 5 summarises significant areas requiring ongoing attention identified from our work.

Figure 5: significant areas requiring ongoing attention

PRF area	Significant area
Governance	A number of internal written procedures and standing documents have not been updated since the NHS Health Scotland organisational restructuring and many have been rolled forward from the Health Education Board for Scotland. There is a risk that staff are not aware of proper procedures to be followed in key financial areas or that instructions and policies are not always adhered to.
Financial management	The Scottish Executive had not finalised the revenue resource limit for 2004-05 and 2005-06 until very late in the financial year and initial allocations had increased by 55% in 2004-05 and 64% in 2005-06. This impacts the Board's financial planning and results in expenditure budgets being set at the start of the financial year being based on non-recurring allocations.
Performance management	There is no formal performance management system in place to identify areas of poor performance. This impacts the effectiveness of the strategic planning process.
Efficient government	There is no formal system in place for measuring inputs against outputs and changes in efficiency ratios. It is expected that such a system will be developed early in 2006-07 and that this will include a formal reporting mechanism to the board.

PRF area	Significant area
Information management	<p>There is no formal, up-to-date IM&T strategy governing the information management systems. Given the recent restructuring and increase in staff numbers and the expansion into new rented accommodation, it is important that there are strategies in place to drive the board's information management arrangements. The pending relocation will also necessitate clear strategies in relation to information management.</p> <p>The existing "major incident plan" is not tested on a routine basis to ensure that it is effective and up to date. This impacts the effectiveness of the disaster recovery procedures and may lead to information loss in the event of a disaster affecting the information systems.</p>

Best value

We performed a baseline review of the Board's arrangements to secure best value and continuous improvement and reported the results to Audit Scotland in May 2006. Arrangements were assessed as well developed in six of the ten areas under review, with the remaining four areas being under development. Figure 6 provides our assessment and summarises the current position and areas for development.

Figure 6: best value arrangements

Securing best value (well developed)
There are good existing corporate governance arrangements to secure best value, represented by a four year corporate plan, a business plan and a financial plan. NHS Health Scotland builds its activities around the Scottish Executive's health improvement policies. The corporate plan outlines the overall goals of the organisation. The business plan is updated annually to reflect the organisation's changing priorities. The continuous improvement framework is defined through its organisational strategies and plans.

Performance audit (continued)

Figure 6: best value arrangements (continued)

<p>Commitment and leadership (well developed)</p>	<ul style="list-style-type: none"> • annual appraisal system to assess staff performance against individual goals and objectives; • procurement practices are based on a cost effective process adopting a best value for money concept; and • identification and dealing with performance issues through the annual staff appraisal process.
<p>The corporate plan states the purpose, the goals, and the aim of the organisation. The goals set are in line with the primary purpose of the organisation. Also included in the corporate plan are the how the goals will be achieved. A strategy map was developed in consultation with senior management. This outlines the purpose and values of the organisation and what is needed to achieve success. The organisational development team held workshops with the senior management group and discussed the strategy map and the vision for the organisation. There are also regular staff away days and the board has recently held meetings in a number of locations across Scotland with a view to encouraging interaction with key stakeholders and members of the public.</p>	<p>Responsiveness and consultation (well developed)</p> <p>The board demonstrates a commitment to responsiveness and consultation with stakeholders through:</p> <ul style="list-style-type: none"> • regular visits to health boards by board members; • publication of annual report on the NHS Health Scotland website; • holding meetings with SEHD representatives to discuss key issues including how CHPs can work for NHS Health Scotland; • regular briefings to external stakeholders and press organisations on activities; and • the preparation of a communication strategy plan, concentrating on strategies on improving communication both internally and externally.
<p>Sound governance at strategic and operational levels (under development)</p> <p>The board develops key priorities and deliverables in key topic areas for health improvement. Resources are then allocated to the key priorities. Commitment to continuous improvement is demonstrated by aligning business plans and targets with resources. Development of a formal performance measurement framework that will assist in measuring performance against established key priorities and targets is in progress.</p>	<p>Use of review and options appraisal (under development)</p> <p>The effectiveness of policy development is ensured through:</p> <ul style="list-style-type: none"> • holding meetings with local authorities, health boards and the Scottish Executive to review the priorities identified in the strategic planning process. This allows stakeholders to voice their views on the priorities and provide feedback before the plan is finalised. The local authorities and health boards can provide feedback on whether the priorities address their needs; and • holding board meetings around Scotland to liaise with representatives from health boards and local authorities, sharing best practice. Feedback is obtained on services provided. <p>NHS Health Scotland is also in the process of developing a formal performance measurement framework that will assist in measuring performance against established key priorities and targets.</p>
<p>Accountability (well developed)</p>	
<p>The board's commitment to stakeholder involvement and stakeholder accessibility to information is demonstrated through publishing the annual report on the intranet and external websites, submitting the corporate plan to certain stakeholders for review, publishing the corporate plan on the internet, and publishing results of the annual review conducted by the Scottish Executive.</p>	
<p>Sound management of resources and contractual arrangements (well developed)</p> <p>The commitment to sound management of resources provides a framework for ensuring best use of resources, including:</p> <ul style="list-style-type: none"> • development of a finance and resources plan; • preparation of financial reports and monitoring of budget against actual performance with each budget holder responsible for monitoring budgets monthly; 	

Performance audit (continued)

Figure 6: best value arrangements (continued)

A contribution to sustainable development (under development)
<p>The current business plan includes priorities to promote healthy environments through:</p> <ul style="list-style-type: none">• support for the SEHD strategic framework for environment and health;• support for the production of guidance on health impact assessment on “greenspace”;• co-ordination of the healthy environment network which brings together organisations and professional groups with the ability to influence the environment to improve health; and• work with partner organisations on guidance and evidence on the role of the environment as an influence on health improvement. <p>In addition, management are in the process of developing an environmental policy to be implemented during 2006-07.</p>
Equal opportunities developments (well developed)
<p>There is an equal opportunity statement as part of the human resources manual and this includes the equal opportunities requirements. The annual report also includes information on diversity, ethnicity, disability and the organisation’s commitment to ensuring equality in the workplace and future priorities related to equal opportunity. A workforce monitoring statistics report was also published in October 2005, which included diversity, ethnicity, disability, and gender statistics. One of the priority programmes in the business plan is improving health inequalities with key objectives and the National Resource Centre for Ethnic Minority Health (NRCEMH) is concerned with equal opportunity and minority groups. This is part of NHS Health Scotland.</p>
Joint working (under development)
<p>NHS Health Scotland is committed to working with partnership organisations such as health boards, Scottish Executive, local authorities, and other organisations in Scotland as evidenced by the corporate and business plan. A programme manager was also employed during 2005-06 to work with local authorities to help improve relationships and identify areas where working together will benefit both parties. However, there is currently no formal appraisal process in place to measure the effectiveness of partnership working.</p>

We plan to issue a report in August 2006 based on comparative information from NHS boards and other Scottish public sector organisations to be published by Audit Scotland.

Efficient government

In line with Audit Scotland requirements, and with the assistance of board staff, we completed the *efficient government – management arrangements diagnostic*, which was submitted to Audit Scotland on 31 March 2006. The diagnostic we returned was based on management’s estimates of efficiency savings at that time totalling £739,000. Since then, management have identified further efficiency savings relating to rented accommodation and staff costs with revised estimates of £970,000 for the three years to 31 March 2008.

Most of these efficiency savings relate to the use of rented accommodation and rationalisation of senior management staffing arrangements. Whilst these should be relatively straightforward to calculate and report, we would recommend that a formal system of management reporting and review is established to ensure that efficiency savings targets are met and accurately reported.

In response to the efficient government agenda, the board has allocated responsibility for identifying and monitoring efficiency savings to members of the senior management team.

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Appendix I – action plan

This appendix summarises the performance improvement observations we have identified during the financial statements audit. Each of our observations has been allocated a risk rating, which is explained below.

	<p>Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weakness may therefore give rise to loss or error.</p>		<p>Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.</p>		<p>Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.</p>
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Issue, risk and priority	Recommendation and benefit	Management response	Responsible officer and implementation timetable	
1	<p>Revenue resource limit</p> <p>In our 2004-05 annual audit report we noted that the initial revenue resource allocation provided by the Scottish Executive had increased by 55% in the year. During 2005-06, the revenue resource limit again increased considerably - by 64%.</p> <p>This leads to financial uncertainty and impacts management's financial planning arrangements. There is also a risk that commitments are made to third parties based on assumed revenue funding, which has not yet been formally agreed.</p>	<p>Whilst we recognise that the board is limited in its ability to finalise the revenue resource limit early in the financial year, we would again recommend that management takes steps to finalise funding arrangements at the start of the year.</p> <p>It appears that improvements have already been made in 2006-07 in this respect.</p>	<p>The 2006-07 improvements referred to are reflected in the Board's second allocation letter (dated 6 June 2006) which announced an uplift in the revenue resource limit from the initial allocation of £12.608m to £18.082m. As further Scottish Executive funding of £3.788m is expected for 2006-07, early confirmation is being sought.</p>	<p>Director of Resource Management / Head of Policy & Planning</p> <p>Ongoing</p>

Appendix I – action plan (continued)

Issue, risk and priority	Recommendation and benefit	Management response	Responsible officer and implementation timetable
<p>2</p> <p>Performance management</p> <p>The board has still to implement a formal performance management system to measure the performance in meeting its strategic objectives.</p> <p>Best practice would suggest that performance measures are established against which the performance of NHS Health Scotland can be measured in order to ensure the continued improvement of the Board's performance.</p>	<p>We would recommend that management implement plans to create a formal performance management system. This should include the creation of key performance indicators and measures, supported by a clear governance structure outlining roles and responsibilities. Performance should then be reported to the board on a regular basis.</p>	<p>Plans to create a formal performance management system are being implemented.</p>	<p>Chief Executive 31 December 2006</p>
<p>3</p> <p>Relocation</p> <p>The outline business case for relocation was submitted to the Scottish Executive in January 2006. To date, there has been no formal response. There is now a significant risk that the initial deadline of May 2007 will not be met and that the preferred options become unavailable.</p>	<p>We recognise that management are limited in their ability to finalise the outline business case in order to proceed to a full business case. However, we would recommend that steps are taken to ensure the relocation process is progressed as soon as possible in order that deadlines can be met and preferred options achieved.</p>	<p>Timetable slippage is now inevitable as development of the full business case cannot be fully progressed without a formal response from the Scottish Executive to the outline business case. This matter has been brought to the attention of the Scottish Executive and a response is awaited.</p>	<p>Chief Executive / Director of Resource Management Ongoing</p>

Appendix I – action plan (continued)

Issue, risk and priority	Recommendation and benefit	Management response	Responsible officer and implementation timetable
<p>4</p> <p>Efficiency savings</p> <p>Good practice is demonstrated by identifying a number of efficiency savings to be achieved in future years. However, there is no formal system of monitoring and management review and reporting in place to ensure that these targets are met.</p>	<p>It is recommended that management clarify roles and responsibilities in relation to the monitoring, reporting and achievement of efficiency savings targets. This will ensure that targets are achieved as planned, within agreed timescales.</p>	<p>Efficiency savings are monitored and reviewed, and reported to the Scottish Executive via monthly monitoring returns. In 2006-07 progress in achieving efficiency savings will be reported to the Board and the Audit Committee, by way of the financial performance reporting process.</p>	<p>Director of Resource Management</p> <p>31 July 2006</p>
<p>5</p> <p>Written procedures / standing documentation</p> <p>The board has rolled forward a number of internal written procedures and items of standing documentation from the Health Education Board for Scotland (one of its predecessor bodies). Some items of standing documentation have also not been updated to reflect the recent changes to the organisational structure. A risk therefore exists that staff are not aware of proper procedures to be followed in key financial processes, that policies are not always followed or that there is information loss in the event of key personnel leaving.</p>	<p>Management should perform a detailed review of all internal standing documentation, including standing financial instructions and written procedural instructions. Where documents are found to be out of date, steps should be taken to revise these documents accordingly.</p>	<p>In response to a recommendation from the internal auditor on a similar theme, the Audit Committee has agreed that the internal audit work plan for 2006-07 will include reviews of policies/procedures relating to IT security, fraud and corruption, standing orders, standing financial instructions, and implementation of Scottish Executive guidance.</p>	<p>Director of Resource Management</p> <p>31 January 2007</p>

Appendix I – action plan (continued)

Issue, risk and priority	Recommendation and benefit	Management response	Responsible officer and implementation timetable
<p>6</p> <p>IM&T strategy</p> <p>There is no up to date IM&T strategy governing its information management systems. There is a risk that, given the rapid increase in staff numbers, the expansion to new office sites and the planned relocation, information management decisions are not properly informed or co-ordinated.</p>	<p>Recent developments require a formal IM&T strategy to be established as a matter of priority to ensure that appropriate actions are taken in relation to information management.</p>	<p>A formal IM&T strategy will be established as a matter of priority.</p>	<p>IT Manager</p> <p>31 December 2006</p>
<p>7</p> <p>Major incident plan</p> <p>The “major incident plan” is not tested on a regular basis. A risk therefore exists that there is information loss in the event of a significant disaster affecting the information systems.</p>	<p>We would recommend that the “major incident plan” is tested on at least an annual basis to ensure that it remains effective in protecting NHS Health Scotland from information loss in the event of a significant disaster affecting the information management systems.</p>	<p>The major incident plan will be tested on an annual basis.</p>	<p>IT Manager</p> <p>31 December 2006</p>
<p>8</p> <p>Control account reconciliations</p> <p>As a result of time pressures on management, a number of key internal reconciliations had not been reviewed, on regular basis, by a secondary senior officer during the course of the year. We recognise that a retrospective check was undertaken at the end of the year to ensure that the reconciliations had been performed appropriately. However, there is a risk that errors or discrepancies are not identified and followed up in a timely manner.</p>	<p>All key internal reconciliations should be reviewed, signed and dated by a secondary senior officer soon after the reconciliation has been prepared. This ensures that reconciliations are being performed appropriately and that any matters arising are identified and investigated promptly.</p>	<p>This recommendation will be implemented and reviews will be carried out on a quarterly basis.</p>	<p>Director of Resource Management</p> <p>31 July 2006</p>

Appendix I – action plan (continued)

Issue, risk and priority	Recommendation and benefit	Management response	Responsible officer and implementation timetable
<p>9 Stock take controls</p> <p>Monthly stock takes performed by staff are not currently being formally documented and there is no formal rationale for samples to be selected for counting.</p>	<p>In order that stock take controls operate effectively throughout the year, we would recommend that a formal mechanism is established to select samples to be selected for counting. This process should also be formally documented.</p>	<p>This recommendation will be implemented.</p>	<p>Finance Manager/Head of Marketing</p> <p>31 July 2006</p>