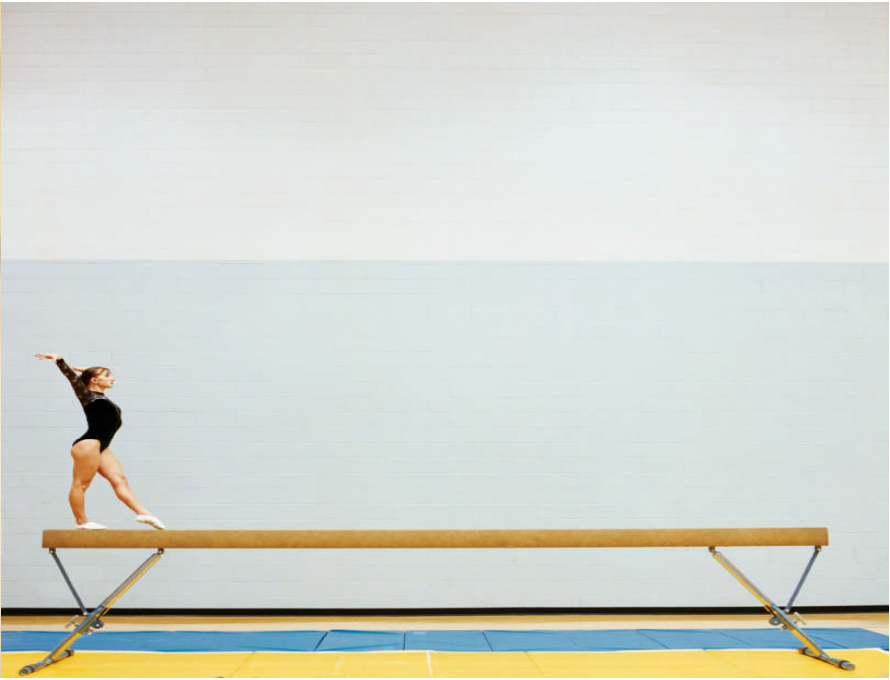


NHS Health Scotland Annual Report to Members and the Auditor General for Scotland 2008/09



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The principal objective of our audit procedures is to enable us to express our opinion, in line with the requirements of the Audit Scotland Code of Audit Practice, on the financial statements as a whole. Our audit opinion does not guarantee that the financial statements are free from misstatement.

Any oral comments made in discussions with you relating to this report are not intended to have any greater significance than explanations of matters contained in the report. Any oral comments that we make do not constitute oral advice unless we confirm any such advice formally in writing.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks at NHS Health Scotland or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

1. Introduction

Purpose of this report

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2008/09 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

Scope of the Audit

Our overall responsibility as external auditor of NHS Health Scotland (“Health Scotland”) is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007.

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.

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.

Our audit has been planned and conducted to take account of these wider perspectives.

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.

This Annual Report to Members, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.

Acknowledgment

We would like to formally extend our thanks to all Health Scotland managers and staff for the assistance they have given us during the audit process.

PricewaterhouseCoopers LLP
Kintyre House
209 West George Street
Glasgow
G2 2LW
26 June 2009

2. Executive Summary

Audit Opinion and Accounting Issues (Section 3)

Our audit opinion addresses both the true and fair statement of Health Scotland's financial statements for the year ended 31 March 2009 (2008/09) and the regularity of its income and expenditure in the year.

We are pleased to report that our opinion on the true and fair view on the financial statements is **unqualified**.

Our regularity opinion on income and expenditure is also **unqualified**.

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.

A number of accounting issues were discussed with management during the audit. The most significant of these are set out below:

- Going concern;
- Financial instruments ; and
- International Financial Reporting Standards (IFRS).

Financial Management and Performance (Section 4)

Health Scotland has reported a saving against its revised Revenue Resource Limit for the year of £51,000 compared with an original forecast underspend and authorised carry forward of £245,000.

Health Scotland achieved all 3 of its key financial targets.

Financial Forecasts for 2009/10 (Section 5)

Health Scotland has prepared detailed financial forecasts as part of its long term financial planning. The financial forecasts for 2009/10 include projected net expenditure of £27.789 million with a predicted underspend against RRL of £0.276 million.

Governance and Business Risks (Section 6)

Our review of Health Scotland's governance arrangements was presented in the 2008/09 Interim Management Letter. In overall terms, Health Scotland has in place appropriate arrangements and is taking steps to implement changes to further enhance the governance environment.

Systems of Internal Control (Section 7)

The Code of Audit Practice requires us to review and report on Health Scotland's Statement on Internal Control. Based on our normal audit

procedures, we do not disagree with the disclosures contained within the Statement on Internal Control.

We are required under ISA 260 to report to you any material weaknesses in the accounting and internal control systems, including general computer controls identified during the audit. The results of our work on systems of internal control were communicated to the Audit Committee in our Interim Management Letter on 24th April 2009 with the key findings summarised within Section 7. This also includes a summary of the progress made by Health Scotland in implementing recommendations we have made in previous years.

We have also reported separately in our Final Management Letter the recommendations for improvement coming out of our work on Information Technology General Computer controls.

Recommendations

We have not identified any recommendations for reporting in our annual report.

3. Audit Opinion and Accounting Issues

Audit opinion

Our audit opinion concerns both the true and fair statement of Health Scotland's financial results for the year ended 31 March 2009 and the regularity of its income and expenditure in the year.

We are pleased to report that our opinion on the true and fair view on the financial statements is **unqualified** and that our regularity opinion on income and expenditure is also **unqualified**.

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.

Audit Process

There were some delays in the receipt of the financial statements and supporting schedules. However, the quality of working papers provided and internal review process undertaken by management were of a high standard. Overall, we believe an efficient audit process was achieved and an effective working relationship exists with your staff.

Preparation and Approval

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

The Financial Statements were considered by Health Scotland's Audit Committee on the 26th June 2009 and approved and adopted at the Board meeting on 26th June 2009.

Unadjusted misstatements

Under ISA 260 - "Communication of audit matters to those charged with governance" - we are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature (i.e. items less than £2,000 in value).

As a result of our work, we proposed a number of audit adjustments, all but one of which were disclosure in nature. These have all been processed by management in the final version of the 2008/09 financial statements.

Accounting Issues

A number of accounting issues were discussed with management during the audit. The most significant of these are set out below:

Balance Sheet Position

Health Scotland is currently disclosing a net current liability of £569,000 on its balance sheet as at 31 March 2009 (2008: £606,000).

Under the current accounting arrangements as set out in the Financial Reporting Manual (FReM), Health Boards must show liabilities on the balance sheet without drawing down the equivalent cash to fund them. However, as the liabilities fall due, the cash will be requested from the SGHD to meet the payments.

We are satisfied that the accounts have been correctly prepared on a going concern basis.

Financial Instruments

From 1 April 2008, the accounting standards FRS 25, FRS 26 and FRS 29, addressing financial instruments, were applied across all NHS organisations. In very broad terms a financial instrument is a contract that gives rise to both a **financial asset** of one entity and a **financial liability or equity instrument** of another entity.

The adoption of FRS 25, 26 and 29 has resulted in increased disclosures within Health Scotland's accounts.

As part of the year end process we reviewed the disclosures presented by Health Scotland and discussed three specific requirements of the disclosure:

- The need to exclude intra-NHS balances from the financial instruments disclosure as they do not represent a contractual agreement to release funds;

- The need to exclude statutory assets and liabilities such as VAT and other taxes; and
- The need to include accruals as financial instruments except where there is no contractual agreement in place or where the liability has been created as a result of a statutory requirement imposed by government (such as Employer's NI contributions).

We are satisfied with disclosures made by Health Scotland in relation to FRS 25, 26 and 29.

International Financial Reporting Standards

During our interim audit we audited and agreed Health Scotland's Opening 2008/09 Balance Sheet at 1 April 2008 as part of the IFRS conversion process.

One adjustment was made by Health Scotland during this process for an employee benefits accrual of £93,000.

In order to prepare IFRS compliant accounts in 2009/10, Health Scotland will need to revise its accounting policies, change the format of its financial statements and include a significant number of additional disclosures. It will need to restate its 2008/09 comparative figures and report these together with its 2009/10 figures on an IFRS basis.

The next stage of the process is that a full set of IFRS accounts will be prepared for 2008/09 by the end of September 2009. These will be subject to audit review by end November 2009.

4. Financial Management and Performance 2008/09

	£m	£m
Recurring income	21.419	
Recurring expenditure (before savings)	(21.878)	
Recurring savings	<u>0.377</u>	
Underlying recurring surplus / (deficit)		(0.082)
Non-recurring income	4.160	
Non-recurring expenditure (before savings)	(4.160)	
Non-recurring savings	<u>0.133</u>	
Non-recurring surplus/(deficit)		<u>0.133</u>
Financial surplus/(deficit) for the year		<u>0.051</u>
Underlying recurring surplus / deficit as a percentage of recurring income		<u>(0.24)%</u>

Figures confirmed by Alan Crawford, Director of Resource Management

Performance during 2008/09

An analysis of how Health Scotland achieved its overall surplus of £51,000 for the year is given in the table to the left. This highlights the levels of recurring savings (£0.377m) which helped Health Scotland achieve its year end position.

The surplus reported includes a carry forward from 2007/08 of £184,000 meaning expenditure incurred during the year was £133,000 more than the revised in-year allocation.

In December 2008, the Board agreed to return £265,000 to the SGHD as a significant underspend was being projected for the year. The return of this sum is reflected in the income figures presented opposite hence is not included in the year end surplus. This amount was in relation to funding provided for the Scottish Centre for Healthy Working Lives.

Health Scotland had received confirmation that it would be able to carry forward £245,000 into 2009/10. However, as the actual year end surplus was lower than anticipated at £51,000, the need to fund the difference in the carry forward amount may create additional cost pressures for the year 2009/10.

Performance Against Budget 2008/09

The table below sets out Health Scotland's performance against its original budget. We do not express a specific audit opinion upon these figures which have been extrapolated from various reports and discussions with management.

Actual Out-turn versus Original Plan	£'000	£'000
Projected Break Even (1 April 2008)		0
Underspends		
Chief Executive's Office	81	
Equalities & Planning	48	
Public Health Science	115	244
Overspends		
Programme Design & Delivery	(160)	
Resource Management	(35)	(195)
Income		
Sale and distribution of publications	(1)	
Miscellaneous	3	2
Actual Surplus Reported 31 March 2009		51

At the start of 2008/09 Health Scotland brought forward a surplus of £184,000 from the previous financial year. In March 2008 the Health Scotland Board approved a breakeven budget for 2008/09 which anticipated a nil carry forward at the year end.

The actual year end outturn against RRL was an underspend of £51,000 which was made up of a number of over and underspends as shown in the table opposite. These were due to a variety of factors including:

Chief Executive's Office

The underspend of £81,000 was in part a result of underspends in projects, in particular the Social Marketing Communications Campaign and an alcohol-related project within the Scottish Centre for Healthy Working Lives. In addition, there were underspends in recruitment as part of the drive for efficiency savings.

Equalities & Planning

This directorate was newly established during 2008/09 and the budget during the year was predominantly for staffing. The under spend in staffing was £46,000 which represents slippage within the recruitment process and is the majority of the overall £48,000 under spend.

Public Health Science (PHS)

Underspends for this directorate arose mostly due to vacancy management in the Professional Support and Evidence for Action teams with £93,000 of the total underspend generated by the Professional Support team. The team leader from this team was seconded to the Programme Design & Delivery directorate during the year and has not yet been replaced which has generated efficiency savings as well as some savings in project costs.

Programme Design & Delivery (PDD)

The total overspend in this directorate arose largely as a result of staffing. During 2008/09 the PDD directorate was restructured and an extra team was created to cope with the growing work load for the directorate including the team leader mentioned under PHS above. In addition, a significant over spend in agency staffing was incurred by the marketing team to support increased workloads within the Web Services and Publishing teams.

Resource Management

The overspend for Resource Management is due to staffing which is over spent by £86,000 and off set by savings in other areas (largely £27,000 from Catering, Health & Safety). The staffing costs increased as more support staff were required to support the growing size of the organisation. There were also additional costs incurred in the employment of a temporary project manager to facilitate the transfer of the financial system to Cedar 3.4; and the creation of an additional post within the finance team to support the processing of invoices.

The Board's target for efficiency savings in 2008/09 was £347,000. This target was exceeded with efficiency savings reported amounting to £377,000.

Underspend Carry Forward

It is understood that Health Scotland will be able to carry forward the full amount of its underspend. This will be allocated by Health Scotland according to the normal bidding process subject to approval by the Corporate Management Team (CMT).

Performance against Key Financial Targets

Health Scotland is required to meet three targets each year as set by the Scottish Government Health Directorates (SGHD) as follows:

	Limit set by SGHD £'000	Actual Outturn £'000	Variance (over)/under £'000
Revenue Resource Limit	25,579	25,528	51
Capital Resource Limit	91	91	0
Cash Requirement	25,539	25,481	58

Health Scotland has achieved its three key financial performance targets.

Capital Expenditure

The initial capital allocation of £150,000 was reduced by SGHD to £91,000 to bring it in line with actual capital expenditure.

Asset Disposals

Health Scotland made no significant asset disposals during the year.

Payment Policy

During the year, the Scottish Government introduced a payment target of 10 payment days for all undisputed invoices across all public bodies. In 2008/09, average days taken by Health Scotland to pay creditors were 35 days in comparison to 23 days in 2007/08. Furthermore, 68% of invoices by value and 61% by volume were paid within 30 days compared with 82% and 83% respectively in 2007/08.

This issue arose due to three main reasons:

- The move from Strategix to Cedar E-Financials caused a back log of invoices to be processed in October. This backlog had been fully cleared by mid-November;
- Health Scotland continues to grow which has resulted in a larger volume of invoices to process and a higher level of pressure on the Finance team; and
- Due to the move to 'hot desking', delays have been noted in the authorisation process of invoices as the relevant signatories are more difficult to locate. Health Scotland staff are aware of this issue and actions are being taken in 2009/10 to improve performance.

Accruals and Trade Creditors

The year end balances for accruals and trade creditors have moved significantly compared to 2007/08 as follows:

	2008	2009	Movement
	£'000	£'000	£'000
Trade Creditors	-1,531	-56	1,475
Accruals	-145	-1,546	-1,401
Totals	-1,676	-1,602	74

Whilst the trade creditors balance has fallen by £1,475,000 year on year, the accruals balance has risen by £1,401,000, meaning there is minimal impact on the overall Creditors < 1 year balance year on year.

From discussions with staff at Health Scotland, this position arose as a result of the prompt closure of the Cedar purchase ledger at the year end where Health Scotland had previously kept the Strategix purchase ledger open for some time to allow invoices to be posted.

This system change created an increased workload for Finance staff as invoices which would previously have been processed and recorded as trade creditors had to be accrued manually.

5. Financial Forecasts for 2009/10

2009/10 Projected Outturn

	£m	£m
Recurring income	19.623	
Recurring expenditure (before savings)	(19.705)	
Recurring savings	<u>0.358</u>	
Underlying recurring surplus / (deficit)		0.276
Non-recurring income	8.164	
Non-recurring expenditure (before savings)	(8.164)	
Non-recurring savings	<u>0.000</u>	
Non-recurring surplus/(deficit)		<u>0.000</u>
Financial surplus/(deficit) for the year		<u>0.276</u>
Underlying recurring surplus / deficit as a percentage of recurring income		<u>1.41%</u>

Figures confirmed by Alan Crawford, Director of Resource Management

This table highlights Health Scotland's projected out-turn for 2009/10. This incorporates the carry forward from 2008/09, meaning it is projecting a year end carry forward of 1%.

The SGHD has confirmed that for 2009/10 Health Scotland has received an uplift on its baseline of 3.15%, giving an initial allocation of £18.4m, and will be required to generate efficiency savings of 2%. These savings can be retained for re-investment in other activities.

The need to achieve the 2% savings target represents an additional cost pressure for 2009/10. In the past, such efficiencies have been managed mostly via vacancy management as well as specifically identified efficiencies (e.g. the commissioning of a market research project in 2008/09 in a different way than previously). At present, Health Scotland does not have a detailed plan in place for how the efficiencies will be obtained. However, management are aware of the importance of achieving these efficiencies and progress will be monitored closely by the Board.

The areas identified where efficiencies will be re-invested are subject to the normal bidding process and approval by the CMT.

Future Cost Pressures

A number of future cost pressures have been identified in the 2009/10 budget as follows:

- Health Scotland will be required to undertake a project in relation to the 'Swine Flu' pandemic for which funding implications are not year clear;
- Health Scotland received authorisation for a carry forward of £245,000 for 2008/09 into 2009/10. The actual surplus for the year was £51,000 resulting in a shortfall in available carry forward of £194,000 which Health Scotland will be required to fund in 2009/10;
- As mentioned above, the need to achieve efficiency savings of 2% is seen as a significant cost pressure for 2009/10; and
- Going forward to 2010/11 and beyond, funding uplifts are forecast to be lower or flat hence robust budget monitoring for 2009/10 will be critical. Financial planning for 2010/11 and beyond will also require revision.

6. Governance and Business Risks

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

- Overall Governance Arrangements
- Partnership Working
- Service Sustainability
- Financial Management
- Performance Management
- People Management
- Information Management (including e-Health Plans)

We have also reported in detail on a number of these areas in our Interim Management Letter (IML) for 2008/09 submitted to the Audit Committee on 24th April 2009.

Overall Governance Arrangements

Health Scotland has an appropriate governance committee framework in place with the Board supported by Audit, Staff Governance, Remuneration and Health Governance Committees.

As reported in our IML, the arrangements in place are currently under redevelopment. As part of this process, two new Board members have been recruited, one of whom has a financial background in the NHS.

There has been continued organisational growth over the last three years, with the workforce growing by approximately 20 staff per annum. This has put pressure on the core corporate functions and increased the importance of workforce planning.

Partnership Working

Internal Audit has undertaken a review of partnership working. The main areas recommended for improvement relate to:

- The introduction of a checklist to be followed prior to any partnership arrangement being approved;
- Suggested improvements in the elements of a central repository for service level agreements and contracts; and
- Suggested improvements to the systems and procedures to support consistent and effective contract management.

Health Scotland has moved to Cedar E-financials as part of the shared services programme. Despite initial teething problems this system is now fully implemented and key reconciliations are up to date.

Impact of Single Outcome Agreements

Health Scotland supports outcome-focused planning for health improvement within Community Planning Partnerships and Councils within the context of the Single Outcome Agreements. However, from discussions with management, the single outcome agreements have had no material impact on Health Scotland activities to date.

QIS Review

The NHS Quality Improvement Scotland (QIS) Standards for Clinical Governance, Patient Safety, and Risk Management cover the full range of standards in the field. The next QIS peer review of Health Scotland will take place in April 2010.

Service Sustainability

Health Scotland has a shared vision of where the organisation will be in the next 3-5 years. The Corporate Framework, supported by annual business plans, sets out the overall strategy of the organisation based on the Scottish Government requirements for Better Health, Better Care.

The vision for 2009/10 has been documented in the Business Plan which has been approved by the Board.

Financial Management

The Board takes ownership for the financial plan submitted to the SGHD and the budget for 2009/10 has been approved by the Board.

Budgetary control is critical to the robustness of any financial management system. We are pleased to report that sound budgetary control is in place at Health Scotland.

The financial position of Health Scotland is monitored at CMT level on a monthly basis with regular reports to the Audit Committee and Board in line with their timetables of meetings. As in prior years, Health Scotland has experienced some challenges in utilising its budget and expenditure is subject to ongoing review and challenge by the Audit Committee.

Arising from the scrutiny of budget performance, the Board agreed to return £265,000 to SGHD in January 2009 in relation to a project for the Scottish Centre for Healthy Working Lives. Due to the time required to prepare and staff the project, it was determined that the funding would not be fully spent in 2008/09 and £265,000 should be returned.

A high concentration of transactions occurred in quarter four, with 20% of the in year cash requirement spent in the last month of the year creating significant pressure overall and particularly on the finance and procurement teams. In response, the Audit Committee has approved a profiling of budgets to be undertaken in June 2009, using data from the first quarter of the year to inform budget phasing over the remaining nine months, with the expectation that spend will be incurred at a more steady pace throughout 2009/10.

Performance Management

Performance is reported to the Board on a quarterly basis.

A Business Planning Tool is used to allow real time monitoring of progress against specific projects, allowing staff at all levels to access up-to-date information through the intranet.

Non financial performance is also monitored through this Tool, as Project Leads are required to input milestones and outputs for each project and report against these on a quarterly basis. Performance Management reports are provided to the Board and the Corporate Management Team on a quarterly basis and these include traffic light and exception reporting as appropriate.

The Directorate of Equalities and Planning became operational on 1 April 2008. This was set up to support the ongoing delivery of the Fair for All agenda in the NHS in Scotland, and the reduction of inequalities in Health. This includes the provision of a corporate planning and performance management function to Health Scotland.

People Management

Staff Governance Review

As part of a national performance study, we undertook a review of the staff governance action plan with the objective of ensuring that the staff governance action plan in place at Health Scotland addressed issues arising from:

- Staff Survey results;
- Mandatory SWISS statistics on people management; and
- Outstanding issues from the previous year's action plan.

The outcome of this work was reported separately to the Head of Human Resources. The key issues arising were:

- (i) At the time of our review, the 2009/10 Staff Governance Action Plan had not yet been drafted; and
- (ii) Several actions from the 2008/09 Action Plan remained outstanding at the time of our review and it was noted that some of the original timescales were unrealistic.

These issues have been discussed by the Staff Governance Committee and management will take appropriate actions to address the points raised. We will follow up these recommendations as part of our 2009/10 audit procedures.

Agenda for Change

Health Scotland completed the Agenda for Change job assimilation process in 2007/08 with staff being notified of their new pay grades/scales. There has been no negative impact on Health Scotland to date in terms of staff leaving.

Equal Pay

Health Scotland is committed to equal pay and has published an Equal Pay Statement on its extranet. Health Scotland's approach to Equality and

Diversity Impact Assessment is set out in its 'Planning to reduce inequalities' strategy and also in its Gender Equality Scheme.

Health Scotland has received no claims relating to equal pay and therefore has not disclosed any potential contingent liability in the 2008/09 financial statements.

Absence Management

Health Scotland achieved a sickness absence rate of lower than the 4% target for the year ended 31 March 2009. This target is being closely monitored by the Board.

Information Management

Best Value audits are being carried out across the public sector to help protect taxpayers' interests by examining the use of resources and to report on the delivery of outcomes for people who use services. The Best Value audits are being carried out in a cycle focusing on distinct areas each year.

In 2008/09 the Use of Resources Best Value audit focused on Information Management.

Information Management Best Value Audit involved the completion of a toolkit prepared by Audit Scotland, covering areas such as: Information Governance and Leadership; Information for Decision Making; Service Delivery; Compliance and Control; and Knowledge Management. The conclusions from the toolkit provide an assessment of current performance as well as assisting a judgement on the capacity of the service to improve.

The evaluation for each module is classed as: does not meet basic requirements; basic practices; better practices; and advanced practices.

A summary of Health Scotland's assessment against the 5 key areas of the toolkit is summarised below:

Information Management Toolkit Module	Evaluation
Information Governance and Leadership	Better Practices
Information for Decision Making	Basic Practices
Service Delivery	Basic Practices
Compliance and Control	Basic Practices
Knowledge Management	Better Practices

The detailed findings will be reported separately to management. However, the key findings at the date of our review are as follows:

- Health Scotland does not currently have adequate processes in place to identify and monitor datasets held. A Knowledge and Products database is currently under development to capture all information held for internal and external use.
- At present there are no metrics/key performance indicators in place to measure performance or benchmark the services provided by the Information Communication and Technology (ICT) department against other services;
- Regular compliance reporting against relevant standards should be introduced as soon as possible; and
- Health Scotland does not currently have an Information Management Strategy in place.

We understand that considerable progress has since been made by management.

Information Technology General Computer Controls

As reported in our 2008/09 Interim Management Letter, Internal Audit issued a report during the year highlighting a number of weaknesses in the current continuity and contingency plans in place at Health Scotland.

Health Scotland has put in place an action plan to address these weaknesses and progress against these actions is being monitored by the Audit Committee.

As part of our external audit work, we undertook a review of the Information Technology General Controls (ITGC) in place at Health Scotland. Two recommendations for further improvement, neither of which is rated as higher risk, have been included in our Final Management Letter.

7. Systems of Internal Control

Statement on Internal Control

The Code of Audit Practice requires us to review and report on Health Scotland's Statement on Internal Control.

Health Scotland 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 Health Scotland's control framework have been highlighted.

The Statement also outlines three areas where Health Scotland continues to monitor internal control:

- The change to Cedar E-financials caused a number of issues in the year and a number of control improvements have been put in place to address weaknesses identified;
- Project and budget slippage and the associated impact on outturn against RRL were monitored closely during the year; and
- Internal Audit identified a number of weaknesses in the current IT infrastructure which have been addressed.

Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Systems of Internal Control

We are required under ISA 260 to report to you any material weaknesses in the accounting and internal control systems, including general computer controls identified during the audit. The results of our work on systems of internal control were communicated to the Audit Committee in our Interim

Management Letter on 24th April 2009.

The report contained six recommendations to improve controls, none of which were graded as higher risk.

Health Scotland 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 2009/10 audit.

Follow up of outstanding recommendations

We followed up Health Scotland's progress in implementing recommendations made in the prior year. Our Follow Up Report was considered at the Audit Committee meeting on 24th April 2009.

At the time of reporting, of the eleven agreed actions, progress was as follows:

Status	Annual Report to Members 2007/08	Interim/Final Management Report 2007/08	Follow Up Report 2007/08	Total
Action Implemented	0	1	3	4
Action in Progress	2	1	2	5
Limited/Little Progress to Date	0	1	0	1
Not yet due for implementation	1	0	0	1
No Longer Applicable	0	0	0	0
Total	3	3	5	11

None of the previous recommendations being followed up had been deemed to be higher risk.

National Fraud Initiative

Health Scotland is taking part in the 2008/09 NFI exercise across Scotland, having submitted payroll information to the NFI database in October 2008. The NFI database has now identified matches and reports have been available to Health Scotland from 11 February 2009 for investigation.

Health Scotland has fully investigated the two matches received with no required actions identified.

A formal paper will be presented to the Audit Committee during the summer months.

In addition, outwith the NFI process, there was one instance of whistleblowing in the year. This issue has been fully investigated by Health Scotland with no required actions identified.

In response to this incident, Health Scotland continues to strengthen the controls around declarations of interest, recently introducing the requirement for all relevant staff to estimate the number of hours spent on external appointments.

Internal audit

The role of internal audit is determined by management and therefore its objectives differ from ours. It is part of our approach to gain an understanding of the internal audit function to determine if it would be effective and efficient to use their work.

During 2008/09 Bentley Jennison continued to act as Health Scotland's internal auditors. We have reviewed the reports produced by internal audit and have, where appropriate, placed reliance on their work, specifically:

- Efficiency Strategy;
- Partnership Working;
- IT Procedures; and
- Performance Management.

Appendix A – Communications to Management

International Standard on Auditing (“ISA”) (UK&I) 260 – Reporting to those charged with Governance, requires that the External Auditor communicates certain matters to those charged with governance.

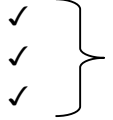
Those charged with Governance are taken to be the Members of the Audit Committee with responsibility discharged through the regular meetings of the Audit Committee during the year. Summarised below are the requirements set out within ISA 260 together with reference to the relevant communication with you during 2008/09 or comments as appropriate.

Communication Required under ISA 260	Reference/Comment
Engagement letters	Signed Engagement Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	Audit Planning document reported to 16 January 2009 Audit Committee meeting and confirmed no member of audit team has any direct interest, financial or otherwise, in Health Scotland.
Audit Approach and Scope	Audit Planning document (reported to Audit Committee on 16 January 2009).
Accounting Policies/Practices with a Material Effect on the Financial Statements	Section 3 of our Annual Report to Board Members and the Auditor General for Scotland.
Potential Effects of Material Risks and Exposures	Audit Planning document (16 January 2009).
Audit Adjustments	Section 3 of our Annual Report to Board Members and the Auditor General for Scotland.
Material Uncertainties relating to Going Concern	None identified.

Communication Required under ISA 260	Reference/Comment
Disagreement with Management about Matters that could be Significant to the Financial Statements	Not applicable.
Expected Modifications to the Auditor's Report	No modifications identified. A true and fair opinion provided.
Letter of Representation	Signed by Management on 26 June 2009.
Material Weaknesses in Internal Control	Internal Controls findings reported separately in our Interim Management Letter (24 April 2009), Section 7 of our Annual Report to Board Members and the Auditor General for Scotland.
Fraud	Discussed fraud arrangements with the Chair of the Audit Committee (16 January 2009), Management throughout audit process.
Laws and Regulations	We have not identified any material breaches of laws and regulations in the period which impact on the 2008/09 Financial Statements.
Audit Materiality	Audit Planning document – presented to Audit Committee on 16 January 2009.
Fair Value Measurement and Disclosure	Included in representation letter, signed by Chair and Chief Executive on 26 June 2009.
Related Parties	Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.

Formal Reporting to Management during 2008/09

During the year we have presented a number of formal reports to Management and the Audit Committee and produced certain outputs. Our principal outputs during 2008/09 are summarised below:

Formal Output	Timing
Audit Plan	16 January 2009
Detailed Timetable for 2008/09 Financial Audit	16 January 2009
IFRS Opening Balance Sheet Letter	26 February 2009
Follow-up of 2007/08 Recommendations	24 April 2009
Interim Management Letter	24 April 2009
Letter to Head of HR regarding the process for preparation of the Staff Governance Action Plan	30 April 2009
Annual Report to Board Members and the Auditor General for Scotland	26 June 2009
Audit Opinions 1. True and fair view on the financial statements ✓ 2. Regularity of income and expenditure ✓ 3. Remuneration Report (sections) ✓  Unqualified Audit Opinions	26 June 2009

Freedom of Information Act (Scotland) 2002

In the event that, pursuant to a request which the Board has received under the Freedom of Information Act (Scotland) 2002 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), NHS Health Scotland is required to disclose any information contained in this report, it will notify PwC promptly and will consult with PwC prior to disclosing such report. NHS Health Scotland agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC, NHS Health Scotland discloses any of this 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.

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