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Dumfries and Galloway NHS Board

Annual audit report to Dumfries and Galloway NHS Board
and the Auditor General for Scotland

Year ended 31 March 2011

21 June 2011

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

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

Nothing in this report constitutes an opinion on a valuation or legal advice.

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

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The Board has introduced a five-year change programme 'putting people first' which commenced in April 2011 and sets out the Board's revised approach to developing person-centred, community-based services. This programme has been developed from the overarching themes arising from responses received during public consultation over the clinical services strategy.

The programme includes shared visions with Dumfries and Galloway Council for transforming services and sets out four key objectives covering patient independence, care, skills and capacity of staff and utilisation of technology.

The business case for the proposed redevelopment of Dumfries and Galloway Royal Infirmary was submitted to the Scottish Government in August 2010. However, no decision has yet been made on funding and the Board has been requested to provide analysis on alternate costing models, including non-profit distribution, to aid the decision-making process. The outcome of this decision will have a significant impact on the Board's future plans for service redesign.

The Board maintains an integrated governance framework to provide an appropriate structure for maintaining decision-making, accountability, control and behaviour. Following public election of non-executive board members in June 2010, a number of workshops and discussion groups have been held during 2010-11 for new non-executive members to improve business knowledge and understanding of the requirements of their roles. Continued participation at these workshops, as well as experience gained from involvement in key governance committees, should continue to enhance scrutiny and challenge of key decisions and future service planning.

The Board met its financial targets and the financial outturn was consistent with revised forecasts submitted to the Scottish Government Health Directorate ('SGHD') following management's mid-year review. This evidences the overall continuing robustness of management's internal systems for financial monitoring and control.

Management continues to focus on identifying and achieving cash savings through its cash releasing efficiency savings plan. Following identification and implementation of a number of schemes, the Board achieved cumulative recurring savings of £6.8 million in 2010-11, marginally short of the local delivery plan target.

The Board's financial plan for 2011-16 identifies a requirement to deliver recurring cash efficiencies of £7.5 million for 2011-12. As part of the Board's cash releasing efficiency savings plan over 200 schemes have been identified to achieve this target.

The Board has received approval from the Scottish Government to carry forward the surplus of £4.2 million against the revenue resource limit as at 31 March 2011. Financial plans forecast an in-year deficit for 2011-12, resulting in a carry forward of £2.0 million at 31 March 2012. Management has identified a number of risks facing achievement of financial forecasts, including inflation changes and the impact of new external developments and cost pressures. A financial plan risk matrix has been established in order to identify relevant actions and controls to mitigate any potential impact to available funding.

Management has developed a framework for embedding Best Value characteristics through standing committees. This includes ways in which these committees might receive systematic assurance on Best Value characteristics and provide this to the accountable officer.

We evaluated management's assessment of arrangements for achieving Best Value in relation to asset management and found that the Board demonstrated 'better practice' or 'advanced practice' in all areas assessed.

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the Code"). This specifies a number of objectives for our audit.

This report summarises our work for the year ended 31 March 2011.

We wish to record our appreciation of the continued co-operation and assistance extended to us by Dumfries and Galloway NHS Board staff during the course of our work.

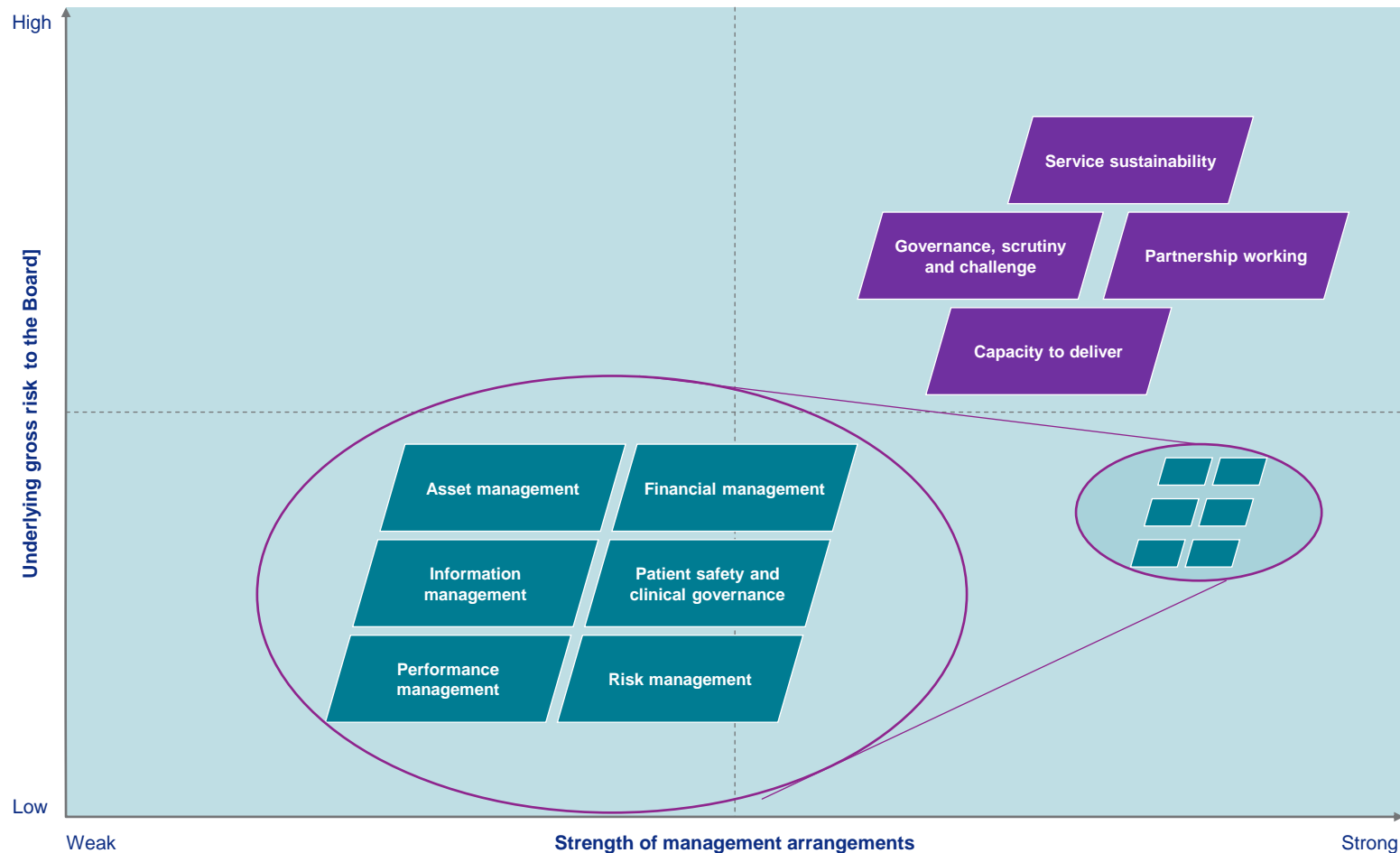
Priorities and risks	
Management continues to consider its approach to service redesign. Significant risks continue to exist in relation to governance, partnership working and capacity to deliver, but internal processes reduce the likelihood and potential impact on the Board.	Page 5
We continue to report significant risks in respect of capital projects as a result of uncertainty over future available capital funding for the proposed redevelopment of Dumfries and Galloway Royal Infirmary. In our view, continued uncertainty over the availability of funding for this project continues to present ongoing challenges to recurring service sustainability.	Page 7
Financial statements	
We have issued unqualified audit opinions on the 2010-11 financial statements and the regularity of transactions reflected in those financial statements.	-
No technical accounting matters were considered during the audit process. Overall, management provided good quality analysis and no audit adjustments were required.	Page 9
Use of resources	
The Board met its financial targets: the overall outturn against the revenue resource limit was £4.2 million, an increase of £2 million against forecasts submitted to the Scottish Government Health Directorate with the Board's local delivery plan.	Page 10
We validated management's completion of the asset management and governance and Best Value toolkits. We agreed that arrangements in both areas were generally 'better practice', with occasional demonstration of 'advanced practice'.	Page 14
We assessed management's response to Audit Scotland's national reports, including <i>Scotland's public finances, responding to the challenge</i> and <i>Improving public sector purchasing</i> . In the majority of areas, management has taken reasonable action to mitigate risks and improve processes at a local level.	Page 16
Governance	
There have been no significant changes and the statement on internal control continues to confirm the existence of a comprehensive framework of internal control.	Page 17
Internal audit did not complete their plan for 2010-11 in full and a number of reports have been rolled over to 2011-12. Reports completed at May 2011 did not include any significant risk recommendations.	Page 17
Arrangements to prevent and detect fraud are embedded in internal controls, including processes to comply with requirements in respect of the National Fraud Initiative.	Page 17

Priorities and risks

Summary of arrangements

Competing risks and pressures continue to present new and recurring challenges. Overall, the impact of sector priorities present a high risk to the Board.

The diagram summarises the potential underlying risks to achievement of strategic objectives, compared to the strength of management arrangements to mitigate these risks. The following pages summarises those areas where we believe that significant risks exist, but where management arrangements are likely to mitigate or eliminate these risks to a greater or lesser extent.



Arrangements in respect of governance, scrutiny and challenge, partnership working and capacity to deliver are likely to mitigate the impact of significant risks.

Continued uncertainty over the proposed redevelopment of Dumfries and Galloway Royal Infirmary will result in recurring risks to service sustainability.

<p>Service sustainability</p>	<p>The Board reviews service redesign on a continual basis. A key feature of service redesign and sustainability lies in proposed plans for the redevelopment of Dumfries and Galloway Royal Infirmary. At June 2011 the Scottish Government is still considering the submitted business case for the redevelopment. However, there is continued uncertainty over what funding will be available to the Board to compete this project. This creates risk over service sustainability due to the significant maintenance backlog in the infirmary.</p> <p>Furthermore, any final decision over the redevelopment project will impact the current carrying value of the infirmary within the financial statements. Management should ensure that an impairment review is carried out once plans have been agreed with the Scottish Government.</p>	<p>The uncertainty over the redevelopment project prohibits us from forming an opinion over the suitability of management's actions to respond to this identified risk.</p> <p>However, we recognise management's continued discussions over this issue, both internally, and with the Scottish Government as different options are considered.</p>
<p>■ In our view significant risks exist; continued uncertainty over available funding has prevented management from confirming the relevant courses of action required to correct this issue.</p>		
<p>Governance, Scrutiny and challenge</p>	<p>In June 2010, ten non-executives were appointed to the Board through public election. Management identified a risk over the availability of suitable skills and experience to perform the duties required of non-executive members and to provide effective scrutiny and challenge of operations.</p> <p>A number of workshops and discussion groups were held during 2010-11 for the new members to improve business knowledge and understanding of the requirements of their collective roles and corporate responsibilities; these and have continued into 2011-12. These have included workshops on finance, public health, workforce planning. This has assisted management in identifying development areas to improve and maintain the governance skills of new board members.</p>	<p>The design and implementation of actions identified by the Board should assist in mitigating against the identified risks.</p> <p>Our review of committee minutes demonstrated increased discussion and levels of scrutiny by non-executives during 2010-11. Continued participation at training events and workshops by board members should continue to assist in developing the relevant knowledge and skills of non-executives, and enhance their understanding of the duties delegated to them within the Board's governance structure.</p>
<p>■ In our view risks exist, but actions have been identified to address these risks.</p>		

<p>Partnership working</p>	<p>As part of a national programme the Board will take over responsibility for the provision of healthcare services within Dumfries prison from 1 November 2011. Potential financial risks exist in relation to prescribing liabilities, human resources and the level of funding to be provided by the Scottish Government Health Directorate to support this function.</p> <p>A local implementation group has also been established to consider the various issues around the transfer.</p> <p>The Board has also continued to work closely with Dumfries and Galloway Council under the single outcome agreement which has been revised. This includes close working at executive level as well as operational level where relevant. We evidenced this whilst completing the asset management Best Value toolkit this year, for example in coordination over property strategy.</p>	<p>The design and implementation of actions identified by the Board should mitigate against the identified risks involved with this service transfer if they continue to operate effectively.</p> <p>The Board will need to continue to review the skill mix of nurses involved in this transfer in order to minimise any overtime required which management do not expect will be funded by the Scottish Government Health Directorate.</p>
<p>■ In our view significant risks exist, but actions have been identified which are likely to address the problem.</p>		
<p>Capacity to deliver</p>	<p>As in previous years, risks remain around future workforce planning and capacity to deliver, especially in relation to nursing staff where a relatively large proportion of staff are approaching retirement. Recruitment of medical staff remains challenging which carries an underlying risk in maintaining compliance with the European Working Time Directive.</p> <p>The new general management structure implemented in April 2011 includes a working group to monitor vacancy control which management believe will aid recruitment and retention of staff within the Board.</p> <p>A workforce directorate strategy is in place for 2010-14, for which a number of human resource, occupational health and training and development targets ('HOT') have been set. These include focus on recruitment and selection.</p>	<p>The design and implementation of actions identified by the Board should assist in mitigating against the identified risks.</p> <p>However, continual review of staffing is paramount in order to maintain quality of service delivery. Regular discussion at both operational and strategic level should aid management in identifying potential staff shortages at an early stage.</p>
<p>■ In our review risks exist, but actions have been identified to address these risks.</p>		

Management anticipated risks around capital projects and the useful lives of fixed assets; no audit adjustments were required and matters were concluded in a timely manner.

Low priority recommendations have been reported separately to management.

Areas of HIGH audit risk			
Area	Value (£'000)		KPMG comment
	2010	2011	
Capital projects	6,418	16,511	<ul style="list-style-type: none"> The Board agreed with the Scottish Government to amend its capital resource limit following slippage in the timing of a number of projects; these projects are included in the 2011-12 allocations. We have concluded that financial disclosures in this respect are complete and accurate. The business case for the redevelopment of Dumfries and Galloway Royal Infirmary was submitted to the Scottish Government in August 2010. A decision is still outstanding, although the Board has been requested to submit further analysis on alternate costing models to aid the decision-making process. Due to the uncertainty over the future approach to be taken to this project, management has not undertaken any review of potential impairment of the current available facilities.
Fixed asset useful lives - depreciation	6,445	4,974	<ul style="list-style-type: none"> In December 2010 the Scottish Government Health Finance Directorate advised a proposed amendment to existing methodologies for assessing the useful lives of buildings held at depreciated replacement cost. Management identified those buildings and components impacted by the proposed change with the assistance of the District Valuer. The useful life of relevant components was amended to the highest individual component life of each building, ie its total estimated useful life, in line with the advised methodology, and the depreciation charge revised accordingly. This resulted in a reduction of £383,000 in depreciation for 2010-11. We have concluded that management's approach to calculation of depreciation appears reasonable.

Systems and controls

Preparation of the financial statements:

- Draft financial statements were not available at the agreed start of the audit on 4 May 2011. We agreed with management to review those schedules available as the audit progressed and a completed set was made available, consistent with the Scottish Government Health Directorate NHS accounts template, on 19 May 2011. The draft directors' report and operating financial review was presented for our consideration on 6 May 2011, earlier in comparison to 2009-10.

Control environment:

- Overall, management's approach to gathering data for the financial statements is efficient, but improvements could be made to the overall processes for collating this information within the financial statements for presentation to external audit. Areas for improvement include preparation and availability of key information requested by external auditors in advance of audit fieldwork.

The Board met its three financial targets – revenue resource limit, capital resource limit, and cash requirement.

The 2011-12 financial plan anticipates an in-year deficit against the revenue resource limit utilising £2.2 million of the £4.2 million carry forward from 2010-11.

Achievement of the plan will be challenging due to the need to achieve identified savings targets of £7.5 million to achieve the planned financial outcome.

Achievement of targets

The Board achieved all three of its financial targets for 2010-11. Management maintained its continuing commitment to the financial plan and this was evidenced by regular review of financial results, as well as routine monitoring of the progress of the Board's capital plan. Monthly reports displayed investigation of variances and implementation of corresponding corrective action to ensure that overall spending was maintained in line with annual forecasts within the Board's local delivery plan.

Performance against financial targets for 2010-11 was:

	Final allocation (£'000)	Outturn (£'000)	Variance (£'000)
Revenue resource Limit	269,264	265,057	4,207
Capital resource limit	16,513	16,511	2
Cash Requirement	292,000	291,555	445

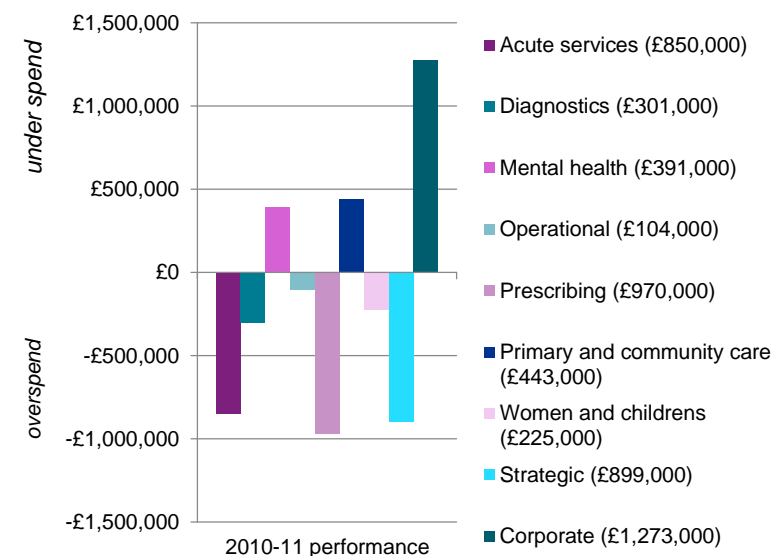
The financial plan for 2010-11 anticipated an in-year break-even position for the financial year resulting in an overall carry forward at 31 March 2011 of £2.2 million. As part of the local delivery plan, management agreed to deliver this surplus to recognise the level of cash releasing efficiency savings required to fund the proposed redevelopment of Dumfries and Galloway Royal Infirmary. This surplus was removed from directorate budgets at the start of 2010-11 and held within reserves.

Management's mid-year review, reported to the Board in December 2010, highlighted an estimated £3.5 million of flexibility arising from anticipated releases from energy and capital charge budgets, anticipated additional prescribing discounts and a review of the Board's available reserves. These savings were set off against reported total forecast overspends of £1.5 million from the Board's operating and corporate directorates.

This resulted in a revised in-year forecast surplus of £2 million and an overall forecast surplus of £4.2 million against the revenue resource limit.

At March 2011 operating and corporate directorates reported a net overspend against revised budgets of £1.2 million. Flexibility within reserves at the year end was reported as £3.2 million, resulting in an achieved in-year surplus of £2 million in line with management's revised projections.

An analysis of the net overspend as reported to management is included below.

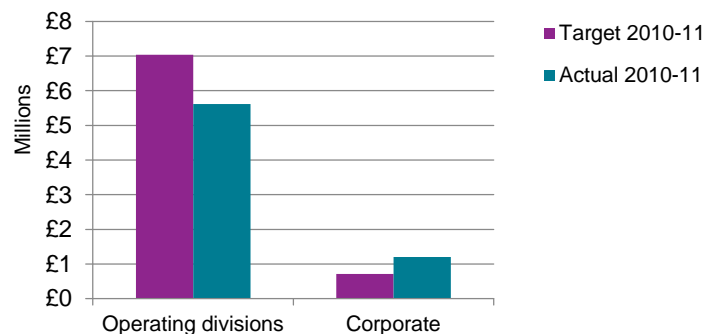


The movement of £1.3 million in corporate services includes the £383,000 reduction in depreciation arising from management's review of the useful lives of fixed assets to ensure greater compliance with International Financial Reporting Standards.

Efficient government programme

The Board’s local delivery plan for 2010-11 identified a requirement to deliver recurring cash efficiencies of £6.9 million. Under the Board’s cash releasing efficiency savings plan (‘CRES’) a 4% target was set against budgets of £7.8 million including a £0.9 million contingency for any delays in schemes delivering efficiencies fully during 2010-11.

The Board achieved overall efficiency savings of £6.8 million during 2010-11, with shortfalls of £0.1 million and £0.9 million against the local delivery and CRES plans, respectively. Overall performance against the in-year target of £7.8 million is highlighted below with a shortfall of £1.4 million against targets for front line services, set off by increased savings against targets of £0.5 million by corporate functions.



Financial planning

In March 2011 the Board approved a five-year financial plan through to 2015-16, submitted to the Scottish Government Health Directorate alongside the local delivery plan. The 2011-12 financial plan assumes utilisation of carry forward funding of £4.2 million. Consequently, the Board anticipates an in-year deficit of £2.2 million against the Board’s 2011-12 revenue resource limit resulting in a planned carry forward of £2 million at 31 March 2012.

Non-recurring spend of £3.6 million has been allocated for 2011-12 based on spend of specific allocations and other existing expenditure commitments for the year, including funding to support the delivery of HEAT targets and nurse training. Management also anticipates a carry forward of £1.5m of ring-fenced funding from 2010-11 for which departments have submitted utilisation requests. The financial plan also assumes non-recurring allocations for 2011-12 of £3.5 million relating primarily to ring-fenced funding for local alcohol plans, drug misuse and smoking cessation in the Dumfries and Galloway region.

The 2011-12 financial plans include a recurring sum of £3.5 million and a non-recurring sum of £2 million to cover the costs of future regional and national developments, and other cost pressures. At May 2011, £4.8 million of additional pressures had been identified in 2011-12.

The Board has received confirmation of a £2.6 million allocation from the Health and Social Care Fund which is held to support the redesign of services and shift of balance towards primary and community care.

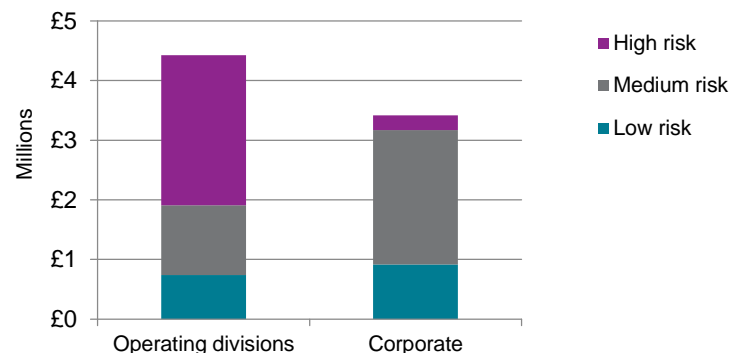
Whilst financial plans assume a carry forward at 31 March 2012, management is forecasting a break even position for the financial years 2012-13 to 2015-16. Achievement of future financial plans is reliant on the delivery of efficiencies and successful management of cost pressures. Management has plans in place to address these issues and has demonstrated in year that the Board can deliver significant savings, but risks remain in the medium to long term.

Efficiencies

The Board’s financial plan for 2011-16 requires delivery of recurring cash efficiencies of £7.5 million for 2011-12. The 2011-12 CRES plan includes a target of £7.8 million. Management anticipates that over achievement against the in-year target will permit a degree of flexibility against any slippage in schemes during the year. Overall savings targets have been set of £4.4 million and £3.4 million for operating divisions and corporate directorates, respectively.

Efficiencies (continued)

The 2011-12 CRES plan includes over 200 individual schemes identified by the various divisions and directorates within the Board. This will be reviewed by the efficiency monitoring group to ensure implementation of identified savings. Key savings targets include £1.4 million in-year savings from acute services and primary care drugs. Management’s assessment of the overall risk of delivery for identified savings schemes, is detailed below.



Capital plan

From 2011-12 the allocation of funding across NHS Scotland boards will change, with available funding being top sliced to those approved projects in Scotland where a legal commitment already exists. The remainder of funding will be distributed through formula allocations as derived by the NHS Scotland Resource Allocation Committee. This will significantly reduce the allocations available to the Board in future years. In March 2011 the Board approved a five year capital plan for 2011-12 to 2015-16 which was submitted to the Scottish Government Health Directorate alongside the local delivery plan. This uses the 2011-12 capital allocation of £2.2 million as the base allocation for subsequent years. The total forecast spend for 2011-12 is £16.1 million, including £12.3 for committed projects, such as completion of the mental health facility.

The overall forecast spend for the five year period is £32.9 million, compared to £146.8 million included within the previous capital plan for 2010-20, due to £110.5 million included in the previous plan for the redevelopment of Dumfries and Galloway Royal Infirmary. This project is an integral part of future service redesign and to is necessary to rectify backlog maintenance and ensure appropriate development and deliver of the clinical strategy. Significant uncertainty remains over the future availability of capital funding from the Scottish Government, both in general and for this project. Due to this, management has removed the project from the current capital plan. In the meantime, the Board is focussing on incremental development of services to deliver the clinical strategy and is considering other options for the funding of the redevelopment.

Key risks

Achievement of the financial plan will be challenging due to the need to reduce the carry forward of budgets at the year end. The diagram below summarises the key risks identified by management.

Key risks identified	
■	Delivery of recurring efficiencies to achieve financial balance;
■	Increased costs from additional national and regional pressures;
■	Availability of finding to redevelop/maintain Dumfries and Galloway Royal Infirmary; and
■	VAT and inflation uplifts.

To aid monitoring of identified risks, management has prepared a financial plan risk matrix which provides an overall assessment (low, medium, high) of each individual risks together with identified risk mitigation actions and controls.

Achievement of the target 2011-12 financial position will require tight budgetary control and staff engagement at all levels within the Board.

Arrangements within the Board in relation to asset management display a number of examples of 'better practice'.

Plans to move arrangements towards 'advanced practices' are evident in some areas. However, due to the early stage of implementation of the asset management strategy there is limited evidence to demonstrate that these actions have been achieved.

In January 2011, the Board approved a single property and asset management strategy which serves as an asset management plan.

The strategy is well aligned with the Board's financial planning processes and links to service redesign associated with the redevelopment of Dumfries and Galloway Royal Infirmary.

Joint asset planning is built into working arrangements with local partners, most notably through the community planning joint board.

The Board has identified risks to non-achievement of the strategy and plans are in place to monitor these. However, it is too early yet to be able to demonstrate monitoring of these or actions that have been taken.

Stakeholders – both internal and external – are involved in key projects with capital issues which has had a significant impact on re-development plans and in particular the Board's clinical services strategy.

Movement towards 'advanced practice' has been demonstrated through property strategy workshops which allowed for the participation of staff in discussing progress and lessons learned from the Board's new mental health development.

Mandatory training on equality and diversity is undertaken by all employees. This ensures that those involved in asset procurement are aware of their responsibilities.



The Board displays 'better practice' with roles and responsibilities for asset management understood by relevant staff and management. The asset management strategy provides further evidence of delegation of roles and responsibilities within the organisation.

Delivery of effective asset management is coordinated by a capital investment group supported by working groups established for each significant project. Such groups allow for involvement of all relevant disciplines in asset investment decisions.

The Board has participated in the NHS Scotland asset management project and routinely considers its performance relative to other NHS Scotland Boards and local public sector organisations. Examples of 'better practice' include joint working with Dumfries and Galloway Council. This demonstrates use of comparisons to set benchmarks for the Board's asset management strategy.

Targets have been set in relation to the asset management strategy with delegated responsibility for considering key performance indicators. However, due to the strategy being relatively new, the Board is not yet able to demonstrate 'advanced practice' in this area, but ongoing plans should move it in this direction if implemented effectively.

Due to budgetary restraints, management recognises an underlying risk facing maintenance projects, particularly in relation to the current backlog of maintenance at Dumfries and Galloway Royal Infirmary. Annual maintenance budgets are set with a reserve monthly budget for any unplanned maintenance.

Arrangements within the Board in relation to governance and accountability display a number of examples of 'better' and 'advanced practice'.

Continued development of non-executive members through training and experience will aid in moving overall practices to advanced levels.

The roles of executive members are clearly understood in the main. 'Advanced practice' is demonstrated in relation to the role of executive members through appropriate representation on all relevant committees.

Non-executive members elected in June 2010 are still developing a full understanding of their own and executive member roles. During 2010-11, a number of training workshops have been ran for non-executive members to aid learning and development.

The Board displays 'advanced practice' in working with other NHS Scotland boards to deliver patient treatment through the use of service level agreements. These agreements are considered as part of overall Board planning each year.

Performance against such agreements is reviewed by management on a monthly basis.

Accountability and responsibility to stakeholders is reflected through the Board's operations and its underlying strategy and policy documents.

Advanced practices to ensure regular engagement with stakeholders include public engagement sessions, patient surveys and regular communications with the Scottish Government Health Directorate. Board meetings are also open to the public and membership includes representation from Dumfries and Galloway Council and staff union members.

Any issues arising from these discussions are processed through the Board's governance framework.

The Board has four key values (service, quality, people and finance) which underlie overall direction and strategy. Board members consider that good governance and effective accountability is driven and demonstrated from the top.

Issues were raised on behalf of non-executives in the year in terms of the effectiveness of relationships, but management to not believe this to be indicative of any larger underlying issues.

'Advanced practice' is demonstrated through decision-making powers being aligned to priorities and objectives through the Best Value framework embedded at the Board.

Recent review of standing financial instructions has included review of decision-making structures and delegated authorities.

During 2010-11 the format and content of all reports has been updated in order to provide a clear overview of recommendations and key points to support decision-making processes.



The Board has a scrutiny committee for detailed challenge and scrutiny of key decisions and policies. Regular workshops are held with executive and non-executive members to allow additional opportunity for those charged with governance to consider key operations with the Board.

The Board demonstrates better practices with regular review and challenge at different levels within the organisation. Scrutiny from independent persons has improved since the public election of non-executives. However, there is still scope for further improvement. For example, there is limited financial experience amongst non-executive members of the audit committee and reliance is currently placed on management and internal and external audit to provide this.

Management has established procedures to consider and respond, where applicable, to individual national reports issued to the Board by Audit Scotland.

Audit Scotland national reports

Audit Scotland periodically undertakes national studies on topics relevant to the performance of NHS Scotland. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at board level, as appropriate.

Management has established procedures to consider individual reports to the Board and the audit committee. In addition, where appropriate, management will carry out a self-assessment against the national study and implement local action plans as required.

We have considered two relevant studies that were published during 2010-11, *Using locum doctors in hospitals* and *Emergency departments*, and submitted a short return to Audit Scotland on the Board's response in February 2011.

In both cases we reported that study had been considered by at least one committee and that a self assessment had been carried out by the Board against the published findings. In respect of *Using locum doctors in hospitals* we also reported that an action plan had been prepared to amend local policies and protocols as deemed relevant by management.

Scotland's public finances: responding to the challenge

Audit Scotland published *Scotland's public finances: preparing for the future* in November 2009 and commenced a follow-up review, *Scotland's public finances: responding to the challenge* in December 2010. On 17 January 2011 we submitted our findings to Audit Scotland to inform the follow up review.

We found that management's financial assumptions for future years were in line with other organisations and with guidance from SGHD. There continues to be significant uncertainty over funding in future years and the achievement of the ongoing savings required will be increasingly demanding for all entities, including the Board.

As part of ongoing service redesign within the Board, management has identified the continued need for significant efficiency savings to be implemented. Under the cash releasing efficiency savings scheme implemented in recent years, the Board has shown consistent performance in generating new recurring savings opportunities. However, management are conscious that uncertainty over future budgets may require additional savings in future years which will require a high level of scrutiny and discussion to mitigate against negative impact on service provision.

Improving public sector purchasing

In 2010-11 a more targeted follow-up was required in respect of the Board's actions following publication of the joint Accounts Commission / Auditor General for Scotland report, *Improving Public Sector Purchasing* published in July 2009.

The aim of this follow-up work is to assess how well public bodies are doing to ensure that they can demonstrate value for money when purchasing goods and services.

We have considered the Board's results from the Scottish Government Procurement Capability Assessment ('PCA') for 2009 and 2010, respectively, and managements response to recommendations arising from these reports. We are in the process of finalising our work and will shortly issue a report to management on our findings. The following areas for improvement have been identified:

- management should consider potential improvements in performance measurement systems over procurement in line with PCA findings such as adoption of a benefit tracker process appropriate to the needs of the Board;
- management should consider implementation of supplier and contract management tools; and
- management should embed the 'Scottish Procurement Journey Toolkit' into all practices and processes to improve overall procurement activities.

Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.

<p>Corporate governance framework</p>	<p>The Board maintains an integrated governance framework to provide an appropriate structure for maintaining decision-making, accountability, control and behaviour. In April 2011 the Board produced a single document 'code of corporate governance' summarising key governance information including the code of conduct for board members, standing orders, and standing financial instructions. Board workshops continue to be held during the year to provide guidance to senior staff on key governance issues and risks facing the organisation and have aided the development of challenge and scrutiny skills for elected non executive board members.</p>
<p>Statement on internal control</p>	<p>The statement on internal control provides details of the purpose of the framework of internal control, along with an analysis of its effectiveness.</p> <p>In preparing the statement of internal control, management agreed an action plan to ensure identification and participation of all key persons and governance groups responsible for providing information to support the Board's assessment of internal control. Internal audit has reviewed the statement of internal control and the processes to obtain the assurance required to inform it. No issues have been raised over the content or appropriateness of the statement, but we note that a recommendation has been made over procedures to collate information for the statement, a recommendation also made in 2009-10.</p> <p>From the work we have performed, we believe the statement of internal control is in compliance with guidance issued by the Scottish Government Health Directorates, although there is scope for development in the process.</p>
<p>Internal controls</p>	<p>Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively. However, we identified areas for improvement in order to strengthen controls over ledger reconciliations and authorised signatory lists.</p> <p>Recommendations have already been reported to management.</p>
<p>Fraud and irregularity</p>	<p>We evaluated the procedures and controls related to fraud as being designed and implemented effectively. The Board has a designated fraud liaison officer whom maintains a fraud log and regular updates on items referred to NHS Counter Fraud Services are submitted to the audit committee for consideration. No losses arising from fraud have been identified during 2010-11.</p> <p>Health bodies continued to participate in NFI during the year. From the 2011 data, the Board had 689 matches (<i>2009 NFI, 364 matches</i>) and have investigated 569 of these, to date, which is in line with our expectation at this stage of the process.</p>

Internal audit

Internal audit has completed 18 out of 30 planned audits for 2010-11 together with two unplanned. Failure to complete the internal audit plan is a result of staffing issues due to absence and is despite the use of temporary staff. However, throughout the year work, was prioritised to allow internal audit to deliver an opinion on the adequacy of internal controls as required for the Board's statement of internal control.

All reviews completed in 2010-11 provided either comprehensive significant or moderate assurance. We have relied on a number of reports, including those in respect of risk management, corporate review, creditors and ledger controls and reconciliations. However, staff shortages and extensive coverage of fraud related matters, in particular the National Fraud Initiative process has reduced the level of reliance that we, as external auditors, have been able to place on the overall work performed by internal audit. As part of our planned audit approach, we had intended to take reliance from reports in relation to payroll, Best Value, financial controls and board governance and decision-making. However, this work was not complete in time for our review and as a result we were required to perform alternate procedures.

Based on work performed throughout 2010-11, internal audit have concluded that the:

- Board has adequate and effective internal controls in place;
- accountable office has implemented a governance framework in line with required guidance sufficient to discharge the responsibilities of this role; and
- 2010-11 internal audit plan has been delivered in line with Scottish Government Internal Audit Standards.



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