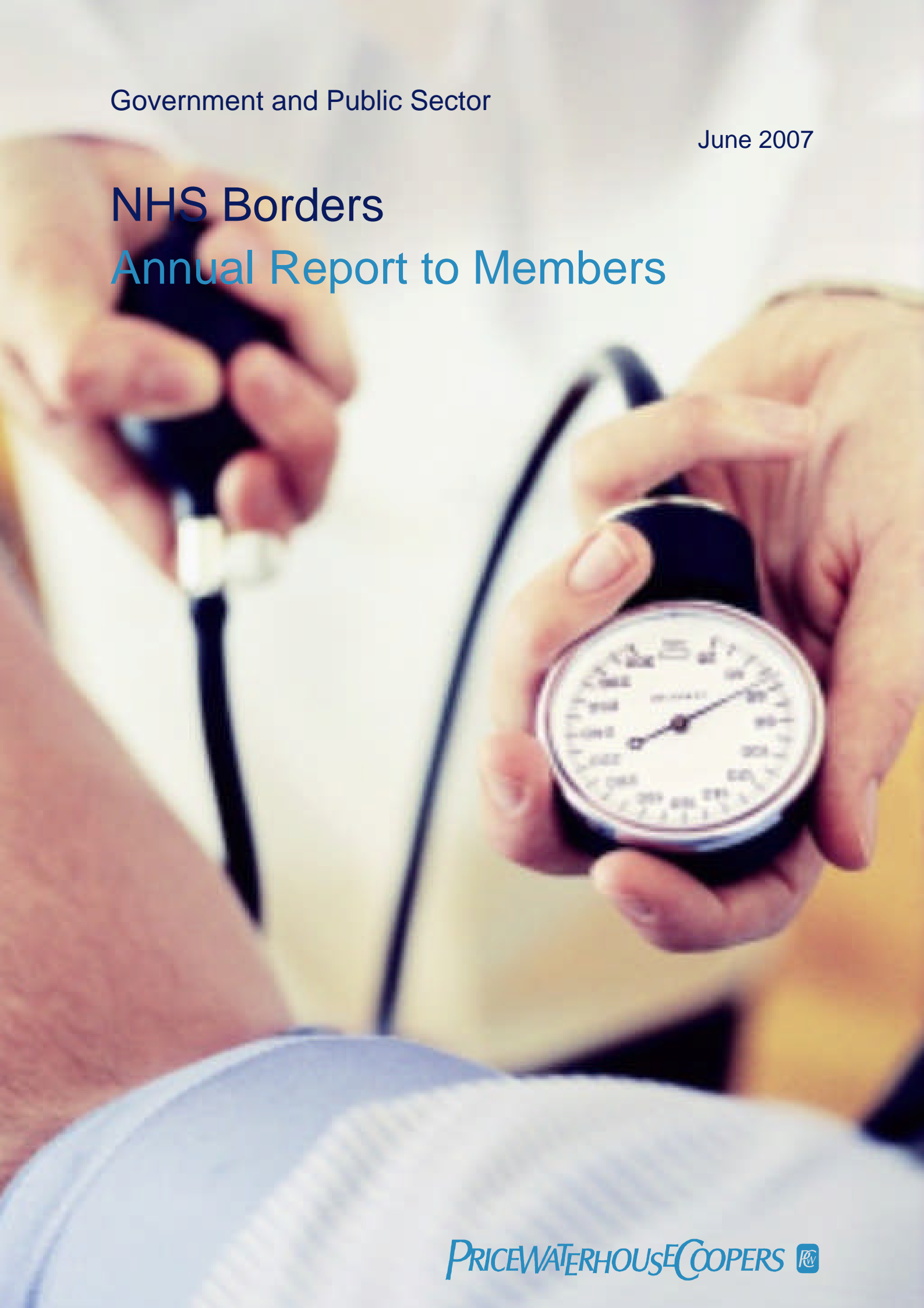


Government and Public Sector

June 2007

NHS Borders Annual Report to Members



Contents

Section	Page
1. Executive Summary.....	1
2. Introduction.....	4
3. Independent Auditors' Report and Key Financial Targets.....	6
4. Financial Performance 2006/07	7
5. Forecast Financial Position for 2007/08.....	10
6. The Audit Process and Accounting Issues.....	13
7. Systems of Internal Control	16
8. Governance Arrangements	19
9. Prevention and Detection of Fraud and Irregularities.....	23
10. Other Business Matters	25
Appendix 1: Action Plan	31
Appendix 2: Responsibilities of External Audit and the Board and its Management	35
Appendix 3: Audit Opinion.....	38
Appendix 4: Other Formal Reports Submitted During the 2006/07 Process	41

The Members of the Board
NHS Borders
Newstead
Melrose
ROXBURGHSHIRE
TD6 9DB

The Auditor General for Scotland
Audit Scotland
110 George Street
EDINBURGH
EH2 4LH

28 June 2007

Our ref: CDR/HB/JA

Ladies and Gentlemen

Annual Report to Board Members 2006/07

We have completed our audit of NHS Borders and its financial statements for the year ended 31 March 2007.

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2006/07 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

PricewaterhouseCoopers LLP

1. Executive Summary



Our Audit Opinion

- 1.01 Our audit opinion concerns both the true and fair statement of NHS Borders' ("the Board's") financial results for the year ended 31 March 2007 (2006/07) and the regularity of its income and expenditure in the year.
- 1.02 We are pleased to report that our opinion on the true and fair view on the financial statements is unqualified.
- 1.03 Our regularity opinion on income and expenditure is also unqualified.
- 1.04 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is unqualified. Our audit opinion does not extend to any other part of the Directors' Report.

Financial Targets and Performance

- 1.05 The Board's performance against its three financial targets was as follows:

Financial Targets	Achievement
Revenue Resource Limit ("RRL")	The Board spent £163.0 million against its RRL of £166.0 million, resulting in a surplus of £3.0 million.
Capital Resource Limit ("CRL")	Total capital spend was £3.1 million against a CRL of £3.1 million.
Cash Requirement Target	The Board spend during 2006/07 was £158.8 million; remaining within the cash requirement target of £158.8 million.

- 1.06 The Board achieved a £3.0 million surplus for the year, compared to the predicted break-even position reported in the financial plan at the beginning of the year. It should be noted that the Board carried forward £3.3 million of funding from 2005/06 and so in-year expenditure was £0.3 million in excess of the in-year allocation.
- 1.07 The factors contributing to the in-year surplus are discussed in section 4.
- 1.08 The Board is projecting a recurring balance in 2007/08, with a predicted surplus for the financial year of £1.3 million. This is dependent on careful management of recurring and non-recurring income and expenditure and the achievement of a corporate savings programme of £1.8 million.

1.09 Further detail about planned performance in 2007/08 is given in Section 5 of this report.

The Audit Process and Accounting Issues

1.10 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by management were of a good standard.

1.11 We are required to report any unadjusted errors to those charged with governance. All adjustments identified from the audit process have been agreed and adjusted by management. Further detail is given in Section 6.

Systems of Internal Control

1.12 The Code of Audit Practice requires us to review and report on the Statement of Internal Control given in the accounts. Based on our normal audit procedures, we do not disagree with the disclosures contained within the Statement of Internal Control.

1.13 Details of control matters noted during the course of our audit are set out in Section 7.

Governance Arrangements

1.14 A summary of the work we have performed in the year in relation to the Board's Governance arrangements is set out in Section 8.

1.15 There were no significant areas for improvement arising from our work, although we have made one recommendation to develop procedures to update the strategic risk register, linking it with departmental risk registers.

Prevention and detection of fraud and irregularities

1.16 Our work on the prevention and detection of fraud and irregularities included:

- review of the Board's overall arrangements for the prevention and detection of fraud and corruption;
- consideration of the Board's arrangements in respect of the National Fraud Initiative (NFI);
- review of fraud guidance issued by Audit Scotland and the Scottish Executive Health Department (SEHD); and
- submission of an annual fraud return to Audit Scotland.

1.17 Further details of all of these matters are set out in Section 9, along with one recommendation to formalise NFI arrangements within the Board.

Other Business Matters

- 1.18 As part of our audit, we have obtained and documented certain information relating to the Board in a number of areas including business risks, the Quality and Outcomes Framework (QOF); and NHS Tariffs.
- 1.19 A summary of this work is set out in Section 10, along with a number of recommendations for further action.

2. Introduction



- 2.01 Our overall responsibility as external auditor of NHS Borders is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007.
- 2.02 In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources.
- 2.03 It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving not only the “appointed auditor”, but also the Auditor General for Scotland and other auditors such as Audit Scotland’s Health Performance and Public Reporting Group.
- 2.04 Our audit has been planned and conducted to take account of these wider perspectives.
- 2.05 NHS Borders and the Accountable Officer are, together with other matters, responsible for:
- Ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
 - Maintaining proper accounting records; and
 - Preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the Financial Reporting Manual.
- 2.06 In this regard, we are responsible for issuing an audit report (opinion) on:
- Whether the financial statements give a true and fair view of the financial position and expenditure and income;
 - Whether the financial statements have been properly prepared in accordance with relevant legislation, accounting standards and other reporting requirements; and
 - The regularity of expenditure and income.
- 2.07 Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260: “*Communication of audit matters to those charged with governance*”, we are required to communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity.

2.08 This Annual Report to Members summarises key aspects of our work throughout the audit year, highlighting any matters which we believe should be brought to your attention. Therefore this Report, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.

Acknowledgements

2.09 We would like to thank all NHS Borders managers and staff involved for their assistance throughout the audit process.

3. Independent Auditors' Report and Key Financial Targets

Our Audit Opinion

- 3.01 Our audit opinion concerns both the true and fair statement of NHS Borders' ("the Board's") financial results for the year ended 31 March 2007 (2006/07) and the regularity of its income and expenditure in the year.
- 3.02 We are pleased to report that our opinion on the true and fair view on the financial statements is unqualified.
- 3.03 Our regularity opinion on income and expenditure is also unqualified.
- 3.04 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is unqualified.
- 3.05 Our opinion is set out in full in **Appendix 3**.

Financial Targets

- 3.06 The Board's performance against its three financial targets were as follows:

Financial Targets	Achievement
Revenue Resource Limit ("RRL")	The Board spent £163.0 million against its RRL of £166.0 million, resulting in a surplus of £3.0million.
Capital Resource Limit ("CRL")	Total capital spend was £3.1 million against a CRL of £3.1 million.
Cash Requirement Target	The Board spent £158.8 million during 2006/07, thus complying with the cash requirement target of £158.8 million.

- 3.07 The actual out-turn for the year was a surplus of £3.0 million. It should be noted that the Board carried forward funding from 2005/06 of £3.3 million, and so expenditure incurred during the year was £0.3 million in excess of the in year allocation.

PFI/PPP contracts

- 3.08 The Board does not have any PFI/PPP arrangements in place at present, and does not at this stage anticipate their use in future periods. As a result, it has not been necessary for us to provide any specific views on the accounting treatment for such projects.

4. Financial Performance 2006/07



- 4.01 NHS Borders is responsible for conducting its affairs and for putting in place proper arrangements to ensure that its financial position is soundly based.
- 4.02 The Board reported a surplus of £3 million, resulting in a carry forward of this surplus into 2007/08. As the carry forward was greater than 1% of the Revenue Resource Limit, the Board has written to the Scottish Executive to obtain formal approval for this action.

Financial Performance in the Year

- 4.03 It is emphasised that we do not express a specific audit opinion on the figures on the following pages – these have been extracted in agreement with management from various reports, supporting papers and detailed discussions with management.
- 4.04 The table on the next page sets out the Board's financial position for 2006/07, split between recurring and non-recurring income and expenditure.

<u>The Board's Overall Financial Out-turn Reported for 2006/07</u>	£'m	£'m
	Actual	Actual
Recurring income	181.3	
Recurring expenditure	<u>(183.4)</u>	
Recurring Difference		(2.1)
Corporate savings programme		<u>3.1</u>
		1.0
Non-recurring income	7.4	
Non-recurring expenditure	<u>(5.4)</u>	
Non-recurring Difference		<u>2.0</u>
Other income sources	0	
Non-recurring SEHD income/year-end support	<u>0</u>	
Surplus for 2006/07		<u>3.0</u>

Confirmed by NHS Board Director of Finance: Robert Kemp

Performance against Plan

- 4.05 Before taking account of corporate savings achieved in the year, recurring expenditure exceeded recurring income by £2.1 million. However, when the effect of the recurring element of the savings achieved through the Corporate Savings Plan (£1.6 million of the £3.1 million) is taken into account, the recurring difference is reduced to £0.5 million.
- 4.06 The Board approved its five year financial plan at its meeting in March 2006; this forecast a break-even position for the 2006/07 financial year. The break-even position took into account anticipated cost pressures, such as Agenda for Change, increased energy and drugs costs, as well as additional spending that was required to ensure compliance with the national waiting times targets.
- 4.07 A broad reconciliation of the budgeted breakeven position (March 2006) to the outturn surplus of £3.0 million (31 March 2007) is as follows:

	£'000	£'000
Projected Break Even (March 2006)		0
Additional cost pressures experienced over budget (para. 4.09)		<u>0.6</u> (0.6)
Additional cost savings in detailed budgets originally set (para. 4.10 to 4.12)		1.9
Additional non recurring income (para. 4.13)		0.6
Additional corporate savings (para. 4.14 to 4.17)		
- actual	3.1	
- original budget	<u>2.0</u>	
		<u>1.1</u>
Actual surplus (March 2007)		<u>3.0</u>

- 4.08 These movements are explained further in the paragraphs which follow.

Additional cost pressures (£0.6 million)

- 4.09 NHS Borders relies heavily on other health boards, especially NHS Lothian, for the provision of certain specialist services. Increased activity during the year, along with an increase in costs arising from the continued implementation of national tariffs, led to a greater spend than anticipated on these services during the year.

Action Point 1

Additional cost savings within detailed budgets (£1.9 million)

- 4.10 This arose from a new Pharmacy contract resulting in cheaper prices than previously available and the uptake of new, more expensive drugs being slower than originally anticipated. These factors combined to generate a cost of drugs underspend of £0.5 million.
- 4.11 Additionally a review of the Board's procedures leading to greater use of bank staff resulted in an underspend in agency costs of £0.5 million.
- 4.12 Finally actual agenda for change costs were £0.6 million less than estimated.

Additional non recurring income (£0.6 million)

- 4.13 The Board sold three areas of land and buildings at Dingleton, West Port and Hawick. The sales were finalised at the end of the financial year, leading to a gains on sale of assets to be recognised in the financial statements. Gains were higher than had been planned for in the original budget.

Corporate Savings Programme (£1.1 million additional savings achieved)

- 4.14 The Board achieved savings of £3.1million in 2006/07. This was against planned savings of £2.0million, split between recurring and non-recurring, as show below:
- Recurring: £1.6 million against a plan of £1.1 million
 - Non-recurring: £1.5 million against a plan of £0.9 million
- 4.15 The additional recurring savings were principally achieved through the earlier than anticipated closure of community hospitals at Jedburgh and Coldstream (additional £0.5 million savings).
- 4.16 Other savings were in part achieved through the Board's Clinical Boards, although a proportion of these were achieved on a non recurring rather than, as planned, on a recurring basis and through a number of unplanned savings opportunities concerning national tariffs, VAT and cross boundary income from England.
- 4.17 Recurring Clinical Board savings were however behind target by around £0.55 million and this target shortfall has been carried forward to 2007/08.

Action Point 2

5. Forecast Financial Position for 2007/08



5.01 For the purposes of this report, the projected position of the Board for 2007/08 has been summarised in the table below.

5.02 The table identifies that after corporate savings the Board plans to return a surplus of £0.2 million. When the difference between non-recurring income and expenditure is included this increases to a projected surplus for 2007/08 of £1.3 million.

<u>Forecast Position for 2007/08</u>	£'m Forecast	£'m Forecast
Recurring income	192.2	
Recurring expenditure	<u>(193.8)</u>	
Recurring Difference		(1.6)
Corporate savings programme		<u>1.8</u>
		0.2
Non-recurring income	6.1	
Non-recurring expenditure	<u>(5.0)</u>	
Non-recurring Difference		1.1
Other income sources	0.0	
Non-recurring SEHD income/year-end support	<u>0.0</u>	
		0.0
Surplus for 2007/08		<u>1.3</u>

Confirmed by NHS Board Director of Finance: Robert Kemp.

5.03 In considering this forecast position, a number of factors need to be recognised, as noted in the following paragraphs.

2007/08 Income

- 5.04 The growth in recurring funding for 2007/08 has been confirmed at 6%. However, it is anticipated that this level of annual increase in recurring funding will decrease from 2008/09. The Board has adjusted its financial plans to reflect this and, as a result, it will have to set further challenging savings targets to continue to return a surplus.

Action Point 3

Cost Pressures

- 5.05 NHS Borders has identified a number of financial risks, which have been incorporated into the forecast financial position.

Agenda for Change

- 5.06 The work completed to date in respect of Agenda for Change indicates that there will be significant additional ongoing costs relating to the increments to be paid to staff. The Board's low staff turnover rate means that many staff had already reached the top of their previous pay scale. A significant number of these staff have now moved onto an Agenda for Change pay scale that entitles them to receive increments in coming years.
- 5.07 For 2007/08, the recurring impact of these additional incremental payments has been estimated at £1.1 million. The Board has estimated the cumulative effect over 5 years to be £3.1 million.
- 5.08 Additionally, non-recurring costs of £500,000 to complete the implementation of Agenda for Change and the Knowledge and Skills Framework have been incorporated into the financial plan. An allowance of £250,000 in 2007/08 has also been made to cover the cost of staff entitled to protected pay after assimilation onto Agenda for Change pay scales.
- 5.09 A further uncertainty remains in respect of payment for unsocial hours, for which no agreement has yet been reached.

Modernising Medical Careers (MMC)

- 5.10 The impact of the forthcoming changes to postgraduate medical education for doctors was assessed in a report to the Board in June 2007. The implementation of MMC has a clear impact on the Board's service delivery and could impact on the Board's targets for waiting times. The projected financial impact of MMC has been estimated at £300,000 over the next two years.

Drug Prices

- 5.11 While the cost of drugs in 2006/07 was lower than anticipated, this remains a key risk area for the Board, particularly because the pricing and volumes utilised are largely outwith the Board's control. The costs of new drugs on the market can have a significant impact on the Board's financial position, depending on the extent of their uptake. Additional recurring funding of approximately £1.2 million has been included within the 2007/08 financial plan.

Functionally ill Elderly Service

- 5.12 An independent assessment of the Functionally ill Elderly Service, provided at Huntlyburn, is currently ongoing. It is expected that the review will lead to some additional expenditure; however it is not clear at this stage whether this will be capital or revenue in nature. As a result, the outcome of the review could have a significant impact on the Board's financial performance, which may impact on the timing of other planned capital and revenue investments.

Action Point 4

Corporate Savings Programme (£1.8 million)

- 5.13 The corporate savings programme includes the full year effects of both the Getting Fit for the Future hospital closures (£850,000) and the additional income to be received from Northumberland NHS Care Trust (£450,000).
- 5.14 A further £550,000 is to be made through efficiency savings identified by the Clinical Boards.
- 5.15 The Clinical Boards are to report to the Board in August 2007 on the plans in place to achieve their savings targets for the financial year. It is important that progress in achieving the savings target is kept under regular review.

Action Point 2

6. The Audit Process and Accounting Issues



Audit Process

- 6.01 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by management were of a good standard. Overall, we believe an efficient audit process was achieved and an effective working relationship exists with your staff.

Preparation of Financial Statements

- 6.02 The Financial Statements were prepared in accordance with the accounting requirements contained in the NHS Accounts Manual for Annual Report and Accounts of Unified NHS Boards, and supplementary guidance, as issued by the Scottish Executive Health Department (SEHD) and approved by the Scottish Ministers.
- 6.03 These financial statements have been prepared under the accounting policies set out within them.

Financial Statements Approval

- 6.04 The Financial Statements were submitted to the Board's Audit Committee on the 22 June 2007 and approved and adopted at the Board meeting on 28 June 2007.

Accounting Issues

- 6.05 We noted several accounting issues during the course of our audit of the financial statements and the following are brought to your attention.

Discount rate for provisions

- 6.06 The pension and injury benefits provisions included within the financial statements are discounted because the period in which the outflow of cash is expected to occur is some years in the future. The value of money will change materially in that period of time and applying a discount rate accounts for that change. The discount rate prescribed by HM Treasury for 2006/07 was 2.2%, compared to 2.8% in 2005/06.
- 6.07 Guidance issued during the year by the Scottish Executive Health Department (SEHD) led to some inconsistency in the application of the new discount rate across Scottish Health Boards. As a result NHS Borders, in common with certain other Health Boards, continued to use the previous discount rate of 2.8%.

- 6.08 Further advice was issued by both the Scottish Executive and Audit Scotland. Although the Scottish Executive stated that it is willing to accept a Board's use of the 2.8% rate, Audit Scotland's guidance is that the 2006/07 rate of 2.2% should be used. The use of any other rate should be viewed as an unadjusted error.
- 6.09 NHS Borders has adjusted its provision to reflect the 2.2% discount rate to comply with the guidance issued by Audit Scotland.

Release from revaluation reserve

- 6.10 The Capital Accounting Manual states that bodies should "release an amount from the revaluation reserve to the General Fund in respect of excess depreciation over historic cost" for revalued assets.
- 6.11 In previous years, the Board has not followed this requirement, with a release from the revaluation reserve only processed on the disposal of a revalued fixed asset. Furthermore, the information recorded in the fixed asset register is such that the system cannot calculate the value of excess depreciation over historic cost for land and buildings subject to a formal revaluation in 2004/05.
- 6.12 After discussions with management, it was agreed the policy would be reviewed and a suitable release for the current year calculated.
- 6.13 We agreed with management that, for 2006/07, it would be acceptable to calculate the full amount to be released from the revaluation reserve for only land and buildings disposed of during the year. A further release in respect of the charge for the year was calculated for all assets.
- 6.14 However, Management should undertake a comprehensive review of the fixed asset register during 2007/08 to allocate the revaluation reserve across the remaining assets so that a full release from the revaluation reserve can be processed on an annual basis in future.

Action Point 5

Grouped assets

- 6.15 As reported in our 2006/07 Internal Controls Report, there has been ongoing discussion with Management in respect of the Board's accounting policy for capitalising grouped fixed assets.
- 6.16 From our final audit review of the grouped assets capitalised, no issues were noted in respect of the accounting treatment of these items.

Clinical Negligence Provisions / Contingent Liabilities

- 6.17 During our interim audit visit, we noted that in prior years, the Board's treatment of Category 2 and Category 1 clinical negligence claims was not consistent with guidance issued by Audit Scotland or practice at other Health Boards.
- 6.18 Audit Scotland guidance states that the Board should, on a case by case basis, take a view as to whether or not to provide for category 2

claims, and to disclose all claims, including category 1 claims, where there is no provision in the financial statements, as contingent liabilities.

- 6.19 We are pleased to report that following our discussions with management, the accounting treatment for clinical negligence claims is now in line with the Audit Scotland guidance.

Misstatements and Significant Audit Adjustments

- 6.20 Misstatements represent audit findings for which we do not agree with the amount, classification, presentation or disclosure of items in the financial statements. A misstatement may arise from an error, fraud or other irregularity. An error refers to an unintentional misstatement in financial statements, including an omission of amount or error.
- 6.21 In conducting our procedures, we may identify misstatements that require adjustments to the recorded amounts. These audit adjustments are discussed with management who, in consultation with us, determine if an adjustment should be recorded. Our expectation is that all non trivial differences are adjusted.
- 6.22 As a result of our work to date, we proposed a number of audit adjustments. We are pleased to report that all of these adjustments have been processed by management.

7. Systems of Internal Control



Statement on Internal Control

- 7.01 The Code of Audit Practice requires us to review and report on the Statement of Internal Control given under the relevant code before its publication.
- 7.02 The Board has used the correct format for their statement as prescribed in the Manual of Accounts and has outlined the processes designed to identify and evaluate risks. In addition, key elements of the Board's control framework have been highlighted including the work of the Risk Management Board, internal audit, the various governance committees, and the performance and financial reporting to the Board.
- 7.03 The Statement also outlines areas where the Board plans to improve internal control. These include the development of an internal and external communications strategy, development of an information system in relation to monitoring of Working Time Regulations, monitoring of the strategic risk register and strengthening of the planning and management of major capital schemes.
- 7.04 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Follow Up Report on previous control matters raised for action

- 7.05 We followed up the Board's progress in implementing recommendations made by the previous external auditors. Our Follow Up report was considered at the Audit Committee meeting in March 2007.
- 7.06 Of the 28 agreed recommendations made in the reports issued in 2005/06 progress was reported as follows:

Status	Annual Report to Members 2005/06	Interim Management Report 2005/06	Total
Action Implemented	6	4	10
Action in Progress	9	8	17
Limited/Little Progress to Date	-	1	1
Total	15	13	28

- 7.07 The one recommendation where little action had been taken relates to the updating of the authorised signatory listing in payroll. The heavy resource requirements of Agenda for Change meant that it was not possible to place any focus on updating the authorised signatory list. Management agreed with our recommendation and planned for action to be taken by April 2007.

Financial Systems and our 2006/07 Internal Controls Report

- 7.08 Our Internal Controls Report was presented to the Audit Committee in May 2007. The report contained a number of recommendations to improve controls, five of which were graded as high risk:

- Business Continuity plans should be developed and tested at the earliest opportunity.
- The IM&T disaster recovery plan should be developed and issued to all staff at the earliest opportunity. Development of the plan should include arrangements for rigorous testing of proposed arrangements.
- Guidance on the purchase of good and services should be issued to all departments, including the requirement to meet document retention standards.
- The IM&T Department should prioritise planned improvements and monitor progress towards their implementation on a regular basis.
- The IM&T Department should ask departments to notify it of any business critical databases in use throughout the organisation and review the arrangements in place to secure the data held on them.

- 7.09 The Board has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. We will follow up the action plan during our 2007/08 audit. **Action Point 6**

Control Weaknesses identified

- 7.10 A number of other control weaknesses were identified during the course of the final audit. The majority were of a minor nature and have been reported in a Final Management letter to the Director of Finance. There was one significant issue noted, as detailed below.

Fixed Assets in the General Ledger

- 7.11 In order to agree the fixed asset note within the accounts to the general ledger, it is necessary to first trace the balances in the accounts to a manual analysis of the general ledger codes.
- 7.12 It is possible to agree the total Net Book Value of fixed assets directly from the accounts to the general ledger. However, the coding structure within the ledger is set up so that indexation and depreciation amounts relating to donated and purchased assets are not identified separately. In addition, where assets are disposed of

during the year, the adjustment to the depreciation general ledger code is the net of the adjustments made to the balances shown in the note to the accounts.

- 7.13 The manual analysis required to prepare the fixed asset note in the accounts increases the risk of error in its preparation. Indeed, we did find that mistakes had been made in the preparation of the manual analysis. This meant that the fixed asset notes in the first draft of the financial statements were mis-stated. These errors were discussed with management who corrected the mistakes in the second draft of the financial statements we received.
- 7.14 We understand that the upgrade to the general ledger, planned for 2007/08, will have improved functionality in respect of fixed assets. We recommend that the Board ensures the new ledger allows direct agreement between the fixed asset ledger balances and the financial statements. **Action Point 7**

Internal Audit's Report on the Board's Internal Controls

- 7.15 The extract of the Internal Auditor's opinion for 2006/07 is reproduced below:
- 7.16 "Our reviews during 2006/2007 have not identified any processes containing fundamentally poor standards of internal control. All ratings have been at the "satisfactory" level or at the "requires improvement" level. "Requires Improvement" ratings do not indicate fundamental weaknesses in processes."

8. Governance Arrangements



8.01 Through good governance, NHS boards are able to improve services for patients and the working lives of staff that care for them. Governance means setting the strategic direction within the parameters laid down by the Scottish Executive Health Department's policies, providing leadership, setting the tone for the whole organisation, overseeing the control of the Board's work and reporting activities and progress to stakeholders. NHS board members are, therefore, collectively responsible for the success of their organisation.

8.02 Governance within the NHS can be considered under four main headings:

Financial and Performance Governance	The proper management of resources and a sound financial standing will enable the organisation to achieve its aims and objectives to meet its obligations as and when they fall due.
Clinical Governance	The Board should have an established clinical governance framework which supports and monitors standards for care, creates an environment for the continuous improvement of services, supports strategic planning and facilitates service delivery.
Risk Management	Responsibility is placed on the Board and primarily the Accountable Officer in the Statement of Internal Control to maintain a sound system of internal control and comply with all applicable laws and regulations.
Staff Governance	NHS employers are expected to have systems in place to identify areas that require improvement and to develop action plans that describe how improvements will be made. The underlying principal is that NHS Boards should recognise that investing in staff will allow them to deliver services to the best of their ability in modern healthcare settings.

8.03 NHS Borders has established Board and Committee structures which have been developed over a number of years. The Board monitors financial and clinical performance through the following committees:

- Audit;
- Staff Governance;
- Clinical Governance;
- Public Governance; and
- Ethics.

Financial and Performance Governance

- 8.04 The Board meetings are chaired by a Non-Executive. The incumbent Chair retired during the year and was replaced with an interim Chair, who was subsequently appointed formally to the position.
- 8.05 The Board meets 10 times a year and has a standard structured agenda, with items categorised under Clinical, Governance, Performance and For Information and Noting sections.
- 8.06 As part of the performance section at each meeting, financial and performance reports are presented, detailing the position against plan, highlighting any areas of perceived risk and identifying actions to be taken to address the risks.
- 8.07 The Board also holds a policy and planning committee meeting at the close of the public Board meeting to discuss in more detail financial plans going forward, shared services and any other matters of policy.

Clinical Governance

- 8.08 The Clinical Governance Committee meets at least four times each year, with regular reports provided through the use of a core agenda that includes:
- Systems updates – clinical risk, clinical audit, clinical guidelines and complaints;
 - External review/audit programme; and
 - Progress reports – child protection, adult protection, infection control.
- 8.09 The NHS Borders Clinical Governance Committee terms of reference were revised in February 2006 and the main duties of the group were agreed to be:
- **systems assurance** – ensuring that clinical governance mechanisms are in place and effective throughout the local NHS system;
 - **public health governance** – ensuring that the principles and standards of clinical governance are applied to the health improvement activities of the NHS Borders.
- 8.10 NHS Borders has established a Clinical Governance Steering Group to manage the day to day aspects of clinical governance. This group meets bi-monthly and is chaired by the Head of Clinical Governance. The group is responsible for clinical effectiveness and clinical audit in the Board.
- 8.11 The Clinical Governance Annual Report was presented to the Board in April 2007, detailing the internal activity in terms of clinical audit and external input such as NHS QIS reviews.

Risk Management

- 8.12 Risk management is often defined as a systematic process for identifying, assessing, controlling, monitoring, reviewing and auditing risk. Effective risk management is of critical importance to the health service as adverse consequences of risk could place limitations on the quality of health care delivery, and put a strain on staff and financial resources.
- 8.13 Health Boards are required to implement a robust and effective framework for the management and understanding of risk. The framework should be developed by building on existing good practice and should be used to facilitate planning and decision making processes.
- 8.14 The Board has an Executive Risk Management Board, which meets every two months. Although there are departmental risk registers throughout the organisation, these are currently at different stages of development in each department.
- 8.15 In order to promote a standard approach to risk management, the Board has purchased a new risk register software package and is in the process of populating this with the currently identified risks. The intention is to make this package web-based to allow for a wide level of access and participation across the organisation to facilitate regular updating and monitoring of perceived risks.
- 8.16 A risk workshop was held in March 2007 to develop the strategic risk register. The workshop was attended by both executive and non-executive members of the Board, as well as operational and general managers.
- 8.17 The strategic risk register was discussed by the Audit Committee before being presented to the Board in May 2007. It was agreed that reports would be presented to the Risk Management Board, the standing committees of the Board and also the Board itself on a quarterly basis.
- 8.18 The Board still has further work in order to ensure the strategic risk register is fully linked to the departmental risk registers and updated on a regular basis. **Action Point 8**

Staff Governance

- 8.19 The NHS Reform (Scotland) Act amended the National Health Service (Scotland) Act 1978, making it a legal requirement for Health Boards to have in place arrangements for good governance of staff. It is the duty of every Health Body to put and keep in place arrangements for the purposes of:
- improving the management of the officers employed by it;
 - monitoring such management; and
 - workforce planning.
- 8.20 The Staff Governance Committee established by the Board has an important role in ensuring consistency of policy and equality of

treatment of staff across the Board.

- 8.21 The remit of the committee includes the requirement to advise the Board on its responsibility, accountability and performance against the NHS Scotland Staff Governance Standard, addressing the issues of policy, targets and organisational effectiveness.
- 8.22 At its meeting in March 2007, the Board was presented with the Staff Governance Action Plan for 2007. It was agreed that the Action Plan would be monitored on a quarterly basis by the Staff Governance Committee and presented to the Board as an appendix to the minutes of the Committee.

9. Prevention and Detection of Fraud and Irregularities



Responsibility with respect to Fraudulent and/or Illegal acts

- 9.01 The preparation of the financial statements is the responsibility of management. Our responsibility as auditor is to express an opinion on those financial statements.
- 9.02 Effective internal control reduces the likelihood that errors, fraud or illegal acts will occur and remain undetected; however, it does not eliminate that possibility. Our responsibility regarding fraud is to obtain reasonable assurance that material misstatements resulting from fraud will be detected.
- 9.03 Accordingly, while we cannot guarantee that all errors, fraud or illegal acts, if present, will be detected, we will design our audit to provide reasonable, but not absolute, assurance of detecting errors or fraud that would have a material effect on the financial statements as well as illegal acts having a direct and material effect on the financial statements.

Fraud and Corruption Reviews

- 9.04 As part of our rotational plan to review the key mechanisms for the prevention and detection of fraud and corruption, we have reviewed the Board's fraud and corruption internal policy and regulations for members and staff conduct. No significant weaknesses were identified through these reviews.
- 9.05 As part of our audit, we examine journal entries and accounting estimates for biases and add an element of unpredictability in audit procedures year to year.
- 9.06 Our enquiries of management and our testing of financial records for the purposes of our normal audit responsibility did not reveal any illegal or possible illegal acts. However, improper conduct is usually carefully concealed and consequently, the probability is not high that our regular audit work, however diligently performed, will bring it to light.

National Fraud Initiative

- 9.07 In 2006/07 the Board took part in the National Fraud Initiative (NFI) in Scotland. The Health Department and NHS Counter Fraud Services has strongly supported the involvement of health bodies in the exercise, which is undertaken as part of the audits of the participating bodies.
- 9.08 NFI brings together data from health bodies, councils, police and fire

and rescue boards, and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. Health bodies provided payroll data for the exercise.

- 9.09 The NFI 2006/07 results (data matches) were made available to health bodies on 29 January 2007 via a new secure web-based application. Participating bodies should follow up the matches, as appropriate, and record the outcomes of their investigations in the application.
- 9.10 We monitored the board's involvement in NFI 2006/07 during the course of the audit. The Board reviewed each of matches reported, with no instances of fraud identified.
- 9.11 Further action was taken by the Board in relation to one member of staff who was approaching the maximum working level allowed under the Working Times Directive to ensure the regulation was not breached.
- 9.12 Audit Scotland circulated a number of reports setting out the extent to which participating bodies had made use of the web-based NFI application. We noted that the Board appeared in one exception report which indicated that a key contact user had not been set up. This was discussed with the NFI officer, who agreed to investigate and resolve this exception.
- 9.13 Although the Board appears to be taking the required actions in respect of the NFI results, there is no formal action plan detailing actions and timescales to complete the process and no formal reporting of the outcome of the work performed. **Action Point 9**

Fraud Guidance

- 9.14 We have reviewed the fraud and irregularities guidance issued by Audit Scotland during 2006/07 and certain HDLs issued by SEHD, and undertaken work accordingly. There were no matters arising from this work.

Fraud Submission

- 9.15 A return has been made to Audit Scotland of the reported frauds that have occurred within the Board during the year. The return made note of two frauds, one of which resulted in no actual loss to the Board. The other fraud was disclosed on the second tier return, for a loss of £50.

10. Other Business Matters



Priorities and Risks Framework

10.01 Audit Scotland publishes an annual Priorities and Risks Framework (PRF), a planning tool for auditors that sets out key high level risks facing Health Boards in Scotland. For 2006/07, the identified risk areas were categorised into the following areas:

- Service sustainability
- Financial management
- Governance
- Performance management
- People management
- Partnership working
- Information management

10.02 During the course of our audit, we considered each of the key risk areas highlighted within the PRF, the impact these areas have on the Board and planned our audit work accordingly. Financial and performance management and governance have been detailed previously in separate sections (see sections 3 and 7). Those areas considered to be significant points of consideration for management noted from the remaining sections have been detailed below.

Service Sustainability

10.03 The Board's five year strategic plan "Getting Fit for the Future" was approved by the Board in March 2006, with Ministerial approval being granted in June 2006. The plan focused on investment in community learning disability services, emergency care services at the BGH, new community services and health improvement together with the rationalisation of the Board's estate which led to the closure of Jedburgh and Coldstream Community Hospitals in October 2006.

10.04 The Board has begun a review of the way all services are provided within its area, with a strategic planning event held in December 2006, which focused on acute, primary care and Mental Health services.

10.05 The findings from this meeting were presented to the Board in January 2007, highlighting that further work was planned with the Board in early spring. This has now been scheduled to take place in June, with an output planned for September 2007.

10.06 A Service Change Team is currently reviewing the Board's Secondary Care Strategies, looking at each service provided individually to identify the best way to provide services going forward.

Action Point 10

People Management

- 10.07 Agenda for Change is a major change programme in the NHS, designed to modernise pay structures, assist service delivery of patient care, aid recruitment and retention and allow for personal development of staff. The new pay structure consists of nine pay bands and several pay points within each pay band. Individual posts will be mapped to a pay band by either matching the job to the national profile or through a local job evaluation.
- 10.08 The original national timetable for two key elements of Agenda for Change was for all staff to be transferred to a new pay grade (“assimilated”) and have a validated Knowledge and Skills outline as part of the Knowledge and Skills Framework by October 2006. In common with many other Health Boards in Scotland, NHS Borders has not met this timetable.
- 10.09 At the end of April 2007, 95% of the Board’s substantive posts had been assimilated, with approximately 200 individuals still to be transferred. Those staff who have yet to be transferred on to the new pay structure are nurse bank staff, employees who have been in receipt of responsibility allowances/acting allowances since 1 October 2004 and staff going through local job evaluation.
- 10.10 A further part of the process involves processing requests for a review from staff not satisfied with their placement on the new salary structure. The Board has received requests for reviews from 726 staff and it was reported to the Board in May 2007 that 45 reviews, covering 77 staff, had been completed.
- 10.11 The reviews led to an increase in pay band for 34 members of staff. The Board acknowledged that this is a high level of band increases, but believes this is due to the fact that the first stage of reviews focused on posts where Agenda for Change had resulted in staff being placed on protection.
- 10.12 The HR Agenda for Change Team is focusing on these reviews, and envisages that the reviews process will continue for approximately 1 year given the large numbers of reviews received to date.

Action Point 11

Partnership Working

- 10.13 Community Health Partnerships (CHPs) were set up to facilitate the modernisation of the NHS and joint services. CHPs are intended to improve services by ensuring NHS staff work with local authority counterparts to plan and deliver local services. It is expected that CHPs will play an increasingly central role in the integration of local services as part of an ongoing programme of development and modernisation in public services.
- 10.14 The Board established a Community Health and Care Partnership (CHCP) with Scottish Borders Council (SBC) in August 2005. It is responsible for coordinating the planning, development and provision of services within the Scottish Borders area with a view of improving those services.

- 10.15 During 2006/07, the Board acknowledged that the CHCP had struggled to find a focus as a vehicle for change for joint working. To address this, a work plan for 2007/08 has been developed, outlining the prioritised objectives of the Joint Commissioning Teams, for their respective areas of responsibility. This was taken to the meeting of the CHCP in March 2007 for comment, with final approval expected to be received at its meeting in June.
- 10.16 A review of the functioning of the Committee was conducted and reported to the CHCP Committee in March 2007 after its first full year of operation. It was found that while positive aspects to the Committee's function were identified, it was generally felt that there is a need to strengthen working in a number of areas, including clarification on governance and accountability, enhancing links with clinical representatives, breaking down cultural barriers between the organisations and improving involvement and communication with partners and stakeholders.
- 10.17 The strategic nature of the CHCP was highlighted as posing challenges particular to the Committee in this area. The review concluded by recommending the convening of a short-life working group with a remit to consider areas highlighted by the review.

Action Point 12

Information Management

- 10.18 The IM&T department integrated from four separate departments to a single unified team in October 2004, and has been working to embed this new structure since then. The Head of IM&T was appointed during 2006/07, and a number of planned improvements to the controls within the department have since been identified. However, there are still a number of vacancies within the team that may lead to delays in the implementation of these improvements.
- 10.19 The planned improvements include:
- Drafting and implementing full change control policies and procedures and change control documentation as part of the move towards compliance with IT Service Management methodology (ITIL);
 - Undertaking a gap analysis to identify the steps required to comply with Information Governance, the standards issued by NHS Scotland and ITIL compliance;
 - Participating in the national e-Health Strategy with a view to rationalising the number of patient records systems in use within the organisation; and
 - Developing a disaster recovery plan for IM&T.
- 10.20 We included a number of recommendations in relation to the planned IM&T improvements in our Internal Controls Report. Commentary on that report is included in Section 6.

Single System Working

- 10.21 Single system working has been operating since 2003, and no particular issues of note have been identified from our normal audit procedures.

Quality and Outcomes Framework (QOF)

- 10.22 One of the main changes within the General Medical Services (GMS) contract introduced in 2004 was to introduce a mechanism for measuring and paying for delivery of high quality services to patients within General Practice.
- 10.23 The mechanism to carry this out was entitled the “Quality and Outcomes Framework (QOF)”. The QOF measures achievement against various indicators as well as measures of care.
- 10.24 Practices achieve quality points for attaining the standards defined by the indicators, up to a maximum of 1,000 points. In 2006/07, the Board achieved 97.9% of the total points available, leading to a total payment of £2.793 million. This was less than the £2.917million paid last year, largely due to the re-definition of existing indicators and the introduction of a number of new indicators in 2006/07, which made some of the achievements harder to attain.
- 10.25 The principles of the “Winter Working Group” are that all practices should be visited over a two year period. During 2006/07, ten practices received a review visit from the NHS Borders team, slightly less than fifty per cent. **Action Point 13**
- 10.26 These visits are of a formative and supportive nature, and are not payment verification visits.

Pre-Payment Verification

- 10.27 During April of each year, the Board is required to undertake a pre-payment verification (PPV) process, to approve the submissions made by GP practices in relation to the QOF.
- 10.28 The Board established a PPV group to undertake the process, consisting of representatives from Primary and Community Services, Finance, and IM&T, and a GP.
- 10.29 Following the review process, the PPV group agreed that the submissions from the practices were appropriate and recommended that payment should be made. The Board approved the recommendation and payment was made at the end of April 2007.

NHS Tariffs

- 10.30 National tariffs are currently being phased into NHS Scotland, replacing the Service Level Agreements (“SLAs”) between Boards. The purpose behind the tariffs is to create an incentive to increase efficiency by encouraging benchmarking between hospitals and Boards to identify tariff rates.
- 10.31 In 2005/06, national tariffs were introduced for two specialties, and this has been extended in 2006/07 to a total of eight specialties.

- 10.32 The Board provides services covered by four of the tariffs: Orthopaedics, ENT, Urology and Cardiology. The Board agreed with those NHS Boards to which services are provided that the contracts would be based on the information supplied from ISD on activity levels based on three year rolling averages.
- 10.33 However, the required information was received from ISD late in the year, which led to a tight timeframe for agreement of the tariffs with other Boards. NHS Borders expects to encounter similar delays in the agreement process for 2007/08. **Action Point 14**
- 10.34 A specific issue was noted in relation to the now disbanded NHS Argyll & Clyde. The Board has been unable to identify the appropriate contacts within NHS Highland and NHS Greater Glasgow to allow agreement of the contracts. A balance of £17,000 remains outstanding, with no agreement having been reached. **Action Point 15**
- 10.35 The Board also agreed to use information supplied by ISD for contracts with NHS Boards providing services to NHS Borders. The majority of these services are provided by NHS Lothian.
- 10.36 In previous years, the agreement with NHS Lothian was that NHS Borders would contribute to additional costs incurred for services provided, for example where additional sessions had to be held. NHS Borders did not consider this to be appropriate under a national tariff contract as the tariff is based on full costs. This led to some delay in the implementation of the agreement with NHS Lothian.

Shared Services Project

- 10.37 NHS Borders Board decided not to endorse the business case for Shared Support Services. It did not believe that the savings and benefits identified for NHS Borders warranted the risks and investments involved and considered that many of the benefits could be delivered with far less risk without the establishment of a separate shared services organisation.
- 10.38 However, the Board does accept the premise behind the shared services project and is currently working with other members of the Tayside consortium to identify alternative options for promoting shared services such as:
- Developing a single, standardised Chart of Accounts;
 - Identifying, agreeing and rolling out best practice across all Boards;
 - Operating the same finance system within all Boards;
 - Introducing new supporting technologies;
 - Developing robust arrangements for risk sharing, service continuity and disaster recovery; and
 - Identifying and implementing specific quality improvement projects led by short life project teams, e.g. costing.

Action Point 16

Equal pay claims

- 10.39 Article 141 of the Treaty of Rome requires member states to ensure and maintain "the application of the principle that men and women should receive equal pay for equal work". This was expanded on in the Equal Pay Directive which made it clear that all such discrimination should be eliminated from all aspects of remuneration.
- 10.40 The National Health Sector in Scotland has received a number of claims for backdated pay increases, arising from this required pay parity between these different categories of employees.
- 10.41 As at 31 March 2007 NHS Borders had received two claims and these had been referred for attention to the Central Legal Office, the Board's legal advisers. Even taking account of the work which has been undertaken in relation to Agenda for Change, it is still possible that these claims represent a current liability for NHS Borders; although it is worth noting that we have not been able to obtain from the Central Legal Office any estimate of the potential liability being faced by the Board.
- 10.42 For 2006/07 we have accepted this position because of its stage of development and as a result of the Board including within its annual accounts, a contingent liability note setting out relevant details on the matter. Nevertheless, we would have expected further details to have been available to management beyond those currently received from the Central Legal Office, including a reasonable estimate of the Board's liabilities determined in accordance with financial reporting standards. We would strongly encourage Board management, working with the Scottish Executive Health Department, to resolve this matter in advance of compilation of next year's financial statements. **Action Point 17**

Appendix 1: Action Plan

Ref	Recommendation	Risk Category	Management Response	Responsible Officer	Date of Implementation
1	The contract with NHS Lothian should be closely monitored to ensure that any potential overspend due to increased activity or the implementation of national tariffs is appropriately managed.	Medium	The commissioning group will continue to closely monitor the changes to contract values attributable to activity changes or the impact of tariffs. Any changes to values will be incorporated into future revisions to the financial plan.	Director of Finance	In place
2	The Clinical Boards should be required to present plans detailing the measures to be taken in order to meet recurring savings targets at the start of the financial year. Progress against these plans should be monitored throughout the year.	High	A paper setting out the savings plans identified by each Clinical Board will be presented to the August meeting of the Cost Reduction Task Force.	Director of Integrated Health Services	August 2007
3	The Board should consider whether there are specific actions that could be taken at an early stage to reduce the impact of the anticipated decrease in the annual funding uplift.	High	The Financial Plan has already been amended to reflect a potential reduction in annual funding uplift.	Director of Finance	In place
4	The financial plan should be updated at the earliest opportunity to reflect the impact of any agreed recommendations arising from the independent assessment of the functionally ill elderly service at Huntlyburn.	Medium	The financial plan is updated on a quarterly basis and the outcome reported to the Board. This will ensure that any material changes in outlook are quickly assessed.	Director of Finance	In place

Ref	Recommendation	Risk Category	Management Response	Responsible Officer	Date of Implementation
5	Management should undertake a review of fixed assets in order to allow an appropriate release from the revaluation reserve each year.	Medium	The fixed asset register will be reviewed during the year to allow the correct release to be made from the revaluation reserve.	Assistant Director of Finance (Planning and Control)	December 2007
6	The Board should ensure that agreed actions are taken to implement the agreed recommendations included in our Internal Controls Report 2006/07.	Medium	The audit committee will receive regular reports on the progress on implementation of all agreed actions.	Assistant Director of Finance (Planning and Control)	September 2007
7	As part of the planned upgrade to the general ledger in 2007/08, management should review the current coding structure, with the aim of agreeing a revised coding structure that will allow a direct comparison with the fixed asset note in the accounts.	Medium	The revised functionality of Efinancials 3.4 should allow the direct production of the required disclosures. The current coding system will also be revised to disaggregate individual elements which are currently combined.	Assistant Director of Finance (Planning and Control)	March 2008
8	Procedures for linking the strategic and departmental risk registers should be agreed, along with processes for updating the strategic risk register.	High	Following on from the strategic risk workshop at the end of March 2007 arrangements are being put in place to ensure the ongoing development of the strategic risk register and establish the appropriate linkages with departmental risk registers.	Director of Performance and Planning.	September 2007
9	The Board should adopt a formal policy in respect of the National Fraud Initiative. This should detail the various stages of the process, including reporting the results of work undertaken.	Low	A formal policy will be developed and a reporting mechanism through the audit committee will be established.	Assistant Director of Finance (Planning and Control)	September 2007

Ref	Recommendation	Risk Category	Management Response	Responsible Officer	Date of Implementation
10	The results of the Service Change Team's review of the Secondary Care Strategies should be reviewed by the Board as part of any ongoing consideration of Service Delivery.	High	The results from the review of the Secondary Care Strategies will be formally reported to the Board and will be fully considered as part of ongoing reviews of service delivery.	Chief Executive	In place
11	The Board should ensure that the HR Agenda for Change Team has sufficient resource for the resource intensive process involved in assessing the review requests currently being received.	High	A non-recurring budget has been set aside for the continued implementation of Agenda for Change. This budget will be closely managed to ensure that adequate resources are available to support all aspects of the implementation.	Associate Director of Human Resources	In place
12	The CHCP committee should consider whether it would be appropriate to convene the short-life working group recommended in the review of the functioning of the CHCP conducted and reported in March 2007.	Medium	The short life working group has convened. A review paper will be taken to the September CHCP meeting.	Director of Organisational Change and Development	In place
13	The Board should ensure there are plans in place to visit the remaining GP practices not visited during 2006/07 under the QOF guidance.	Medium	Under existing plans all remaining practices will be visited during 2007/2008.	Director of Integrated Health Services	February 2008
14	Appropriate processes should be put in place to manage the anticipated delays in the receipt of National Tariff information from ISD.	Medium	The commissioning group will continue to monitor the impact of tariffs across NHS Borders. NHS Borders is now represented on the national Tariff Reference Group and will be better placed to gauge the likely impact of any delays in the publication of tariff information.	Director of Finance	In place
15	Management should persist in trying to find a suitable contact at both NHS Highland and NHS Greater Glasgow and Clyde in order to obtain the monies owed to NHS Borders for services provided in 2006/07.	Low	NHS Borders will continue with efforts to identify an appropriate contact point with NHS Greater Glasgow and Clyde.	Assistant Director of Finance (Planning and Control)	September 2007

Ref	Recommendation	Risk Category	Management Response	Responsible Officer	Date of Implementation
16	NHS Borders should ensure that it works closely with the Tayside consortium to progress shared services initiatives. The financial and resourcing implications of progressing these initiatives should be monitored closely.	Medium	NHS Borders enjoys close working relationships with all its consortium colleagues and all consortium partners will continue to benefit from the well established working relationships that have been in place for a number of years. A consortium approach to a number of issues has been agreed and a detailed work plan is currently under development.	Assistant Director of Finance (Planning and Control)	July 2007. Finalisation of plan for joint working continues to be an ongoing process.
17	Management should, working with the Scottish Executive Health Department, ensure that appropriate information is obtained in relation to equal pay claims to allow further details to be disclosed in the financial statements.	Medium	NHS Borders will contact the SEHD to ensure that the necessary information is made available at the earliest opportunity.	Director of Finance	July 2007

Appendix 2: Responsibilities of External Audit and the Board and its Management



The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of NHS Borders and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility, we evaluate significant financial systems and associated internal controls and, where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist NHS Borders regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with NHS Borders and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to NHS Borders or any other party.

The prime responsibility for the prevention and detection of fraud and irregularities rests with NHS Borders. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach, we consider these arrangements but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of NHS Borders and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of NHS Borders to put in place proper arrangements to ensure the proper conduct of its financial affairs and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct and the prevention and detection of fraud and corruption.

It is the responsibility of NHS Borders to put in place proper arrangements to manage its performance in order to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that NHS Borders has put in place to secure economy, efficiency and effectiveness in its use of resources.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to NHS Borders during the year as listed at **Appendix 4**.

Materiality

Materiality is defined by the International Accounting Standards Board in the following terms:

“Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends upon the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”

Overall audit risk and materiality are significant concepts used in determining the extent of audit work.

Guidelines for this organisation suggest that preliminary materiality be set at approximately 1% of total expenditure. However, materiality is not simply a quantitative figure. Qualitative aspects also need to be considered in assessing whether something would be significant to a user of the financial statements.

The final assessments as to what comprises a material error in the financial statements is a matter of judgement and has been made in accordance with ISA320 “Audit Materiality”.

Management's Judgments and Accounting Estimates

Management has the responsibility for applying judgment in preparing the accounting estimates and disclosures contained within the financial statements.

Audit independence

As external auditors of NHS Borders we are required to be independent in accordance with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants and by the Ethical Standards established by the Auditing Practices Board.

These standards require that we disclose to the members all relationships that, in our professional judgment, may reasonably be thought to bear on our independence.

We confirm that no issues have arisen to impair our independence, objectivity and integrity. We further confirm that we are not presently aware of any relationship or non-audit services that would impair our audit independence.

Appendix 3: Audit Opinion



Independent Auditor's report to the members of Borders Health Board, the Auditor General for Scotland and the Scottish Parliament.

We have audited the financial statements of NHS Borders for the year ended 31 March 2007 under the National Health Service (Scotland) Act 1978. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes, but excluding the Directors' Report. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the board, Chief Executive and auditor

The board and Chief Executive are responsible for preparing the Annual Report and the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. The Chief Executive is also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of the Chief Executive's Responsibilities as the Accountable Officer of the Health Board.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report 2006/07 to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. We also report whether in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. We also report if, in our opinion, the Directors' Report is not consistent with the financial statements, if the body has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by relevant authorities regarding

remuneration and other transactions is not disclosed. We review whether the Statement on Internal Control reflects the board's compliance with the Scottish Executive Health Department's guidance. We report if, in our opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements, the financial statements being the only part of the Annual Report which we have audited. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements and the part of the Remuneration Report 2006/07 to be audited. It also includes an assessment of the significant estimates and judgements made by the board and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the body's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report 2006/07 to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report 2006/07 to be audited.

Opinion

Financial statements

In our opinion

- the financial statements give a true and fair view, in accordance with the National Health Service (Scotland) Act 1978 and

directions made thereunder by the Scottish Ministers, of the state of affairs of the board as at 31 March 2007 and of its net operating cost position, total recognised gains and losses and cash flows for the year then ended; and

- the financial statements and the part of the Remuneration Report 2006/07 to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

Regularity

In our opinion in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

PricewaterhouseCoopers LLP
Glasgow

28 June 2007

Appendix 4: Other Formal Reports Submitted During the 2006/07 Process



Reports submitted by PricewaterhouseCoopers LLP during the 2006/07 audit process

Planning visits

Annual Service Plan

Interim Visit

Follow up pf 2005/06 Audit Recommendations

Internal Controls Report 2006/07

Final Accounts Visit

Audit Opinions

Annual Report to Board Members

Final Management Letter

Freedom of Information (Scotland) Act 2002

This report is intended solely for the information of the Members of the Board of NHS Borders and the Auditor General for Scotland. In the event that, pursuant to a request which these parties receive under the Freedom of Information (Scotland) Act 2002, they will notify PwC promptly and consult with PwC prior to disclosing such External Audit Report. NHS Borders agrees to pay due regard to any representations which PwC may make in connection with such disclosure and NHS Borders shall apply any relevant exemptions which may exist under the Act to such External Audit Report. If, following consultation with PwC, NHS Borders discloses this External Audit Report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed. PricewaterhouseCoopers LLP does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.

© 2007 PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" refers to the PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

This report is protected under the copyright laws of the United Kingdom and other countries. It contains information that is proprietary and confidential to PricewaterhouseCoopers LLP, and shall not be disclosed outside the recipient's company or duplicated, used or disclosed in whole or in part by the recipient for any purpose other than to evaluate this proposal. Any other use or disclosure in whole or in part of this information without the express written permission of PricewaterhouseCoopers LLP is prohibited.