



NHS Borders

**Annual Report to Borders Health Board
& the Auditor General for Scotland
2011/12**

July 2012



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Executive summary

Financial statements

Our audit of the 2011/12 financial statements is complete and our audit opinions are unqualified. NHS Borders achieved all of its financial targets, delivering a saving against the Revenue Resource Limit (RRL) of £0.058m.

The Board also achieved its Capital Resource Limit (CRL) and Cash Requirement targets.

Use of resources

The Board has sound arrangements in place for managing its financial position and making use of its resources, although achievement of future financial targets will depend on continuing tight control of expenditure and delivery of challenging savings plans.

2011/12 has been financially challenging across NHS Scotland. NHS Borders managed a very tight financial position in 2011/12, with the £0.058m surplus reflecting just 0.03% of total RRL. This surplus was achieved despite an underlying recurring deficit of £0.19m, showing that the cost of providing core (i.e. recurring) services slightly exceeds the recurring funding received.

NHS Borders did not achieve its full savings target in year for 2011/12. Cash efficiency savings were £7.098m against a target of £8.572m. However, the Board has noted that when taking into account the full year impact of savings programmes which commenced part way through the financial year, the key recurring element of the target has been fully met, ensuring financial pressures are not carried into 2012/13. A savings target of £5.904m has been set for 2012/13.

Performance

NHS Borders can demonstrate a clear commitment to performance management through its performance management framework. The Board has clear visions and objectives in place for performance management, with the framework setting out the flow of performance information across the organisation. The Board conducts detailed performance reviews each quarter, by clinical board area. These reports facilitate detailed review of performance and help highlight further actions to be addressed. The reporting programme is well structured, with the Board receiving both bi-monthly and six monthly performance reports, showing progress against national Health, Efficiency, Access, and Treatment (HEAT) targets and agreed local objectives.

Whilst a sound framework is in place for performance management, we identified some opportunities to further improve the good underpinning system in place.

Governance

Our work on corporate governance focussed on reviewing the Board's arrangements to ensure effective systems are in place for internal control, prevention and detection of fraud and irregularity and standards of conduct. We are pleased to report that, in our opinion, governance arrangements at NHS Borders are sufficient and appropriate.

The Board continues to improve and develop its risk management arrangements and we have set out some observations and recommendations in the action plan based on our review.

Looking forward

Delivery of efficiency savings will be a key challenge to achieving financial balance in 2012/13. Ensuring that the recurring savings targets are met will be especially important as any underachievement in this area will increase the challenges in future years. The Board's relatively low workforce turnover rates also presents a challenge in 2012/13, as workforce and service redesign is the main area targeted in the Board's savings plans.

Conclusion

This report concludes our audit of NHS Borders for 2011/12. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Director of Finance and Chief Operating Officer. We would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff

July 2012

Introduction

1. This report summarises the findings from our 2011/12 audit of Borders Health Board, commonly known as NHS Borders. The scope of our audit was set out in our External Audit Strategy and Plan, which was presented to the Audit Committee at the outset of our audit.
2. The main elements of our audit work in 2011/12 have been:
 - Audit of the financial statements, including a review of the Governance Statement.
 - Review of governance arrangements, internal controls and financial systems.
 - Best Value review of performance management.
 - Follow up of certain Audit Scotland National Study reports.
3. In addition to this annual report, we have delivered the following outputs during 2011/12:
 - Interim management report.
 - Best value report on performance management.
 - Report on the audit of the financial statements (ISA 260 report).
 - Targeted follow up report on Audit Scotland National Study report on *The Role of Boards*.
 - Pro-forma returns on the Board's response to other Audit Scotland National Study reports.

The key issues from these outputs are summarised in this annual report.
4. As part of our audit, we have also made use of the work of other inspection bodies including the Board's internal audit service and Audit Scotland's Public Reporting Group.
5. This report is addressed to both the Board and to the Auditor General for Scotland and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Financial statements

Introduction

6. The annual financial statements are the principal means of accounting for the stewardship of the resources made available to the Board. In this section we summarise the issues arising from our audit of the 2011/12 financial statements.

Our responsibilities

7. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - whether the information in the operating and financial review is consistent with the financial statements
 - whether expenditure and income have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).
8. We also review the Board's Governance Statement:
 - considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control
 - assessing whether disclosures in the statement are consistent with our knowledge of the Board.
9. These responsibilities, and those of the Board, were confirmed in our external audit plan, as presented to the Audit Committee at the outset of our audit.

Overall conclusion

An unqualified audit opinion

10. The Board approved its annual accounts on 28 June 2012. Our independent auditors' report expresses an unqualified opinion on the financial statements of the Board for the year ended 31 March 2012 and on the regularity of transactions reflected in those financial statements.
11. The annual accounts were submitted to the Scottish Government Health and Social Care Directorates (SGHSCD) and the Auditor General for Scotland prior to the 30 June 2012 deadline.

12. We are pleased to report that we were presented with a draft financial statements template and a substantial tranche of the related supporting working papers at the outset of our audit and note that these were of a good standard. We would like to thank all staff involved in preparing these papers. In future years, in order to further optimise the efficiency of the external audit process, we recommended in our ISA 260 report that the Board completes the working papers checklist included within our financial statement strategy in advance of our final audit fieldwork.

Issues arising from the audit

13. We are required by auditing standards to report to the Board the main issues arising from our audit of the financial statements. We presented our Report on the Audit of the Financial Statements to the Audit Committee on 25 June 2012.

A £0.33m unadjusted difference in respect of pension and injury benefits

14. One unadjusted difference was identified within that report. In calculating the provision for pension and injury benefits, the Board made use of life tables which were out of date. Recalculation of this provision using the updated life tables available from the Office of National Statistics would lead to an increase of £32,966 in the provision and would have reduced the 2011/12 surplus to £0.025m.
15. Neither we nor the Board considered this unadjusted difference to be material, so no adjustment was made to the financial statements. A small number of other adjustments were made to the draft accounts presented for audit, but there was no impact on the outturn position. These were mainly of a presentational and disclosure nature.

The NHS Superannuation Scheme for Scotland actuarial valuation is out of date

16. NHS Borders participates in the NHS Superannuation Scheme for Scotland, as disclosed in Note 24 to the accounts. The amount charged to expenditure each year in respect of this scheme equates to the Board's annual contributions to the scheme which are based on a five yearly actuarial valuation. The most recently published actuarial valuation was for the year ended 31 March 2004. A more up to date valuation should have been received by now and reflected in the 2011/12 accounts. The periodic actuarial valuation is key to determining the adequacy of employer and employee contributions to the scheme.
17. In common with all health boards in Scotland, the information in relation to the scheme, as disclosed in the Board's accounts, is therefore out of date. There is a risk that, as the level of contributions from employers and employees have not been recently revised, there is uncertainty as to the adequacy of current contribution levels for meeting the future commitments of the pension scheme.
18. Whilst this situation is outwith the direct control of the Board, we recommend that NHS Borders raises the issue with the NHS Directors of Finance group and requests an updated valuation for

the NHS Superannuation Scheme from the Scottish Public Pensions Authority as soon as possible.

Action plan point 1

Further work remains to establish the status of existing equal pay claims

19. The National Health Service in Scotland has received in excess of 10,000 claims for equal pay and NHS Borders has 18 claims with the NHS Scotland Equal Pay Unit. That unit is working with the Central Legal Office (CLO) in coordinating a national response to this issue.
20. Developments over the past year have slowed the progress of claims and led to a reduction in the number of claims going forward. The Board currently has 18 claims on record. The CLO has stated that claims still do not provide sufficient detail about the comparator jobs to allow an estimate to be made of the likelihood of the success of the claims or of any financial impact that they may have. The CLO and Equal Pay Unit are monitoring the progress of claims as well as developments relating to NHS equal pay claims elsewhere that may further inform the position.
21. Discussions have been held between Audit Scotland, partner audit firms, the Scottish Government, the CLO and Board representatives to ascertain the appropriate accounting treatment of equal pay claims in previous years. Given CLO advice that, although some liability is probable, it is not possible to estimate the impact of the claims, it has been agreed that disclosure as an unquantified contingent liability (note 19 to the accounts) remains appropriate for the 2011/12 financial statements of affected NHS Boards.

Governance Statement

22. We are satisfied that the statement complies with the Scottish Ministers' guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work. The Board has a good framework in place to support the assurances provided to members on the effectiveness of its internal control environment.
23. We identified five moderate-to-low risk issues in our ISA 260 report to the Board, all of which have been agreed for action with management. In addition to the issues noted above in relation to working papers, pension and injury benefit and the NHS Superannuation Scheme for Scotland, these points relate to:
 - Minor observations in relation to year end bank reconciliations, and
 - Completeness of legal claims for year end provision/contingent liability purposes.

Regularity and other audit opinions

24. We have issued an unqualified opinion on the regularity of transactions. This means that the Board has applied public funding for the correct purposes in accordance with Scottish Ministers' guidance.

25. We have also concluded that the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and related directions, and that information which comprises the Annual Report included in the Annual Accounts is consistent with the financial statements. The Board restated its 2010/11 remuneration report comparatives, to remove employer's national insurance from the amounts disclosed. We have agreed with this adjustment in our audit of the remuneration report within the 2011/12 accounts.

Use of resources

26. This section of the report sets out the main findings from our review of how the Board manages its key resources in terms of financial performance and management of assets.

The Board's financial performance in 2011/12

The Board has met its key targets in the year

27. The Board is required to work within the resource limits and cash requirements set by SGHSCD. As shown in Table 1 below, NHS Borders has met all of its financial targets in 2011/12.

Table 1 – Performance against financial targets

Financial Target	Target £000	Actual £000	Underspend £000	Target achieved
Revenue Resource Limit	190,453	190,395	58	Yes
Capital Resource Limit	3,731	3,725	6	Yes
Cash Requirement	210,000	209,287	713	Yes

Source: Borders Health Board Annual Accounts 2011/12

28. The Board achieved a surplus against its Revenue Resource Limit (RRL) of £0.058m. This surplus represents an underspend of 0.03% and is consistent with the Board's 2011/12 budgeted outturn, which predicted a year end breakeven position.
29. 2011/12 saw a reduction in capital funding of over £2m on the equivalent 2010/11 allocation, reflective of the challenging financial environment. The Board took steps to adapt to this position, achieving an underspend against its Capital Resource Limit (CRL) of £0.006m. The Board is anticipating similarly tight capital allocations over the next few years and continues to take steps to manage its capital expenditure accordingly.

Recurring and non-recurring financial analysis

30. A board's ability to achieve future financial targets can be affected by the extent to which it has relied on non-recurring allocations and savings to meet its current target. To gain a better understanding of NHS Borders' financial position we have analysed the 2011/12 outturn into recurring and non-recurring items, as shown in Table 2. This shows that there has been some reliance on non-recurring funding to deliver the surplus position in 2011/12. Although this is not a significant reliance by the Board, the position should be monitored closely going forward to ensure there is no increased reliance on non-recurring monies.

Table 2 – Achievement of 2011/12 surplus

	£000
Recurring income	190,983
Recurring expenditure	(195,253)
Recurring savings	<u>4,080</u>
Underlying recurring surplus/(deficit)	(190)
Non-recurring income	4,283
Non-recurring expenditure	(7,053)
Non-recurring savings	<u>3,018</u>
Non-recurring surplus/(deficit)	248
Financial surplus/(deficit)	58
Underlying recurring surplus/(deficit) as percentage of recurring income	<u>(0.10%)</u>

Source: Borders Health Board Monthly Monitoring Report – March 2012 / Director of Finance

Financial plans

The financial plan reflects the increasingly challenging financial climate

31. The Board prepared a three year revenue and five year capital financial plan covering the periods 2012/13 to 2014/15 and 2012/13 to 2016/17 respectively, as part of its Local Delivery Plan submission to the Scottish Government. This included various assumptions and identified the risks which may prevent the Board from achieving its forecasts and so looks to give a balanced assessment of the Board's financial operating environment. Table 3 (below) sets out the 2012/13 projected position.

Table 3 – Forecast financial outturn 2012/13

	£000
Recurring income	215,733
Recurring expenditure	(219,638)
Recurring savings	<u>3,905</u>
Underlying recurring surplus/(deficit)	0
Non-recurring income	4,953
Non-recurring expenditure	(6,952)
Non-recurring savings	<u>1,999</u>
Non-recurring surplus/(deficit)	0
Financial surplus/(deficit)	0
Underlying recurring surplus/(deficit) as percentage of recurring income	<u>0%</u>

Source: Assistant Director of Finance & Director of Finance

32. The Board expects to break even against its RRL target for each of the three years covered by the plan. However, this is subject to continued tight control over expenditure and delivery of what will be increasingly challenging savings plans. The forecast for 2012/13 also shows that total savings of £5.904m will be required to deliver a break even position, £1.999m of which will be non-recurring savings. Although this is lower than the savings achieved over the last few years, delivering savings year on year whilst protecting services and outcomes is a challenge.
33. The Board is also projecting a breakeven position against its CRL for the next five years. Notably, the CRL allocations are expected to steadily decline, as detailed in Table 4 below.

Table 4 – Capital Expenditure against CRL: 2012/13 – 2016/17

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Total Capital Expenditure	3,854	3,498	3,155	2,443	2,443
Capital Resource Limit (CRL)	3,854	3,498	3,155	2,443	2,443
Savings/(Excess) against CRL	0	0	0	0	0

Source: Borders Health Board LDP Financial Plans – 2012/13

Funding

34. For 2012/13, SGHSCD has confirmed a funding uplift of 2.2%, which is reflected in the Board's financial plan. This consists of £0.247m (0.2%) for the change fund, £1.693m (1%) access funding and £1.671m (1%) for general uplift. The level of uplift received by territorial boards ranges from 2.2% to 4.2%, such that NHS Borders is at the lower end of the scale.
35. Early figures from the Scottish Government have indicated that general funding uplifts for 2013/14 and 2014/15 will amount to 2.8% and 2.5% respectively.

Cost pressures

Cost increases exceed funding increases

36. Projected expenditure growth for 2012/13 amounts to £7.77m, which is the aggregate of a range of additional expenditure commitments which the Board is anticipating. The financial plan has been constructed on the basis of the financial assumptions shown in Table 5 below.

Table 5 - Price increase assumptions

Assumptions – uplift (%)	2012/13	2013/14	2014/15
Resources	2.20%	2.80%	2.50%
Pay	0.90%	1.48%	1.48%
Prices	1.50%	1.50%	1.50%
GP prescribing	6.00%	6.00%	6.00%
Hospital drugs	6.00%	6.00%	6.00%
Other FHS uplift	1.00%	1.00%	1.00%

Source: Borders Health Board LDP Financial Plans – 2012/13

37. Individual efficiency schemes have been identified to achieve the full savings requirement for 2012/13. Detailed savings plans to cover all of the cost pressures for the following years are still being developed.
38. There is a detailed financial risk assessment framework in place within the Board to help identify, appraise and monitor financial risks. Board management are quick to factor these pressures into the financial planning process, reporting key details and assumptions to the Board via regular finance reports.

Savings plans

Cash savings targets were not met in 2011/12, although the key recurring target was achieved on a full year impact basis. Challenging savings are required in 2012/13

39. Table 6 sets out the cash-releasing efficiency savings programme delivered during 2011/12, showing an in-year shortfall against the planned savings. Despite this shortfall, the Board still managed to achieve a small revenue surplus in 2011/12 due to very tight financial monitoring and cost control.

Table 6 – Efficiency savings 2011/12

Savings scheme	2011/12 Recurring savings £000s	2011/12 Non-Rec savings £000s	Total £000s
Savings target	5,394	3,178	8,572
Clinical productivity	1,234	727	1,961
Workforce	122	623	745
Drugs and prescribing	765	0	765
Procurement	326	450	776
Support Services	437	918	1,355
Estates and facilities	1,196	300	1,496
Total in-year savings	4,080	3,018	7,098
2011/12 Balance (shortfall)/overachieved	(1,314)	(160)	(1,474)
Full year (12 month) effect of part year savings	1,481		
Balance (shortfall)/overachieved	167		

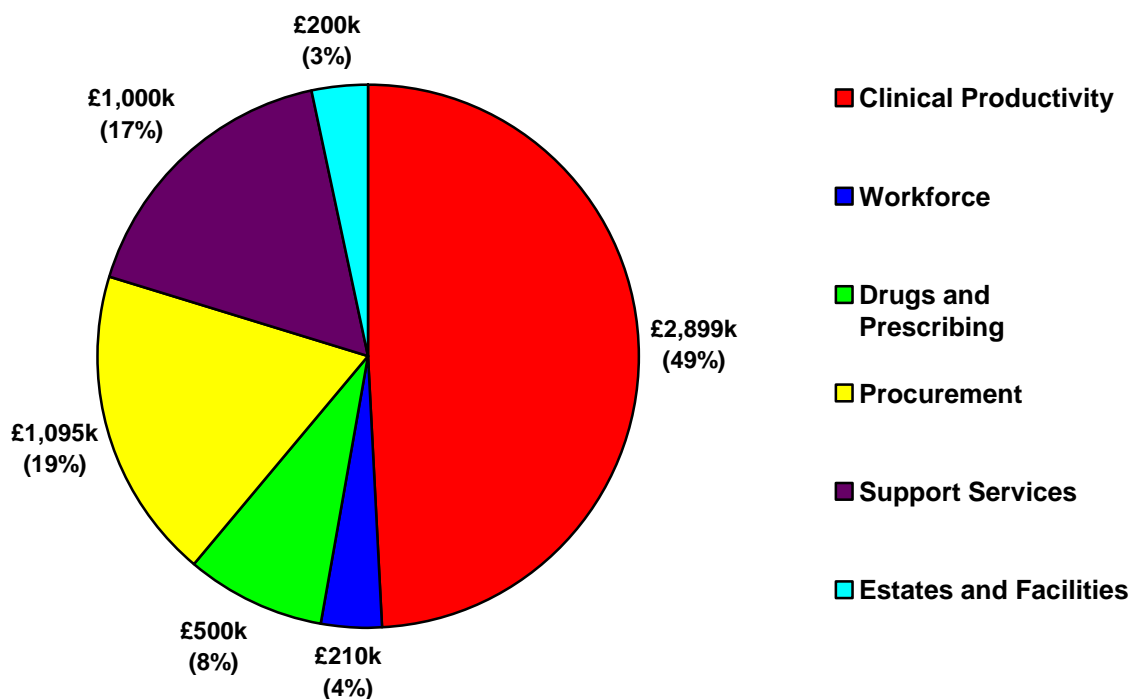
Source: Borders Health Board Monthly Monitoring Report – March 2012

40. The Board has noted that when taking into account the full year impact of savings programmes which commenced part way through the financial year, the key recurring element of the target has been fully met ensuring financial pressures are not carried into 2012/13.

2012/13 savings target is £2.668m (31.12%) lower than 2011/12

41. The Board has identified the need to achieve efficiency savings of £5.904m in 2012/13 if it is to break even. This appears to be achievable given the level of savings achieved in prior periods, although delivering savings year on year whilst protecting services and outcomes is a challenge.
42. The Board has identified numerous areas for future savings. A breakdown of the 2012/13 savings plan is summarised below.

Diagram 1 – Savings plan – 2012/13



Source: Borders Health Board LDP Financial Plans –2012/13

43. Each scheme will be run as an individual project, with individual project owners responsible for developing and delivering an efficiency plan. All projects will be proactively managed through the Board's Aspyre system, with Project Management Office support. For each project, a Project Initiation Document (PID), project plan and savings trajectory are required to be approved by the Strategy Group.
44. As schemes are agreed, the project plan implementation and savings trajectory will be monitored through the Efficiency Board. The Efficiency Board receives monthly updates on all plans, facilitating scrutiny and prompt corrective action (as required).
45. The focus on delivering a balanced financial outturn position puts particular emphasis on the repatriation of patients to NHS Borders, income generation by offering services to other NHS

Boards and release of cost savings through service redesign and service reconfiguration. This focus, particularly around income generation, is planned to continue for future years.

People and workforce management

Substantial workforce redesign processes have been developed, but staff turnover remains a challenge for achieving savings targets

46. NHS Borders has a workforce plan in place, which is updated annually for workforce planning priorities. A stated priority is ensuring patient safety through effective workforce redesign, within the Career Framework and Knowledge Skills Framework. A template and workforce planning guidance has been developed to support management in carrying out appropriate workforce and risk assessments when opportunities arise to review workforce requirements through vacancy management and service redesign.
47. The Board has made progress in tackling workforce costs through each of the following strands:
 - Vacancy control, internal redeployment and pay modernisation/redesign
 - Opportunities from review of fixed term contracts
 - Opportunities from medical workforce efficiency
 - Nursing and midwifery and AHP workforce efficiency
48. The inventory of service redesign contains all signed off projects and highlights workforce and/or patient service implications. The Board has oversight and scrutiny of the workforce assessment of all redesign projects, as projects are developed, signed off and taken forward.
49. The continuation of “no detriment” protection is creating challenges to making changes and meeting savings targets. Staff turnover rates are relatively low, limiting opportunities for redeployment, which is one of the Board’s main vehicles to achieve workforce and service redesign. The low turnover rates also increase the challenges faced in 2012/13 and beyond, as workforce and service redesign is a key area targeted in the Board’s savings plans.

Overall conclusion on financial management and use of resources

The Board has effective financial management arrangements in place, but there are ongoing risks which need close management

50. Our overall conclusion from our review of the Board’s financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets is that the Board has good financial management arrangements in place.
51. In our opinion, NHS Borders is in a reasonable position to manage its financial pressures. However, the achievement of future financial targets will depend on continuing tight control of

expenditure, delivery of challenging savings plans and may require some difficult decisions in areas such as maintaining performance across all HEAT and related targets and in relation to workforce planning. This will be a key area which the Board will have to monitor very closely.

Performance

Introduction

52. This section of the report looks at performance management arrangements within NHS Borders. An effective performance management system is key to the delivery of safe, effective, person-centred healthcare.

NHS Borders can demonstrate a clear commitment to performance management

53. In 2011/12 we carried out a best value review of NHS Borders' performance management arrangements. This review was based on the Audit Scotland best value toolkit on performance management, which provides an evaluation framework to help auditors reach robust judgements structured around five key areas. These five areas are as follows:

- What is the impact of performance management?
- To what extent is there a culture of performance management across the organisation?
- To what extent is the organisation aware of its relative performance?
- To what extent is performance management integrated with organisational activities?
- How effective are performance measures?

54. Following our review we concluded that NHS Borders can demonstrate a clear commitment to performance management through its overall performance management framework, including the performance reporting systems, benchmarking programme, and involvement of various levels of staff. NHS Borders shares services for two of its clinical Boards (Mental Health and Learning & Disability) with the Scottish Borders Council. This, alongside the local Single Outcome Agreement, allows NHS Borders to align its performance management framework with its main partnership working activities.

55. The Board has clear visions and objectives in place for performance management. Formal documents outline the framework and the flow of performance information through the organisation. The performance management arrangements are mostly consistent across the organisation, covering the four clinical Boards and the majority of support services. There are some support services that do not currently have formal performance management scorecards in place. However, NHS Borders has stated that this will be addressed during 2012/13.

56. The Board conducts detailed performance reviews each quarter, by assessing the performance of each clinical Board area. These reviews help highlight further actions to be taken to address performance issues. Some support services have also implemented this quarterly performance review process, which shows a willingness to embed effective performance management. The performance reporting programme is well structured, with the Board receiving both bi-monthly

and six monthly performance reports, showing progress against national Health, Efficiency, Access, and Treatment (HEAT) targets, as well as monthly information submitted to the Strategy and Performance Committee relating to locally agreed targets (which are often more stringent than the national targets).

57. Whilst a sound framework is in place for performance management, we identified some opportunities for further improving the existing arrangements. Performance monitoring and reporting processes were not consistent across the entire organisation; not all local objectives had underlying targets to measure performance against; and the Board did not formally review the impact its efficiencies programme is having on the service it provides (if any). In addition, we identified that performance reporting to the Board could be improved by providing additional assurance that any performance issues are being addressed.
58. Our review of the performance management data has also led us to observe the following issues.

The reasons for significant changes in performance are not adequately supported with a clarity of narrative in Board reports

59. The Board's performance against HEAT targets is reported in two reports throughout the year. The first is a bi-monthly HEAT Performance Scorecard issued to the Board, including details of HEAT standards and targets where monthly information is available. The second is a six monthly 'Managing Our Performance' (MOP) report, covering performance against all HEAT targets and standards, including those where data is not available on a monthly basis. These reports ensure the Board is kept informed of all performance data available throughout the year, as well as the outturn performance at the year end.
60. We noted that although detailed figures are reported in a dashboard form of HEAT targets, there is not always narrative to explain the reasons why a target is off its trajectory and what actions are being taken to address these issues. For example, a significant increase in Accident & Emergency and Minor Injuries Unit attendances in the final quarter of 2011/12 resulted in the Board missing its target. The Board's performance rose from being 100 admissions below the target to 549 admissions (33.8%) above the 1,624 target. The MOP Outturn Report or HEAT Performance Scorecard for March 2012 did not provide a narrative to explain this large surge in attendance levels.
61. We recommend the Board reviews the content of the MOP report to ensure it receives adequate explanations for all significant variances highlighted in the dashboard of HEAT targets, as well as detailed proposed action plans to improve performance where required.

Action plan point 2

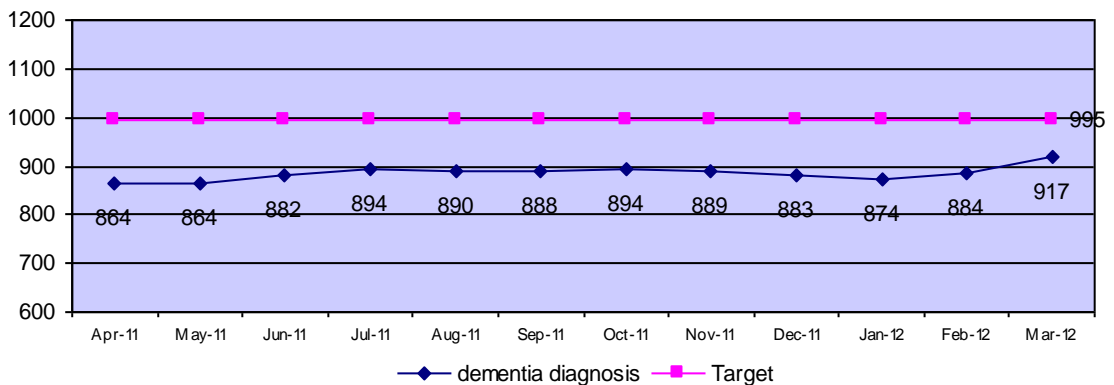
There may be confusion in how performance against HEAT and more stringent local targets is reported

62. The Board receives information on its nationally set targets through its HEAT performance scorecard. In addition, the Board presents its performance information against the Scottish Government's nationally set HEAT targets on a six monthly basis. This is reported in the Board's Managing Our Performance (MOP) Report. Throughout 2011/12, the Strategy and Performance Committee reported performance based on the agreed local performance targets. If this is not clearly set out it can lead to confusion or a misunderstanding of performance measures.
63. In reviewing the Board's performance outturn reports we identified that two performance indicators where the target reported in the final performance report was not the target reported throughout the year. In both these instances the Board was not informed of this revision or why the performance report used an alternative target.
64. For example, the Scottish Government has established a HEAT target to reduce Referral to Treatment Time to a maximum of 18 weeks. To assist NHS Boards in achieving this target there are two interim HEAT standards in 2011/12; to reduce the maximum waiting time between referral to an outpatient appointment to 12 weeks, and to reduce the maximum waiting time for inpatient and day case treatment to nine weeks. The Board set itself a more stringent target of reducing the maximum waiting time to nine weeks. Performance against the local target was regularly reported to the Board in its HEAT Performance Scorecard during 2011/12 although we have since been advised it should have received reports against the 12 week HEAT target. The Board's HEAT Performance Scorecard for March 2012 therefore showed that NHS Borders had failed to meet the local target, with 171 patients waiting over nine weeks for an outpatient appointment.
65. Performance against the nationally set HEAT targets was reported in the Board's MOP report. As intended, the MOP report only reported the Board's successful performance against the national 12 week waiting time target. Accordingly, one report indicated that the Board met its target for waiting times and one indicated that it did not. The Board did receive additional detailed reports picking up the key issues around waiting times.
66. Throughout 2011/12 the Board has reported on the percentage of all staff on Agenda for Change permanent contracts who have taken part in an annual review against an NHS Knowledge and Skills Framework (KSF) post outline. These reviews were established to support the implementation of the NHS KSF and to assist the effective learning and development of individuals and teams across the NHS. Until March 2012 the Board reported its performance against a target of 80%. In March 2012 performance was reported against a revised target of 100%. No explanation of the revision of this target was provided to the Board. However, for the year end MOP report, this target was revised to the original 2011/12 target of 80%. This changed the Board's performance from being rated as 'under performing' to 'slightly under trajectory.' The reason for this change back to the original target was not reported to the Board.

The Board cannot demonstrate why it has not achieved its target for diagnosing patients with dementia

67. The Scottish Government set health boards a HEAT standard to maintain the number of people with a diagnosis of dementia on the Quality and Outcomes Framework dementia register and other equivalent sources. This follows from a previous HEAT target in 2010/11 to improve the early diagnosis and management of patients with dementia by March 2011. NHS Borders did not achieve the original HEAT target and the Board has continued to report progress throughout 2011/12.

Diagram 2 – Patients diagnosed with Dementia



Source: Scott-Moncrieff, from NHS Borders' Monthly HEAT Performance Scorecards

68. There has been a slight increase in the number of patients diagnosed with dementia during 2011/12 (Diagram 2). The Board has recognised that it does not have an accurate understanding of why this target was not achieved. The Board's Mental Health Committee stated that this issue was a matter of clinical management and needed to be investigated by the Chief Executive and the Executive Team. The June 2012 MOP report notes an additional action plan is being developed by the Chief Operating Officer to consider this area.

Governance

69. This section sets out the main findings from our review of NHS Border's governance arrangements as they relate to:

- Corporate governance and systems of internal control
- Risk management
- Internal audit
- Prevention and detection of fraud and irregularity
- Standards of conduct and arrangements for the prevention and detection of bribery and corruption.

The Role of Boards – Follow Up review

NHS Borders has good arrangements in place over the activities of the Board, with one area identified for improvement

70. During the year we carried out a follow-up review of the Audit Scotland report *The Role of Boards*, issued in September 2010. Our findings are the subject of a separate report to the Board and are summarised below.

71. NHS Borders has well established governance processes in place, which ensures that there is significant stakeholder participation. The Board aims to continually adapt these processes to ensure the effective and efficient performance of its functions. The Board is committed to ensuring it has the necessary skills and experience to govern the organisation effectively. The Board uses a skills matrix, annual and mid-year performance assessments, induction programmes and development sessions to identify and address any gaps or weaknesses in its governance arrangements.

72. The Board receives regular performance and monitoring information. These reports cover financial, performance and risk management arrangements, in line with the recommendations in *The Role of Boards* report. The Board also actively engages with communities and local stakeholders to ensure that these views and opinions are considered in the Board's planning processes.

73. We did identify that, whilst the Board's committees undertake annual self assessments, this is not carried out at Board level. This action point has been agreed with the Board.

Action plan point 3

Corporate governance and systems of internal control

No disclosable issues identified

74. We are pleased to report that, in our view, governance arrangements at NHS Borders are effective and in line with expectations. The Board continues to receive regular and detailed performance and financial information which facilitates scrutiny and challenge. Key risk factors which may impact on achievement of financial and non-financial outcomes are also identified and discussed.
75. In recent years all NHS boards have been required to produce an annual Statement on Internal Control within the annual accounts. This has been replaced by a Governance Statement for 2011/12 onwards. We have reviewed the Board's Governance Statement and concluded that the content is consistent with the information gathered during the course of our audit and with guidance from the Scottish Government. The Board has a good process in place to demonstrate the sources of assurance to the Audit Committee and Board as part of the annual accounts approval process.
76. The Chief Executive has overall responsibility for maintaining a sound system of internal control and the Governance Statement disclosed no material internal control weaknesses. This is in keeping with internal audit's annual report, which found that the Board continues to operate effective overall governance and control arrangements.

Risk management

77. Effective risk management is especially critical in the health service, where adverse incidents could result in poor quality health care as well as putting a strain on staff and financial resources.
78. The Board has delegated responsibility for strategic risk to the Risk Management Group (RMG). The RMG reports to the Clinical Executive Strategy and Operational Group, with oversight of the risk management framework via the Audit Committee. NHS Borders is reviewing and updating its Risk Management Strategy, with the overall aim of creating a risk management environment which is embedded into the culture of the Board. The strategy sets out the reporting and monitoring framework in place to manage and monitor risk within the Board.
79. Mindful of the Board's aim to continually improve and develop its risk management arrangements, our review of the draft risk strategy highlighted a number of areas where further work is necessary prior to finalisation of the strategy. These include:
- More specific information on how risk appetite is defined and how it is to be applied. Some risks may then be identified as currently being over-controlled, which could help the Board identify ways to make efficiency savings and help redirect resources to other areas of activity.
 - The updated draft Strategy would benefit from a review for clarity and simplicity. Focussing on who/what/where/when, clarifying who is responsible to whom and clarifying

how the management of risk fits within the existing governance committee framework is important.

- More detailed information and specific actions could be provided in relation to “Monitoring and evaluating the risk management framework” and “Monitoring the risks identified and potential future risks”, using the “SMART” objective setting methodology. More information citing relevant underpinning/operational documents to support risk management across the Board would also be useful.

Action plan point 4

Risk register – linking risks and strategic objectives

80. The Board has a strategic risk register, which was subject to review via a facilitated risk workshop in September 2011. This has continued to streamline the register in response to previous comments over the amount of risks recorded. The workshop has also further ensured that risk management is visible and discussed at the highest levels of the organisation. The register sets out the key strategic risks facing the Board and the risk register is regularly presented to the Risk Management Group, the Board Executive Team, the Strategy & Performance Committee and the Audit Committee for consideration and review.
81. To enhance the use and effectiveness of the strategic risk register, we recommend that risks are more explicitly linked to the Board’s strategic objectives. Management should also ensure that all fields of the risk register are fully completed (the version we reviewed had no information against some risks for areas such as “risk impact”, “net risk” or “further actions required”).

Action plan point 5

Internal audit

82. The Board’s internal audit service is provided through a shared service with NHS Lothian.
83. In accordance with International Standard on Auditing (ISA) 610 – Considering the work of internal audit, “the external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor’s risk assessment.” We have received assurance from Audit Scotland’s review of the NHS Lothian and NHS Borders shared service that the work of internal audit is of sufficient quality and complies with Government Internal Audit Standards. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate and we are grateful to the NHS Lothian/NHS Borders internal audit team for their assistance during the course of our audit work.

Prevention and detection of fraud and irregularity

84. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. As part of our governance work we reviewed the Board’s arrangements in this area. We did not find any indication of material fraud and irregularity and concluded that the Board’s internal controls and financial procedures were reasonable and adequate to prevent and detect material fraud and irregularity. However,

we did note that the Board should formally document its overall approach to fraud risk assessment.

Action plan point 6

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

85. We have reviewed the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local codes of conduct. We also considered controls over registers of interest and disposal of assets. We are pleased to report that our audit identified no significant issues of concern in relation to standards of conduct and the arrangements for prevention and detection of bribery and corruption.

Looking forward

Finance and Use of Resources

86. The Board is projecting a breakeven position in 2012/13, and across the remainder of its financial plan. This is predicated on significant in-year savings; £5.904m of savings are required to achieve a balanced budget for 2012/13. Any under-delivery of recurring savings would have a notable adverse impact on the Board's financial position going forward.
87. The Board's relatively low workforce turnover rates increases the challenge faced in 2012/13, as workforce and service redesign is the main area targeted in the Board's savings plans. The Board's policy of protecting the employment of its current permanent staff adds to this challenge. It is therefore vital that the Board monitors this position closely.

Performance

88. Performance monitoring and reporting processes are not fully consistent across the entire organisation and the Board has not formally reviewed the impact its efficiencies programme is having on the service it provides. The Board should ensure it has sufficient information to understand how its decisions and efficiency savings are directly impacting on the quality and quantity of services provided.

Governance

89. To help NHS Borders address its pressures and challenges, both as a result of local and national issues, it is more important than ever that sufficient and appropriate leadership, scrutiny and challenge is in place to deliver the best outcomes for the public. Maintaining an effective governance framework will be key to the future success of the Board. This includes ongoing development of the risk management policies and procedures.

Action Plan

Our annual report action plan details the more significant control weaknesses and opportunities for improvement that we have identified during our audit in addition to any reportable matters arising from our review of performance and governance systems.

The action plans detail the officers responsible for implementing the recommendations and implementation dates. The Board should assess these recommendations for their wider implications before approving the action plan.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Grading

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been graded, as follows:

- Grade 5 Very high risk exposure - Major concerns requiring Board attention.
- Grade 4 High risk exposure - Material observations requiring management attention.
- Grade 3 Moderate risk exposure - Significant observations requiring management attention.
- Grade 2 Limited risk exposure - Minor observations requiring management attention
- Grade 1 Efficiency / housekeeping point.

Issues arising from our 2011/12 audit

No	Title	Issue identified	Risk and recommendation	Management comments
1	NHS Superannuation Scheme for Scotland (Para 18)	<p>The most recently published actuarial valuation for the NHS Superannuation Scheme was as at 31 March 2004. Given that the Scheme ought to be subject to a full actuarial valuation every five years, a more up to date valuation should have been received by now and reflected in the 2011/12 accounts.</p>	<p>There is a risk that, as the level of contributions from employers and employees have not been recently revised, there is uncertainty as to the adequacy of the current contribution levels to meet the future commitments of the Scheme.</p> <p>NHS Borders should raise the issue with the NHS Directors of Finance group and request an updated valuation for the NHS Superannuation Scheme from the Scottish Public Pensions Authority as soon as possible.</p> <p>Grade 3</p>	<p>This is a national issue and applies to all NHS Boards in Scotland. NHS Borders will formally raise this issue with the Scottish Government and request this is taken forward on a national basis.</p> <p>Responsible officer: Director of Finance</p> <p>Deadline: 30 September 2012</p>

No	Title	Issue identified	Risk and recommendation	Management comments
2	Explanations for variance (Para 61)	We noted that although detailed figures are reported in a dashboard for HEAT targets, there is not always narrative to explain the reasons why a target is off its trajectory and what actions are being taken to address these issues. There may also be some confusion in reporting against HEAT and more stringent local targets	We recommend the Board reviews the content of the MOP report to ensure it receives adequate explanations for all significant variances highlighted in the HEAT dashboard, as well as detailed proposed action plans to improve performance where required. Grade 3	NHS Borders will introduce additional narrative into the next MOP which is due October 2012 to ensure increased clarity Responsible Officer: Director of Workforce and Planning Deadline: 30 November 2012
3	Board Performance Assessment (Para 73)	The Board's committees undertake self assessments, in the form of questionnaires, on an annual basis but this is not carried out at a Board wide level.	NHS Borders should ensure that it regularly monitors and assesses its own performance as a Board. The findings of this work should be used to inform board member training and development. Grade 2	We will introduce an annual self assessment questionnaire to monitor and assess the Board's performance. The outcomes will feed into the Board Development programme and strengthen the skill mix within the cohort of Executive Directors and Non Executive Directors of the Board. Responsible Officer: Executive Assistant & Board Secretary Deadline: October 2012

No	Title	Issue identified	Risk and recommendation	Management comments
4	Risk Management (Para 79)	<p>We have set out some observations and recommendations based on our interim review of the updated draft of the Risk Management Strategy:</p> <ul style="list-style-type: none"> • The Strategy makes several references to “risk appetite” but we have been unable to identify any formal definition of this appetite. • The updated draft Strategy would benefit from a review for clarity and simplicity. • More detailed information and specific actions could be provided. More information on underpinning/operational documents to support risk management across the Board would also be useful. 	<p>To maximise the value of the updated Strategy, we recommend that the Board considers our comments and suggestions in paragraph 79 of the report.</p> <p>Grade 3</p>	<p>The Board will consider the comments and suggestions made in finalising the Risk Management Strategy.</p> <p>Responsible officer: Director of Public Health</p> <p>Deadline: 30 July 2012</p>

No	Title	Issue identified	Risk and recommendation	Management comments
5	Risk Register (Para 81)	The strategic risk register does not explicitly link to the Board's strategic objectives. Further, certain data fields of the risk register are not fully completed in the version we reviewed (for example, missing information on "risk impact", "net risk" or "further actions required" for some of the risks identified).	To enhance the use and effectiveness of the strategic risk register, we recommend that risks are more explicitly linked to the Board's strategic objectives. Management should also ensure that all fields of the risk register are fully completed (the version we reviewed had no information against some risks for areas such as "risk impact", "net risk" or "further actions required"). Grade 3	1) The Board will work to more explicitly link the strategic risk register to the Boards strategic objectives. 2) Management will review the risk register to ensure all fields are fully completed. Responsible officer: Director of Public Health Deadline: 30 July 2012
6	Fraud Risk Assessment (Para 84)	The Board has not carried out and documented a formal fraud risk assessment.	The Board may wish to work in partnership with NHS Counter Fraud Services (CFS) in this area. Whilst we have not identified any specific areas of significant concern, we recommend that the Board conducts a comprehensive fraud risk assessment, preferably with specialist input by CFS. However, if CFS input cannot be achieved, the Board should look to undertake its own fraud risk assessment. Grade 3	The Board has plans in place to work with Counter Fraud Services to complete a comprehensive fraud risk assessment. Responsible officer: Deputy Director of Finance (Financial Accounting) Implementation date: Formal report to the September 2012 Audit Committee.

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