

June 2008

Annual Report to Members

NHS Borders



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1. Introduction

- 1.01 We have completed our audit of NHS Borders for the year ended 31 March 2008.
- 1.02 The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2007/08 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.
- 1.03 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.
- 1.04 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.
- 1.05 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 Public Reporting Group.
- 1.06 Our audit has been planned and conducted to take account of these wider perspectives.
- 1.07 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.
- 1.08 This Annual Report to Members, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.
- 1.09 We would like to thank all NHS Borders’ managers and staff for their assistance throughout the audit process

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26 June 2008

2. Executive Commentary

Our Audit Opinion

- 2.01 Our audit opinion concerns both the true and fair statement of NHS Borders' ("the Board's") financial results for the year ended 31 March 2008 (2007/08) and the regularity of its income and expenditure in the year.
- 2.02 We are pleased to report that our opinion on the true and fair view on the financial statements is **unqualified**.
- 2.03 Our regularity opinion on income and expenditure is also **unqualified**.
- 2.04 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.

The Audit Process and Accounting Issues

- 2.05 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided were of a good standard. However, the number of amendments made to the initial draft accounts by management did cause some difficulties in agreeing the movements between the various draft versions of the financial statements.
- 2.06 We are required to report any unadjusted errors to those charged with governance. We are pleased to report that all necessary adjustments, except for those classified as clearly trivial, have been adjusted through the latest version of the financial statements.

Governance Arrangements

- 2.07 A summary of the work we have performed in the year in relation to the Board's governance arrangements was set out in our 2007/08 Interim Management Letter. The Board has in place sound arrangements developed over a number of years.

Business Risk Areas

- 2.08 The Board faces a number of business challenges over the next few years specifically relating to service sustainability and financial management.
- 2.09 In response to the financial challenges in 2008/09 and the following two years, NHS Borders has reacted promptly to implement a Strategic Change Programme. This will provide a co-ordinated approach to the implementation of the various change processes required within NHS Borders to ensure that the delivery of a fit-for-purpose service is focused, timely, effective and financially viable. The main aim of the Programme is to provide sustainable services within the Borders region in order to achieve value for money, improved patient care and evidence based change.
- 2.10 In relation to financial management the Board has in place a range of savings initiatives which form an integral part of this Strategic Change Programme. Budget setting for the 2008/09 financial year has identified an initial gap of £5.1 million. The Board has agreed to a range of measures to close this gap including short-term realignment of in-patient services over the summer of 2008 - effectively temporary ward closures, strict vacancy and bank/agency staff controls and a requirement to deliver a recurring 5% reduction in pay costs over the next two years. Further information on the Strategic Change Programme and savings targets are included within Section 4.

Financial Performance and Forecast

- 2.11 The Board achieved a £0.650 million surplus for the year, compared to the predicted break-even position reported in the financial plan at the beginning of the year.
- 2.12 The Board is projecting a predicted break even position for the financial year 2008/09; this is dependent on sound management of recurring and non-recurring income and expenditure, and the achievement of a savings programme of £5.1 million.

Systems of Internal Control

- 2.13 The Code of Audit Practice requires us to review and report on the Board's Statement of Internal Control. Based on our normal audit procedures, we do not disagree with the disclosures contained within the Statement of Internal Control.
- 2.14 A number of control matters requiring corrective action have been reported previously to the Board's Audit Committee. The more significant of these relate to recommendations outstanding from previous years and include:
- Development of Business Continuity and Disaster Recovery plans, and the testing of these plans;
 - Production of guidance on the purchase of goods and services to all departments;
 - Prioritisation and implementation of planned Information Management and Technology improvements.

3. The Audit Process, our Audit Opinion and Accounting Issues

Audit Process

3.01 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided were of a good standard. However, the number of amendments made to the initial draft accounts by management did cause some difficulties in agreeing the movements between the various draft versions of the financial statements. This position could have been improved by a more timely review of the draft accounts by a NHS Borders Senior Manager. Nevertheless, overall, we believe an effective audit process was achieved through a good working relationship with your staff.

Action Point 1

Preparation and Approval of Financial Statements

3.02 The Financial Statements were prepared in accordance with the accounting requirements contained in the NHS Boards Accounts Manual for Directors’ Report and Accounts of NHS Boards and for Scottish Financial Returns (“NHS Accounts Manual”), and supplementary guidance, as issued by the Scottish Government Health Directorates (SGHD) and approved by the Scottish Ministers.

3.03 The Financial Statements were submitted to the Board’s Audit Committee on the 24 June 2008 and approved and adopted at the Board meeting on 26 June 2008.

Our Audit Opinion

3.04 Our audit opinion concerns both the true and fair statement of NHS Borders’ (“the Board’s”) financial results for the year ended 31 March 2008 (2007/08) and the regularity of its income and expenditure in the year.

3.05 We are pleased to report that our opinion is **unqualified**.

3.06 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been prepared properly. Our opinion on the Remuneration Report is **unqualified**. Our audit opinion does not extend to any other part of the Directors’ Report.

Key Financial Targets

3.07 The Board achieved its key financial targets for the year, as follows:

Financial Targets	Achievement
Revenue Resource Limit (“RRL”)	The Board spent £174.408 million against its RRL of £175.058 million , resulting in a surplus of £0.650 million .
Capital Resource Limit (“CRL”)	Total capital spend was £5.294 million against a CRL of £5.338 million .
Cash Requirement Target	The Board spend during 2007/08 was £187.894 million ; meeting the cash requirement target of £187.894 million .

Accounting Issues

- 3.08 Accruals for Family Health Services expenditure are initially based on estimates, using previous expenditure trends. However, due to significant variations in expenditure levels in recent months, particularly in relation to pharmaceutical prescribing expenditure, neither we nor management have been able to gain an appropriate degree of comfort on the basis of estimation for the March accrual. By way of example, information received during June 2008 from the Practitioner Services Division (PSD) of NHS National Services Scotland revealed that the estimate based pharmaceutical accrual for February and March 2008 required adjustment by £0.236 million to align with actual figures.
- 3.09 Despite this information having been received towards the end of the audit process, we are pleased to note that NHS Borders has adjusted its expenditure accrual to reflect the more accurate information now received.
- 3.10 NHS Borders has been unable to agree its expenditure figure with NHS Lothian of £17.455 million (originally noted in its SFR 30.0) to the income figure of £17.133 million noted in NHS Lothian's SFR30.0. The NHS Accounts Manual states that where agreement cannot be achieved within a tolerance limit of £0.100 million, the body recognising the income takes precedence, in this case NHS Lothian. Therefore, the NHS Accounts Manual requires that NHS Borders reduces the amount disclosed within the SFR for expenditure with NHS Lothian to £17.133 million. However, communication between the two Boards has revealed that the £17.133 million which NHS Lothian is recognising includes a number of credit notes which had previously been recognised in 2006/07 and that as a result the £17.133 million figure may not be accurate.
- 3.11 Nevertheless, as this matter cannot be resolved in advance of the financial statements being finalised, NHS Borders has helpfully adjusted its SFR 30.0 balance to the NHS Lothian figure of £17.133 million. This adjustment ensures compliance in this regard with the NHS Accounts Manual and does not change the operating surplus for 2007/08 or involve any amendment to the other core financial statements.

Misstatements and Significant Audit Adjustments

- 3.12 Misstatements represent audit findings for which we do not agree with the amount, classification, presentation or disclosure of items in the financial statements.
- 3.13 In conducting our audit 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 processed. Our expectation is that all non trivial misstatements are adjusted.
- 3.14 We are pleased to report that all necessary adjustments, except for those classified as clearly trivial, have been adjusted through the latest version of the financial statements.

4. Governance and Business Risk Areas

Introduction

4.01 We comment on the following areas throughout this section of the report:

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

4.02 We have reported in greater detail on a number of these areas in our Interim Management Letter for 2007/08 submitted to the Audit Committee on 31 March 2008.

Overall Governance Arrangements

4.03 Through good governance, NHS boards are able to improve services for patients and the working lives of those staff that care for them.

4.04 NHS Borders has established Board and Committee structures which have been developed over a number of years, monitoring financial and clinical performance through the following Committees:

- Audit;
- Staff Governance;
- Clinical Governance;
- Strategy and Performance; and
- Risk Management.

4.05 The Board's risk management arrangements have recently been upgraded with the introduction of a web-based system. We noted through our review of Risk Management Board minutes that full use is not yet being made of all aspects of this system and that action plans to address identified risks have still to be introduced.

Action Point 2

4.06 We are pleased to note that since our interim review, progress has been made towards fuller implementation of disaster recovery and business continuity processes in a number of areas of the organisation including Mental Health and Primary & Community Services. However, there is still significant work to be completed in ensuring that processes are approved and in place across NHS Borders as a whole.

Action Point 3

- 4.07 A new staff governance system (SGIS) has recently been introduced throughout NHS Borders and this has provided management with more timely and accurate information on staff data, including sickness and absence rates, an area in which data quality had previously been identified as inadequate.
- 4.08 Considerable work has taken place within clinical governance to improve services, specifically in relation to waiting times in some areas. By way of example the identification and resolution of issues within audiology has reduced waiting times from two years in July 2007 to 28 weeks by March 2008.

Financial Management

- 4.09 The Board achieved a surplus of **£0.650 million** in the financial year to 31 March 2008, meeting all of its financial targets relating to Revenue Resource Limit, Capital Resource Limit and Cash Requirement.
- 4.10 Looking ahead, the Board, in common with all public services in Scotland, is required to achieve at least a 2% cash releasing recurring efficiency saving in each of the next three years. This is part of the Efficient Government Programme and equals £3.2 million per year or almost £10 million over the three years. In the forthcoming financial year, arising from various pressures including the cost of pay awards, pay modernisation, increases in drug and building costs, and the initial impact of the NHSScotland Resource Allocation Committee (NRAC) funding formula, the Board anticipates needing to make £5.1 million of savings. This will be achieved initially through £2.8 million of non-recurring savings, and £2.3 million of recurring savings. Further information concerning savings plans is included at paragraphs 4.15 to 4.19 below.
- 4.11 Budget setting for the 2008/09 financial year has identified an initial gap of £5.1 million. The Board has agreed to a range of measures to close this gap including short-term realignment of in-patient services over the summer of 2008 - effectively temporary ward closures, strict vacancy and bank/agency staff controls and a requirement to deliver a recurring 5% reduction in pay costs over the next two years.
- 4.12 Following a rationalisation of NHS Borders' estate in 2006/07, the current financial year has seen no significant fixed asset disposals. A revaluation of all land and buildings was undertaken as at 31 March 2008. This valuation process has resulted in an increase in the net book value of fixed assets of £8.0 million (8.8% increase). This will result in a significant increase in the cost of capital and is one of the reasons for a higher level of savings being required.
- 4.13 In the course of our audit we have also conducted a review into the Financial Management - Use of Resources under the auspices of the Best Value framework. This is the first of a number of toolkits to be released by Audit Scotland designed to assess the achievement of Best Value across all aspects of the NHS in Scotland.
- 4.14 We have gathered evidence to form a view on the various elements of financial management and will report our findings in a separate report at the end of July 2008 following Audit Scotland's moderation process. However, our preliminary findings indicate that finances are tightly controlled, robust budgetary control processes are in place and budget holders are held to account for services delivered within allocated resources.

Service Sustainability

- 4.15 The annual percentage uplift in NHS Borders allocation, plus local efficiency savings, has to fund all pay awards, pay modernisation costs, inflation, new drugs, increased activity, investments and ongoing costs arising from the capital programme, such as new buildings and equipment. Changes to the formula used to allocated funding to Health Boards (NRAC) means that NHS Borders' allocation will now grow at a slower rate than would have been the case under the previous formula. Assurances have been received that no Board will receive less funding than it does at present.
- 4.16 As part of the general Efficient Government Programme across all public services in Scotland, NHS Borders is required to achieve a 2% cash releasing, recurring saving for each of the next three years (this equals £3.2 million per year for NHS Borders). NHS Borders has estimated that it will be required to make recurring savings of £10 million over the next 3 years in order to meet break-even targets. This saving will be retained by NHS Borders.

- 4.17 In response to these financial pressures, a Strategic Change Programme has been developed to drive through the necessary measures in the medium to long term to ensure that the Board achieves a break-even position in 2008/09 and also in future years.
- 4.18 The Programme is designed to reinforce the strategic direction that was highlighted through the Board's "Getting Fit for the Future" strategy including the need to: shift the balance of care from Acute to Community Services; separation of elective and emergency care; delivering more care closer to the patient's home; and working in partnership. However, given the change in the Board's financial outlook, a reassessment of the strategic priorities has resulted in the production of an approach, incorporating six workstreams:
- Operational Budget Savings;
 - Campaign on Waste and Inefficiency;
 - Productivity and Benchmarking;
 - Integrated Health Strategy;
 - Continuous Improvement; and
 - Sustainable Workforce.
- 4.19 The Board is aware that a high proportion of the savings will initially be non-recurring, but intends that through the Strategic Change Programme recurring savings will be identified and will deliver in 2009/10 and 2010/11. As part of this Programme, the Board will also re-visit its investment plans to ensure that resources are still available to meet the plans, and whether any plans can be amended.

Action Point 4

People Management

- 4.20 NHS Borders continues to progress with the Agenda for Change process and has accrued £4.0 million (2007: £3.3 million) to fund back-dated pay awards of staff.
- 4.21 Following the initial Agenda for Change assimilation process, NHS borders received a total of 420 requests for reviews of gradings covering a total of 802 posts. As of the end of May 2008, around 88% of these reviews had been completed. As at 31 March 2008, a provision of £2.2 million (2007: £0.7 million) had been included within the financial statements in relation to the anticipated outcomes of those requests for reviews both received and anticipated.
- 4.22 The National Health Service in Scotland has received a number of claims for equal pay in which additional back pay is sought, arising from the requirement for equal pay. The NHS Central Legal Office (CLO) is instructed by the Management Steering Group of the NHSScotland and co-ordinates the legal response of NHSScotland to this issue. As at 31 March 2008, NHS bodies had received over 12,000 claims and these had been passed to the Central Legal Office. It is possible that these claims represent a current liability for NHS boards generally. By the end of May 2008 there were 34 grievances and employment tribunal claims registered against NHS Borders.
- 4.23 The CLO has co-ordinated the legal response to all claims and has attended Tribunal Hearings at which discussion about procedural matters has taken place. The CLO affirms that the cases in Scotland are at too early a stage to allow any assessment of financial risk to be included in the financial statements.
- 4.24 In addition to the work performed at our final audit at the request of Audit Scotland, we also conducted a review of the compliance with the NHSScotland pre-employment checks guidance. This piece of work was initiated in response to the security incidents in London and Glasgow in summer 2007 which allegedly involved overseas staff working in the NHS, and is an extension of the work performed by Audit Scotland in November 2007 as part of its national report "Overseas staff in the NHS – pre-employment checks". The work included a review of the files of 30 staff employed by NHS Borders who originated from outside of the European Economic Area (EEA). Our findings will be reported separately to the Board.

Performance Management

- 4.25 Performance management is carried out through monitoring performance against the Local Delivery Plan (LDP) which is agreed on an annual basis by the Board and which is based upon the nationally prescribed HEAT targets. The LDP includes trajectories to indicate how national targets will be reached by March 2010.
- 4.26 A report on the Key Performance Indicators (KPIs) for the organisation is a standing item on the agenda for Board meetings, with the Director for Performance and Planning holding the responsibility for this area. Due to the continuing national focus on reducing waiting times, considerable debate has been held within the Board on the progress which NHS Borders is making towards achievement of central government targets.
- 4.27 A national requirement to reduce sickness absence within the NHS has resulted in increased visibility of absence levels. NHS Borders has created a Sickness Absence Working Group to address the performance of the organisation (4.9% annual average sickness absence as at January 2008 against a target of 4%). An action plan to address this issue is being implemented through this group. A recently implemented Staff Governance Information System (SGIS) will also assist in the monitoring of progress against this key workforce related indicator.

Partnership Working

- 4.28 In our 2007/08 Interim Management Letter we reported on the progress made by NHS Borders in establishing appropriate structures and processes to help deliver its partnership working.
- 4.29 NHS Borders' geographic boundaries coincide with those of Scottish Borders Council and there is a history of the two organisations working together, most recently through initiatives such as the Joint Future agenda and the Community Health and Care Partnership (CHCP).
- 4.30 Although a CHCP has been in place since 2005/06, NHS Borders continues to acknowledge that the CHCP has struggled to find a focus as it has been used as a forum for monitoring the progress of existing areas of joint working rather than a vehicle for driving change. NHS Borders has been working with its partners on a full review of the CHCP and a revised structure has been agreed. This has been followed up with a CHCP away day in June.
- 4.31 We noted during our interim audit review that arrangements have not yet been made for pooled budgets. However, a number of projects and services have aligned budgets between Scottish Borders Council and NHS Borders. A partnership between the two bodies exists for a Joint Learning Disabilities service with an aligned budget of £1 million budget with authority to spend and commit expenditure delegated to the joint service manager. A joint Mental Health service will be established in 2008/09.
- 4.32 NHS Borders also participates in the South East and Tayside Planning Group ("SEAT"), a regional planning organisation that aims to find shared solutions to shared problems. A governance framework has been agreed and the SEAT papers are presented at monthly Board meetings.

Information Management

- 4.33 NHS Borders Board approved a local eHealth strategy in May 2006. This strategy reflected the eHealth commitments of 'Delivering for Health' and local commitment to support improvements in operational systems and infrastructure in preparation for local delivery of the national eHealth strategy. Progress reports are provided to the Board on a periodic basis and the strategy includes 12 service commitments including targets to enable performance measurement to be conducted.
- 4.34 We also performed detailed controls work on the Internal General Computer controls currently in place at NHS Borders. Findings were included in our 2007/08 Interim Management Letter and a summary of work relating to the Board's systems of internal control is included in Section 7 of this report.

5. Financial Targets and Performance 2007/08

Revenue Out-turn

- 5.01 The actual out-turn for the year was a surplus of **£0.650 million**. It should be noted that the Board carried forward funding from 2006/07 of **£2.988 million**, and so expenditure incurred during the year was **£2.338 million** in excess of the in year allocation.
- 5.02 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.
- 5.03 **The Board's Reported Financial Out-turn for 2007/08.**

	£m Actual	£m Actual
Recurring income	190.223	
Recurring expenditure (before savings)	(191.046)	
Recurring savings	<u>1.704</u>	
Underlying recurring surplus / (deficit)		0.881
Non-recurring income	5.416	
Non-recurring expenditure (before savings)	(5.897)	
Non-recurring savings	<u>0.250</u>	
Non-recurring surplus/(deficit)		<u>(0.231)</u>
Financial surplus/(deficit) for the year		<u>0.650</u>
Figures confirmed by Robert Kemp, NHS Borders Director of Finance		

5.04 **Actual Out-turn versus Original Plan**

	£m	£m
Projected Break Even (1 April 2007)		0
Costs (over)/under budget:		
Clinical Executive	(0.545)	
Family Health Services	0.693	
Externally provided services	(0.210)	
Other services	<u>0.574</u>	0.512
Income over/(under) budget:		
Various		0.142
Savings over/(under) budget:		
General		(0.004)
Actual surplus reported (31 March 2008)		<u>0.650</u>

Costs under budget (net £0.512 million):

5.05 Clinical Executive costs were over budget by £0.545 million, the majority of which (£0.536 million) is represented by overspend within Borders General Hospital due to:

- Increased spend on high-cost oncology drugs;
- Medical staff costs in obstetrics, gynaecology, anaesthetics and paediatrics;
- Nursing costs due to increased activity; and
- Supplies costs in theatre and orthopaedics.

5.06 Family Health Services costs were under budget by £0.693 million, £0.666 million of which is due to reduced costs in prescribing.

5.07 Externally provided services were over budget by £0.210 million, which mainly comprises unplanned activities.

5.08 Other services show an underspend of £0.574 million which results from a £1.468 million planned underspend against allocated reserves, countered by overspends in Support Services & Central Costs of £0.707 million and Pay & Service Modernisation overspend of £0.330 million.

Income over budget (net £0.142 million):

5.09 The amount of income received was over budget by £0.142 million as a result of an over-recovery of £0.238 million relating to Health Centre rents recovery. The income generated from Out of Area Treatments and unplanned activities was also noted as having been under-recovered by £0.145 million in the year.

5.10 **Capital Expenditure Out-turn**

Capital Expenditure 2007/08	£m
Capital expenditure in year	5.338
Capital Grants given	-
	5.338
Capital Receipts	(0.044)
Capital Grants received	-
Capital Resource Limit out-turn	<u>5.294</u>
Capital Resource Limit	<u>5.338</u>

Capital Expenditure

5.11 Of the £5.3 million spent on capital projects during the year, the largest sum (£1.6 million) has been on preparatory works at Borders General Hospital for a range of services including the Borders Emergency Care Centre. A further £1.1 million has been spent by the Medical Equipment Committee including expenditure on the replacement of a number of previously leased medical equipment. The remaining £2.5 million has been spent on a number of smaller projects and IT equipment.

PFI/PPP Projects

5.12 The Board does not have any PFI/PPP projects in place.

6. Financial Forecast 2008/09

Forecast for 2008/09

6.01 The table identifies that after savings the Board plans to break-even for the financial year 2008/09.

	£m Forecast	£m Forecast
Recurring income	190.329	
Recurring expenditure (before savings)	(193.595)	
Recurring savings	<u>2.325</u>	
Underlying recurring surplus / (deficit)		(0.941)
Non-recurring income	4.555	
Non-recurring expenditure (before savings)	(6.420)	
Non-recurring savings	<u>2.806</u>	
Non-recurring surplus/(deficit)		<u>0.941</u>
Financial surplus/(deficit) forecast for the year		<u>0</u>
Figures confirmed by Robert Kemp, NHS Borders Director of Finance		

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

Cost Pressures

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

Pay Costs

6.04 Payroll costs are expected to rise by 4.3%. This is due to a combination of the recently announced pay award and because significantly more staff than usual will receive an increment as a result of longer Agenda for Change (AFC) pay scales. Each 0.5% of additional payroll costs equates to additional costs of approximately £0.5 million to NHS Borders.

Drug Prices

6.05 Increases in the cost of new acute drugs is expected to result in an 8% increase in the overall drug budget in 2008/09.

Use of Non-Recurring Funding, Planned Savings and Service Redesign

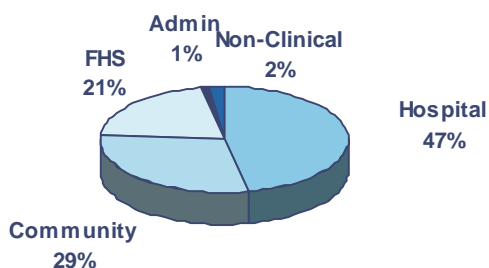
- 6.06 Of the required savings of £5.1 million, over £2.8 million is expected to be achieved through non-recurring savings. Measures that have been announced to date include temporary bed and ward closures across a number of services, delaying or cancelling a number of planned investments and strict vacancy and bank staff controls.
- 6.07 One of the aims of the Strategic Change Programme, as discussed in Section 4, is to identify savings on a recurring basis, without impacting upon the quality of service provided. However, many of the solutions proposed to date will take time in order to realise their full savings potential. This has significant financial implications for NHS Borders, and additional shorter term initiatives are being considered and debated by the Board.

Action Point 5

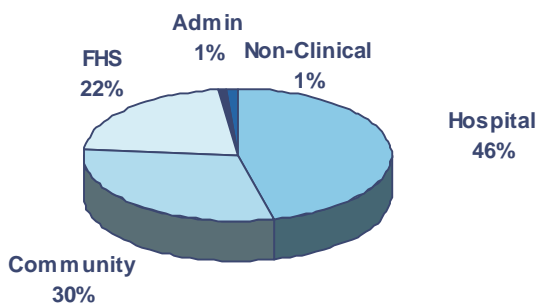
Profile of Board Expenditure

- 6.08 As NHS Borders continues to redesign services to provide more locally based care, we would anticipate that the balance of expenditure between hospital and community services would continue to shift.
- 6.09 However, analysis of the profile of the expenditure does not indicate any change in the way in which services are being provided at NHS Borders, as indicated in the charts below. However, the Borders Emergency Care Centre project may assist the Board in achieving a more locally based care approach, to enable resources to be redirected from the main hospital site to the community.

**Profile of NHS Borders Expenditure
2007/08**



**Profile of NHS Borders Expenditure
2006/07**



7. Systems of Internal Control

Statement on Internal Control

- 7.01 The Code of Audit Practice requires us to review and report on the Board's Statement of Internal Control.
- 7.02 The Board has used the correct format for its Statement and has outlined the processes it has employed to identify and evaluate risks. In addition, key elements of the Board's control framework have been highlighted.
- 7.03 The Statement also outlines areas where the Board plans to improve internal control. These include:
- Aligning the strategic risk register more closely with Corporate Objectives;
 - Validation and testing of comprehensive service continuity plans and incorporating disaster recovery for key IT systems;
 - Continuing development of information systems to provide assurance to the Board that arrangements are in place for monitoring compliance with Working Time Regulations for all staff.
- 7.04 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Audit Issues

- 7.05 In the course of reviewing the VAT returns for the organisation, it was noted that some returns were not being submitted within the required deadlines. While the final year-end claim was submitted promptly, it is recommended that NHS Borders ensures that all HMRC returns are submitted within the timescales required.

Action Point 6

Follow Up Report on control matters raised for action in previous years

- 7.06 We followed up the Board's progress in implementing recommendations made by ourselves in the prior year and by the previous external auditor. Our Follow Up Report was considered at the Audit Committee meeting on 31 March 2008.
- 7.07 At the time of reporting, of the 62 agreed actions, progress was as follows:

Status	Annual Report to Members 2006/07	Interim Management Report 2006/07	Follow Up Report 2006/07	Total
Action Implemented	9	8	7	24
Action in Progress	6	7	7	20
Limited/Little Progress to Date	-	4	2	6
Not yet due for Implementation	1	2	1	4
No Longer Applicable	1	6	1	8
Total	17	27	18	62

7.07 At our interim visit we noted that the Board was making progress towards implementation of the outstanding recommendations. However, 48% remained outstanding at that time. As part of our final audit visit we have followed up our higher risk recommendations and note progress below:

- **Development of Business Continuity and Disaster Recovery plans, and the testing of these plans** – it has been noted that progress has been made in several departments across the organisation, but the Board recognises the need to continue to develop in this area;
- **Appointment of a professional accountancy qualified member of the Audit Committee** – Decisions on appointments to the Board are not taken by NHS Borders, but by Scottish Government. While the composition remains as it is, the Audit Committee should continue to manage the situation as appropriate;
- **Production of guidance on the purchase of goods and services to all departments** – PECOS is now in operation across NHS Borders and user training is provided by the Head of Procurement to staff when they are first given access to the system. However, management recognise the requirement to produce detailed guidance is still outstanding;
- **Prioritisation and implementation of planned IM&T improvements** – Draft disaster recovery plans have now been prepared and a pilot project is underway in pharmacy, where documents and templates are currently awaiting review. This pilot scheme will involve an assessment of particular scenarios to ensure that improvements progress smoothly. However Board wide arrangements require to be implemented at the soonest opportunity;
- **Review of business critical databases** – New and improved databases have been installed at Borders General Hospital and in General Practices across the NHS Borders network. Improved network storage and back-up capacity has reduced reliance on other back-up media. An IT security gap analysis has been undertaken, from which an IT security workplan has been created to help NHS Borders move towards achievement of the appropriate British Standards and NHSScotland's IT security framework.

Action Point 3

Interim Management Letter 2007/08

7.08 Our Interim Management Letter was presented to the Audit Committee on 31 March 2008. The report contained a number of recommendations to improve controls; except for those matters noted at paragraph 7.07 above, none were graded as higher risk.

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 this action plan during our 2008/09 audit.

Action Point 3

National Fraud Initiative (NFI)

7.10 We submitted a return to Audit Scotland in February 2008, providing information on NHS Borders' arrangements for the management of its 2006/07 NFI project. We concluded that NHS Borders appeared to have established satisfactory systems to fulfil the requirements of the 2006/07 NFI exercise.

7.11 As outlined in CEL(2007)18 the Scottish Government Health Directorates supports Audit Scotland's proposal that NHS bodies should continue to participate in NFI.

7.12 The 2008/09 exercise will commence on 6 October 2008 with payroll being the only mandatory dataset for submission by health bodies; however health bodies may also take the opportunity to submit trade creditors' payment history information for comparison.

Fraud Strategy and Submission

7.13 CEL(2008)03 informed Boards of the need for an updated strategy to combat NHS fraud and set out specific action in relation to the strategy. NHS Borders maintains a fraud log in line with CFS guidance and involves CFS wherever necessary in the investigation of fraud. In addition, updates are provided to each Audit Committee of any new frauds or developments in frauds already highlighted to the Committee.

7.14 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 one significant fraud of over £5,000 in relation to the claiming for bank nurse shifts which had not been worked by the individual in question. This matter has been referred to Counter Fraud Services and prosecution is possible. A number of smaller value issues in relation to cheque fraud were also noted in the return to Audit Scotland.

8. Other Matters

Car Park Tariffs

- 8.01 An independent review group concluded that parking at NHSScotland hospitals is a service for patients and should be free of charge. However, the group noted that there are some sites where parking charges may be unavoidable and, in these circumstances, boards should follow the guidance contained in CEL (2008)01.
- 8.02 The group recommended that a maximum charge should be set following a review of existing car parking schemes. In the interim, boards should implement a maximum daily charge of £3.00. Where current charges are under £3.00, they should remain unchanged. Boards may wish to introduce a time limit of around four hours to prevent congestion.
- 8.03 NHS Borders does not currently charge for car parking at any of its sites. A Car Parking Group is in place to assess the parking needs of the organisation, specifically at Borders General Hospital. Proposals from this group will be brought to the Board during 2008/09 and a decision will be made if charges are necessary.

Waste Management

- 8.04 CEL(2008)02 required NHSScotland Boards to incorporate the actions contained in Health Facilities Scotland's Waste Management Action Plan 2007 into their waste management and property strategy timetables. NHS Borders has progressed well against the Action Plan, with many recommendations already completed. Management continues to monitor progress on a regular basis against any ongoing actions.

Management of Controlled Drugs

- 8.05 CEL(2007)21 and CEL(2007)07 passed the responsibility for the management and enforcement of the Controlled Drug Regulations to NHS Boards in Scotland. Boards were required to appoint an Accountable Officer to implement the new governance arrangements so that they support healthcare professionals and encourage good practice in the use of controlled drugs when clinically required by patients.
- 8.06 In response to these CELs, NHS Borders has appointed the Chief Pharmacist to the role of Accountable Officer for the management of controlled drugs for the organisation. The Accountable Officer has addressed responsibilities of the role and is working to raise the profile of the requirements of the CELs across the organisation.

Appendix 1: Action Plan

Ref	Recommendation	Risk Category	Management Response and Action	Responsible Officer	Date of Implementation
1	NHS Borders should ensure that the 2008/09 draft accounts are reviewed by a senior manager before being passed to external audit, thereby avoiding an excess level of audit adjustments.	Medium	A review of the annual accounts cycle will be undertaken to ensure that sufficient time is allowed for senior manager review of the draft accounts prior to release to external audit.	Gerry O'Brien	For 2008/09 annual accounts cycle
2	Management should make full use of all aspects of the risk management system to ensure that they are gaining maximum benefit from the system.	Low	NHS Borders will continue with development of use of the risk management system	Robbie Pearson	Ongoing during 2008/09
3	Management should continue to monitor progress against previously raised recommendations, particularly in relation to disaster recovery and business continuity processes, to ensure that all actions are achieved in line with original timescales.	Medium	Quarterly updates on progress against audit recommendations will be submitted to the Audit Committee for review.	Gerry O'Brien	From June 2008 Audit Committee
4	The Board should ensure that appropriate action is taken over any proposed changes to its investment plans to ensure that recurring savings are achievable.	High	The Board will monitor progress on a quarterly basis and will agree to any necessary changes to the action plan following these reviews	Robert Kemp	Ongoing during 2008/09
5	The Board should continue to identify long-term recurring savings plans whilst also introducing initiatives which will release shorter-term non-recurring savings.	High	Agreed. This will be monitored on a quarterly basis.	Robert Kemp	Ongoing during 2008/09
6	Staff should be reminded of the requirement to submit all HMRC returns within the deadlines stipulated by that organisation.	Low	A timetable will be prepared setting out the dates by which statutory returns and payments are required. The timetable will be circulated to all relevant staff.	Drummond Gordon	July 2008

Appendix 2: Other Reports Submitted During the 2007/08 Audit

Reports submitted by PricewaterhouseCoopers LLP during the 2007/08 audit process

Planning visits

1. Annual Service Plan

Interim Visits

2. Follow up of 2006/07 Audit Recommendations
3. Interim Management Letter 2007/08 Audit

Final Accounts Visit

4. Financial Management – Best Value - Use of Resources Toolkit
5. Audit Opinion
6. Annual Report to Members

Health Reports finalised by Audit Scotland during 2007/08

1. Managing long-term conditions (16 August 2007)
2. Primary care out-of-hours services (30 August 2007)
3. Health and community care bulletin (11 October 2007)
4. Priorities and Risks Framework: A national planning tool for 2007/08 NHSScotland audits (16 November 2007)
5. Overseas staff in the NHS – pre-employment checks (29 November 2007)
6. Overview of Scotland's health and NHS performance 2006/07 (14 December 2007)
7. A review of free personal and nursing care (1 February 2008)

Freedom of Information (Scotland) Act 2002

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