
NHS Borders

Annual Report to Members and the
Auditor General for Scotland

30 June 2011

For the financial year
ended 31 March 2011

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Executive Commentary

Introduction - Section 1

Our overall responsibility as external auditor of NHS Borders (“the Board”) is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice (“the Code”), revised and published in March 2007. We have a dual reporting responsibility for the audit: to the Board Members of NHS Borders and to the Auditor General for Scotland.

Financial Statements and Audit Opinion - Section 2

The financial statements of the Board for the year ended 31 March 2011 have been prepared to comply with 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. We are pleased to report that our opinion on the financial statements for the year ended 31 March 2011 is **unqualified**.

The financial statements and supporting schedules were presented to us for audit within the agreed timetable and the quality of working papers provided by management was of a high standard. Overall an efficient audit process was achieved through an effective working relationship with your staff.

As a result of our work, we proposed a number of audit adjustments, predominantly disclosure in nature. All adjustments have been accepted by management and were processed within the 2010/11 financial statements.

2010/11 Financial Performance - Section 3

Through a concerted cost management focus, the achievement of efficiency savings in excess of those budgeted, as well as the receipt of additional and unbudgeted non-recurring funding, the Board met its break-even revenue target, achieving a total Revenue Resource Limit (RRL) surplus of £0.1million.

The most significant capital projects undertaken in the period include the procurement of a new CT scanner, the implementation of the new Patient Management system and the renal project at the Borders General Hospital. These projects were part of an overall Capital Resource Limit (CRL) and outturn of £6.2million.

Looking Forward - 2011/12 - Section 4

The year ahead is expected to bring further challenges to all NHS Bodies. The public sector must respond to a deep and protracted funding squeeze as public finances are rebalanced. In particular, the Scottish budget has been reduced by £1.3 billion in 2011/12. While the Health sector in Scotland has been protected from the vast majority of these budget reductions, the achievement of financial balance will continue to be a significant challenge for management.

The Board has identified prescribing costs, out of area referrals and non-pay uplift’s, such as increasing costs, as the most significant 2011/12 cost pressures. While the Board has overachieved in respect of efficiency savings targets in the past few years, it will become increasingly difficult to fund these significant financial challenges through efficiency savings and non-recurring income alone. During 2011/12, it is important that tangible benefits and cost savings are realised from activities such as service redesign.

Capital funding has also been reduced during 2011/12, with the Board limited to a budget of £3.8million, £2.4million less than 2010/11. This continues the trend of sustained capital expenditure reductions that will inherently give rise to greater repairs and maintenance expenditure, placing increasing pressure on revenue budgets.

Governance and Control - Section 5

We have assessed the Board's overall governance arrangements including a review of Board and key Committee structures and minutes, financial reporting to the Board, and risk management. We consider that appropriate structural and reporting arrangements are in place. We have also considered key areas of risk to the Board including partnership working; service sustainability; performance management; and people management. Appropriate evidence of activity has been provided by the Board.

The Code of Audit Practice requires us to review and report on the Board's Statement on Internal Control. The Board has used the correct format for its Statement and has outlined the processes it had employed to identify and evaluate risks. In addition, key elements of the Board's control framework have been highlighted. Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

Section 1: Introduction

Our Annual Audit Report which follows is designed to set out the scope, nature and extent of our audit, and to summarise our opinion and conclusions on issues arising. Specifically this will direct your attention to matters of significance that have arisen out of the 2010/11 audit process and to confirm what action is planned by management to address the more significant matters identified.

Our overall responsibility as external auditor of NHS Borders (“the Board”) is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice published in March 2007 (“the code”). 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 the “appointed auditor”, 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 arising from the audit of financial statements to those charged with governance, in NHS Borders case this is the Board. This Annual Audit Report to Members, together with previous reports to the Audit Committee throughout the year, discharges our responsibilities under ISA 260.

We would like to formally extend our thanks to the Board’s managers and staff for the assistance they have given us during the audit process.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Appointed Auditor
Glasgow
30 June 2011

Section 2: Financial Statements and Audit Opinion

Financial Reporting

The financial statements for NHS Borders for the year ended 31 March 2011 have been prepared to comply with the UK HM Treasury Reporting Manual (FREM) and International Financial Reporting Standards (IFRS).

Accounts have been produced using the template and supplementary guidance, as issued by the Scottish Government Health Directorate (SGHD) during 2010/11 and approved by Scottish Ministers.

Audit Process

The draft financial statements and supporting schedules were made available to us at the start of our audit allowing us to progress and complete the audit within the agreed timescales.

The quality of the financial statements and working papers produced by management were of a good standard. Overall, we believe an effective working relationship exists between ourselves and your managers and staff and an efficient audit process was achieved, as has been the case in prior years.

Approval

The Financial Statements were presented to the Audit Committee on 23 June 2011 and will be approved by the Board on 30 June 2011.

Unadjusted Misstatements

Under ISA 260 - "Communication of audit matters to those charged with governance", we are required to report to members of the Board all unadjusted misstatements which we have identified during the course of our audit, other than those which we deem to be of a trivial nature.

As a result of our work, we proposed a number of audit adjustments, predominately disclosure in nature. All adjustments have been accepted by Management and processed within the 2010/11 financial statements.

Audit Opinion

Our audit opinion concerns the true and fair statement of the Board's financial results for the year ended 31 March 2011 and the regularity of its income and expenditure for the year.

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

Accounting Issues

During the course of our final audit work we discussed a number of accounting issues with management, with the more significant matters outlined below.

Agreement of inter NHS Balances

The debtor and creditor balances disclosed within SFR 30 between NHS Borders and NHS Lothian does not agree. The difference of £0.490million is subject to ongoing discussion between NHS Borders and NHS Lothian, with NHS Borders disputing that they owe NHS Lothian £0.490million relating to the 2010/11 financial year.

The ongoing dispute relates to 2 areas:

Shortfall Redistribution

As reported in previous years, NHS Borders has in place various SLA's with NHS Scotland Boards, including NHS Lothian the largest Board in the SEAT consortium. The SLA is supported by a detailed costing model which was devised during 2008/09. The model is applied by NHS Lothian and is used to calculate the amount which NHS Lothian is due to recover from each SEAT member on an annual basis. NHS Borders agrees with NHS Lothian the sum of money due on an annual basis. The implementation of the costing model was agreed to be phased in over a 3 year period (2009/10 – 2011/12).

However, during 2010/11 NHS Lothian invoiced the Board for an additional £0.255million over and above the amount agreed through the SLA. NHS Lothian have stated that this is to take into account an under recovery in income on their behalf for the financial year 2010/11. Following discussions with Management and review of supporting documentation it is noted that this under recovery by NHS Lothian is not attributable to NHS Borders but believed to be attributable to underpayments by other members of the SEAT group. Therefore, NHS Borders are not liable for the additional invoice issued and have not accrued the expenditure within the financial statements.

Charges for Haemodialysis day cases

NHS Lothian has been charging the Board for haemodialysis day cases as part of the agreed service level agreement between the Board and NHS Lothian. However, invoices have also been raised by NHS Lothian through UNPAC, resulting in Borders receiving duplicate invoices. As NHS Borders view these invoices as duplicate invoices they have not paid the invoices. NHS Borders are currently seeking resolution of this in respect of £0.235million with NHS Lothian and are seeking to ensure arrangements are in place that avoid duplicate charging going forward.

In both instances, evidence was obtained to demonstrate NHS Border's communication with NHS Lothian in relation to the above two areas and support NHS Borders not reflecting £0.490million as expenditure within the 2010/11 financial statements. Going forward, NHS Borders should continue to seek resolution with NHS Lothian.

Action 1

Equal Pay

The National Health Service in Scotland has received a number of claims for equal pay including related back pay. During the year to 31 March 2011 there were 16 grievance and employment tribunal claims registered against the Board. The NHS Central Legal Office (CLO) has been instructed by the Management Steering Group of NHS Scotland in this regard and is co-ordinating the legal response of NHS Scotland to this issue.

The Board has included a Contingent Liability Note in its financial statements, setting out this matter. The wording used within this note reflects guidance issued by Audit Scotland and is consistent with prior year disclosures.

Asset Lives – Change in Accounting Estimate

During 2010/11 a review was initiated by NHS Greater Glasgow and Clyde in relation to understanding and adopting a consistent approach to asset lives across the NHS in Scotland. Therefore, in accordance with IAS16 and with Scottish Government Health Directorate approval a change in Accounting Policy, which introduces a method of depreciation which better reflects the pattern of consumption of depreciated replacement cost assets and their components, has been introduced for the 2010/11 financial statements onwards.

The board engaged James Barr (appointed valuer) to perform an assessment of all NHS Borders' assets and their current useful economic lives and subsequently applied this new approach.

The adoption of the revised methodology has resulted in reduced recurring annual depreciation charges. The reduction in the depreciation charge for the year ended 31 March 2011 for NHS Borders is:

	£million
Reduction in the depreciation charge for 2010/11	0.497

However, Going forward, this new approach requires that regular maintenance expenditure made on shorter-life assets such as internal doors and fittings funded from revenue despite the elements being treated as capital on initial recognition.

We have confirmed that this accounting treatment has been applied consistently, in accordance with the guidance issued.

Section 3: 2010/11 Financial Performance

Performance against Key Financial Targets

The Board's financial performance has been presented in respect of 3 key statutory metrics: Income, Revenue expenditure and Capital expenditure, as set out below:

	2010/11 Budget £million	2010/11 Actual £million	Variance £million
Income	219.3	219.7	0.4
Expenditure	219.3	219.6	(0.3)
2010/11 Surplus/(Deficit)	-	0.1	0.1
Capital Expenditure	6.2	6.2	-

The Board budgeted to breakeven in the year ended 31 March 2011. A final outturn surplus of £0.1million was recorded.

During the year, Management faced a number of challenges in achieving the budgeted financial outturn, as reflected in the summary analysis below.

Income

£188.1million of the income received by the Board during 2010/11 can be attributed to Scottish Government Health Directorate ("SGHD") grant allocations, with the remainder being received through a number of other sources such as external healthcare purchasers, prescribing income and laundry services.

Due to the vast majority of income being received from SGHD, there is a greater degree of certainty in achieving the Board's total budgeted income figure. The £0.4million positive variance can be attributed to income the Board receives from services provided to outside customers such as occupational health services, as well as greater than budgeted income collected by Clinical Boards.

Expenditure

Expenditure in the period totalled £219.6million, £0.3million greater than budget. However, in arriving at this year end position, several cost pressures led to adverse budgetary variances, that required management action in the form of realising greater than budgeted efficiency savings and implementing contingency plans.

This is summarised below:

- Expenditure with External Healthcare Providers totalled £2.1million more than budget, a continuation of the 2009/10 trend. The overspend can principally be attributed to high cost procedures being undertaken by SLA partners at higher than budgeted activity levels;
- Instruments and sundries at the Borders General Hospital were £0.7million overspent, principally as a result of higher than budgeted cost increases;
- The Estates and Facilities Directorate overspent its expenditure budget by £0.5million, largely as a result of a £0.3million overspend on patient transport which arose due to the increased use of private ambulances and the transportation cost of renal haemodialysis patients treated by NHS Lothian;

- At the end of March the Board had £3.5million in approved funding not yet underway, including contingencies for unforeseen pressures included in the financial plan. These funds have been utilised in achieving NHS Borders year end position.
- Several smaller expenditure overspends were compensated for by the overachievement of the Board's efficiency savings target, with £9.1million being achieved against a budget of £7.9million. Savings achieved included an unbudgeted rates rebate from Scottish Borders Council of £0.7million and the £0.5million saving recognised from the revision to asset lives, as discussed on page 7.

Capital Expenditure

The main focus of capital work during 2010/11 was the renal project at Borders General Hospital (£1.8million), the implementation of the Patient Management System (£0.4million) and the procurement of a CT scanner (£0.7million). Capital expenditure was as forecasted throughout the year and in line with available capital funding.

Severance costs

Included within the financial statements this year is an analysis of severance costs. During 2010/11 NHS Borders paid £0.1million in severance costs. None of the payments made were a result of compulsory redundancies.

Section 4: Financial outlook for 2011/12

The year ahead is expected to bring further challenges to all NHS Bodies. The public sector must respond to a deep and protracted funding squeeze as public finances are rebalanced. In particular, the Scottish budget has been reduced by £1.3 billion in 2011/12. While the Health sector in Scotland has been protected from the vast majority of these budget reductions, the achievement of financial balance will continue to be a significant challenge for management.

The Board has agreed the following budget for 2011/12, in respect of Income, Expenditure and Capital spend:

	2011/12 Budget £million
Income	219.1
Expenditure	219.1
2010/11 Surplus/(Deficit)	0.0
Capital Expenditure	3.8

2011/12 Cost Pressures

The Board has highlighted several cost pressures in its 2011/12 financial plan that may impact on its ability to achieve its agreed budget. The more significant and challenging of these are summarised below.

Prescribing Cost Growth

Following detailed analysis by the Board's prescribing advisers and a benchmarking exercise with other Boards an uplift of 5% (£1.2million) on drugs costs has been set for 2011/12. This will be an area which will be closely monitored during 2011/12 as historically, unanticipated pressures have arisen over the course of a year in the area of prescribing.

Out of Area Referrals

Out of Area Referrals will continue to be a financially challenging area for the Board during 2011/12. An estimate of the increased cost of the NHS Lothian Service Level Agreement is contained in the financial plan, which relates to the final year and full implementation of the new costing model in NHS Lothian. In the case of non acute out of area referrals work is ongoing to ensure that all referrals are appropriate and necessary.

Non Pay Uplift

The financial plan takes into account the recent increase in VAT charges from 17.5% to 20%. Non-pay uplift has been estimated at 1.5% and in the case of utilities, as a result of the uncertain and escalating wholesale prices, a 12% funding increase has been put aside for 2011/12, principally to reflect anticipated increases in supplier costs.

Savings Plans

The board continues to approach the delivery of these required savings through the Efficiency Savings Programme. It is expected that NHS Borders must deliver substantial efficiencies in 2011/12. The recurring and non recurring aims for 2011/12 are to generate £8.6million of funds, of which a minimum £5.4million should be recurring savings.

While the Board has overachieved in respect of efficiency savings targets in the past few years, it will become increasingly difficult to fund these significant financial challenges through efficiency savings and non-recurring income alone.

As part of the Efficiency Savings Programme, project leads are required to prepare project initiation documents and submit business cases detailing anticipated benefits, savings and costs for their specific schemes. During 2011/12, the projected tangible benefits and cost savings to be realised from these activities, such as service redesign, will continue to be managed through the Board's strategic workplan and it's Efficiency Programme.

Capital Plan

The Scottish Government has confirmed the Board's formula capital allocation of £1.4million for 2011/12. In addition to the formula allocation, the Board has £2.1million specific funding for the continuation of the Jedburgh Health Centre project which commenced in 2010/11 and is legally committed, and additional £0.25million resource available following brokerage with the Scottish Government in 2010/11, giving rise to a total confirmed capital budget of £3.8million.

This period of sustained capital expenditure budget reductions will inherently give rise to greater repairs and maintenance expenditure that will place increasing pressure on revenue budgets.

Action 2

Additional capital resource may be available through sale of properties which are surplus to the Board's requirements. The Scottish Government has agreed in principle that capital proceeds can be retained by the Board where retention of such funds will support the capital plan.

The Scottish Government has however confirmed that £2.0million capital funding earmarked for the Health Centres schemes at Galashiels and Lauder can be utilised for other traditional capital schemes should a revenue approach be confirmed and adopted with the Scottish Futures Trust for such projects. Given the timescales involved, the Board is not anticipating any of this funding in its 2011/12 capital plan

2012/13 and Beyond

Despite only receiving confirmation of a 1 year funding allocation from SGHD, the Board has prepared outline financial plans for 2012/13 and 2013/14. However, given the level of uncertainty in the economic environment, these plans contain a series of assumptions in respect of both funding and likely expenditure growth.

Section 5: Governance and Internal Control Arrangements

Overall Governance Arrangements

The established Committee framework at the Board remains in place, incorporating Audit, Staff Governance, Risk Management, Clinical Governance, Community Health & Care Partnership (CHCP) and Strategy and Performance Committees, as well as the Board Executive Team (BET). Each of these Committees meet on a regular basis with the CHCP, Audit and Governance Committees being chaired by a non-executive member, while the Risk Management and Strategy and Performance Committees are chaired by a member of the Board Executive Team.

Statement on Internal Control

The Code of Audit Practice requires us to review and report on the Board's Statement on Internal Control. 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 and details of the approach to compliance with Best Value guidance outlined by SGHD in March 2011. Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Systems of Internal Control

Over the term of our external audit appointment, we review those key financial processes and controls which could have a direct impact on the fair statement of balances within the financial statements. Our audit testing included individual walkthroughs of the specific financial processes in place. In addition, on a rotational basis every three years, we undertake more detailed testing of certain key financial controls to ensure that these controls continue to operate as expected. For 2010/11 this detailed work included:

- Sales and Receivables(efinancials system);
- Purchasing and Payables (PECOS System);
- Treasury and Cash Management (efinancials system);
- Payroll (SSPS system); and
- Financial Accounting for Property, Plant and Equipment (efinancials system).

In addition, we reviewed NHS Borders's IT general control environment, as it relates to the core financial systems.

The results of our work on systems of internal control were communicated to the Audit Committee in our Interim Management Letter in March 2011. The report contained 3 recommendations to improve controls, none of which were graded as higher risk or business critical in nature.

Management has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion.

Follow up of outstanding recommendations

In addition to our work on internal controls we followed up the Board's progress in implementing external audit recommendations made in the prior year. We identified 31 recommendations of which 24 have either been fully or partially implemented. Our Follow up of Prior Year Recommendations Report was considered at the Audit Committee meeting on 31 March 2011.

National Fraud Initiative

The National Fraud Initiative (NFI) brings together data from health bodies, councils, police and fire rescue bodies 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.

The 2010/11 NFI project is a two year programme. The Board has run both payroll and creditors data sets and in February 2011 were notified of 53 recommended matches requiring further investigation. These investigations have been completed with no fraudulent activity being uncovered.

National Performance Audits

In order to ensure the Board monitors national Audit Scotland studies and the actions recommended in each, the Risk Management Board acts as a 'clearing house' for all Reports and agrees the allocation of these to groups and committees of the Board for any further action.

Improving Public Sector Purchasing

At the request of Audit Scotland, we were required to perform targeted follow up work on one of their National Performance Reports: *Improving public sector purchasing* (published July 2009) during the year.

As per our review we can confirm that ongoing progress is being made by NHS Borders to further refine and strengthen the Board's procurement arrangements.

Results of the two recent Performance Capability Assessments (PCA) have shown an improvement from 31% in 2009/10 to 49% in 2010/11. This was predominately achieved by raising the profile of the Procurement function within the Board and improving the Procurement Steering Group governance arrangements. However the assessment has raised a number of gaps in the Board's procurement capability looking ahead:

- There is a lack of one consolidated contract register and a lack of supplier management. There is therefore no consistent organisational view of contract spend and opportunities. As part of the PCA it was recommended that a central contract register is created to capture all contracts used
- There is no organisational awareness of the composition of trade spend. It was recommended that the Board raise the profile and strategic positioning of the procurement cycle by adopting key procurement principals.

Going forward, the Board should look to ensure it manages the Intensive Improvement Activity Action Plan in respect of the recommendations raised.

Action 3

Community Health and Care Partnerships

During 2010/11 the board has entered into the 'Cheviot' partnership agreement. This redesign programme represents a shift in the balance of care that will be delivered between NHS Borders and Scottish Borders Council.

Audit Scotland issued several new performance reports during the year including the Community Health and Care Partnership Report in June 2011. Therefore, it is important that management take steps to address relevant key findings identified within these reports.

Action 4

Appendices

Appendix 1: Action Plan

To assist management in assessing each audit finding and recommendation, we have assessed the risk to the organisation of each of the recommendations which have not yet been fully implemented and have categorised each recommendation according to the criteria shown below:

High	Significant control weakness requiring immediate attention by management
	Control weakness identified which needs to be rectified but where there is no material impact on the achievement of the control objectives
Low	Minor control weakness identified

The following recommendations have been raised within the body of this report:

Ref	Recommendation and Risk Rating	Management Response, Responsible Officer and Implementation Date
1	<p>Action 1</p> <p>The Board is currently in dispute with NHS Lothian over 2 separate items, leading to differences in their SFR 30 positions. While we acknowledge management's efforts in resolving these issues, we would recommend that management re-engage NHS Lothian on these issues to ensure they are resolved satisfactorily.</p> <p>Risk Rating - Moderate</p>	<p>Management Response:</p> <p>During 2010/11, correspondence to NHS Lothian confirmed that payments have been made by NHS Borders in-line with the agreed SLA. It was also noted that NHS Lothian had been charging NHS Borders for haemodialysis day case patients as part of the SLA as well as an UNPAC. NHS Borders will re-engage with NHS Lothian to resolve the 2 items currently in dispute, though there is no anticipation that further payment will be made.</p> <p>Responsible Officer:</p> <p>Carol Gillie, Director of Finance</p> <p>Implementation Date:</p> <p>September 2011</p>
2	<p>Action 2</p> <p>The Board must ensure that during this period of sustained capital expenditure budget reductions that capital expenditure will not be cut back at the risk of greater repairs and maintenance expenditure that will place increasing pressure on revenue budgets.</p> <p>Risk Rating - Low</p>	<p>Management Response:</p> <p>The Board will continue to prioritise capital expenditure in-line with organisational objectives.</p> <p>Responsible Officer:</p> <p>David McLuckie, Director of Estates & Facilities</p> <p>Implementation Date:</p> <p>September 2011</p>

Ref	Recommendation and Risk Rating	Management Response, Responsible Officer and Implementation Date
3	<p>Action 3</p> <p>Going forward, the Board should look to follow up on the Intensive Improvement Activity exercise performed in November 2010, in respect of effective procurement, and agree action plans in respect of the recommendations raised.</p> <p>Risk Rating - Low</p>	<p>Management Response:</p> <p>The Intensive Improvement Activity exercise supported by National Procurement for NHS Borders was completed during November 2010. This exercise complemented the work of the Procurement Capability Assessment, from which an action plan was issued.</p> <p>The action plan details an owner and responsible officer for each action with an agreed timeline for completion. The Procurement Steering Group (PSG) will monitor completion of actions throughout 2011/12.</p> <p>The PSG action plan progress is managed by the PSG at its monthly meetings. Updates are provided to the Efficiency Group which reports by exception to the Clinical Executive Operational Group.</p> <p>Responsible Officer: David McLuckie, Director of Estates & Facilities</p> <p>Implementation Date: March 2012</p>
4	<p>Action 4</p> <p>Audit Scotland's review of Community Health Partnerships (CHPs) highlighted that in general CHPS are failing to deliver their primary objective of bridging the gap between primary and secondary healthcare and between health and social care. While no specific criticisms were levelled at the NHS Borders Community Health Care Partnership (CHCP), the Board should seek to engage its CHCP partners in order to ensure an appropriate response is developed to the several recommendations raised within the report.</p> <p>Risk Rating - Moderate</p>	<p>Management Response:</p> <p>Management are in agreement with the recommendations raised in the report and will engage with its CHCP partners to ensure an appropriate response is developed in response to the issues identified.</p> <p>Responsible Officer: Jane Davidson, Chief Operating Officer</p> <p>Implementation Date: October 2011</p>

Appendix 2: Communication to Management

International Standards 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 is 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 2010/11 or comments as appropriate.

Communication Required under ISA 260	Reference/Comment
Engagement Letters	Signed Engagements Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	Audit Planning document report to 22 nd December 2010 Audit Committee and confirmed no member of audit team has any direct interest, financial or otherwise, in NHS Borders.
Audit Approach and Scope	Audit Planning document (reported to Audit Committee 22 December 2010). During the year there were no changes to our plan or risk assessment that we are required to communicate with you.
Materiality	Audit Planning document (reported to Audit Committee 22 December 2010)
Form and Timing of Communications	Audit Planning document (reported to Audit Committee 22 December 2010)
Accounting Policies/Estimates/Disclosures	Sections 3 of our Annual Report to Board Members and the Auditor General for Scotland.
Correspondence with management on significant matters	Discussed and resolved matters arising with management throughout audit process.
Letter of Representation	Signed by the Chief Executive on 30 June 2011.
Other matters significant to the oversight of financial reporting process	None identified.
Material Uncertainties relating to Going Concern	None identified.
Related Parties	Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.
Fraud	Discussed fraud arrangements with the Chair of the Audit Committee 22 December 2010 and management throughout audit process separately within our Annual Report.
Material Weaknesses in Internal Controls	Internal Controls findings reported separately in our Interim Management Letter 31 March 2011
Improving Public Sector Purchasing: Follow-up	Separate report issued June 2011 as requested by Audit Scotland
Letter to the Chair of NHS Borders following our review of high earners, as requested by the Cabinet Secretary for Health and Wellbeing	Letter issued end of March 2011.

This report has been prepared for and only for NHS Borders in accordance with the terms of our engagement letter dated and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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