



NHS Health Scotland

Annual Report to the Board and the Auditor General for Scotland 2011/12

June 2012



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Executive summary

Financial statements

The NHS Health Scotland annual accounts are due to be approved by the Board on 27 June 2012. We expect to report within our independent auditors' report an unqualified opinion on the financial statements for the year ended 31 March 2012.

We have also concluded that in all material respects, the expenditure and income shown in the financial statements was incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly and our thanks go to the finance team for their assistance with our work. Arrangements are in place to enable the annual accounts to be submitted to the Scottish Government Health and Social Care Directorates (SGHSCD) and the Auditor General for Scotland prior to the 30 June 2012 deadline.

Use of resources

The Board reported an underspend of £0.605million against its Revenue Resource Limit (RRL). The Board has agreed with the Scottish Government that an underspend of £0.600million can be carried forward to 2012/13.

NHS Health Scotland has a history of underspending against its Revenue Resource Limit. In 2010/11 SGHSCD allowed NHS Health Scotland to carry forward an underspend of £1.087million and this was received as an additional allocation in 2011/12. Repeated underspends have been recognised as a concern by the Board and in April 2012 the Audit Committee requested that management carry out a governance review to ensure that the budget is on track for 2012/13. We strongly support this request and consider that addressing the weaknesses in ongoing financial performance management should have a high priority for the Board.

The Board's current Local Delivery Plan (LDP) indicates that savings will be required of £1.009million, £0.391million and £0.395million over the next three years.

NHS Health Scotland is exploring options to consolidate the existing five office locations into two, one in Edinburgh and one in Glasgow. We will maintain a watching brief over the progress made against the estates strategy over the term of our appointment.

Performance

NHS Health Scotland has a well-developed reporting system which satisfies the information needs of the Board and facilitates effective decision-making. The Board places a high priority on ensuring that

reports are relevant and as informative as possible to support effective challenge and decision-making. This includes receiving reports on performance management and financial management.

Governance

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

Conclusion

This report concludes our audit of NHS Health Scotland 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 Resource Management and we would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff

June 2012

Introduction

1. This report summarises the findings from our 2011/12 audit of NHS Health Scotland. The scope of our audit was set out in our External Audit 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:
 - An audit of the financial statements, including a review of the Governance Statement.
 - A review of governance arrangements, internal controls and financial systems.
 - A targeted follow-up review of Audit Scotland's national report on 'The Role of Boards'.
3. In addition to this annual report, we have delivered the following outputs during 2011/12:
 - External audit plan.
 - Interim management report.
 - Targeted follow up of Audit Scotland's 'The Role of Boards report'.

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 findings from our audit of the 2011/12 financial statements.

Management responsibilities

7. It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder. This means:
- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
 - maintaining proper accounting records;
 - preparing financial statements timeously which give a true and fair view of the financial position of the Board and its expenditure and income for the year then ended; and
 - preparing a Directors' Report, an Operating and Financial Review, a Governance Statement and a Remuneration Report.

Auditor responsibilities

8. We audit the financial statements and the part of the Remuneration Report to be audited 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 year then ended;
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - whether the part of the Remuneration Report to be audited has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;
 - whether the information given in the Operating and Financial Review and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
 - whether expenditure and income has been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).

9. We also report by exception as to whether the Governance Statement does not comply with guidance from Scottish Ministers. In arriving at our opinion we:
- consider the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and
 - assess whether disclosures in the statement are consistent with our knowledge of the Board.

Confirmation of auditor independence

10. Ethical Standard 1 – *Integrity, objectivity and independence*, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Audit Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.
11. We confirm that we have complied with APB Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:
- There are and have been no relationships between Scott-Moncrieff and the Board, its directors and senior management that may reasonably be thought to bear on our objectivity and independence; and
 - Scott-Moncrieff has not provided any consultancy or non-audit services to the Board during 2011/12.

Overall conclusion

An unqualified audit opinion on the financial statements

12. The Board's annual accounts are due to be approved by the Board on 27 June 2012. We expect to report, within our independent auditors' report, an unqualified opinion on the financial statements for the year ended 31 March 2012.
13. We are satisfied that the Governance Statement complies with the Scottish Ministers' guidance and that the contents are consistent with information gathered during the course of our normal audit work. The Board has a good overall framework in place to support an effective internal control environment.
14. We have also concluded that the part of the Remuneration Report to be audited has been properly prepared in accordance with guidance issued by Scottish Ministers and the information given in the Operating and Financial Review and Directors' Report is consistent with the financial statements.

An unqualified audit opinion on the regularity of transactions

15. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors to certify that, in all material respects, the expenditure and income shown in the financial statements was incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have issued an unqualified opinion on the regularity of transactions in the Board's financial statements.

Good administrative processes were in place

16. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to the finance team for their assistance with our work.
17. Arrangements are in place to enable the annual accounts to be submitted to the Scottish Government Health and Social Care Directorates (SGHSCD) and the Auditor General for Scotland prior to the 30 June 2012 deadline.

Audit and accounting adjustments

18. Adjustments were identified during the audit which have had an impact on the Board's underspend as shown in Table 1 below.

Table 1 – Audit and accounting adjustments

	£'000
Underspend per the initial draft accounts	628
<i>Accounting entry made during the audit process:</i>	
Adjustment to accruals	(23)
<i>Underspend per the audited accounts</i>	605

19. We also identified some disclosure and presentational adjustments and are pleased to report that these are reflected in the Board's updated financial statements. These included changes in the presentation of the remuneration report, staff numbers, related party disclosure and minor formatting changes to the statutory accounts.

Unadjusted differences

20. We identified two unadjusted differences during our audit work. These are not considered to be material and through discussion with the Director of Resource Management the decision was taken not to adjust the annual accounts.
21. We ask the Board to confirm that they do not consider these unadjusted differences to be material. These are described below and appended to the letter of representation.

Transfer of realised revaluation reserves

Extract from the NHS Scotland Capital Accounting Manual 2011/12

4.13 Revaluation Reserve

4.13.4: Each year, the realised element of the reserve (i.e. an amount equal to the excess of the actual depreciation over depreciation based on historical cost) should be transferred from the reserve to the general fund.

4.13.6 The summary of changes in taxpayers' equity in the accounts should disclose the opening and closing balances on the reserve, any amounts transferred to or from reserves during the year, and the source and application, respectively, of the amounts transferred.

22. The Board has not transferred the realised element of the revaluation reserve to the general fund in 2011/12 or in previous years. As a result they have not complied with the Capital Accounting Manual (CAM). It is estimated that the cumulative effect of this policy on the revaluation reserve is an overstatement of £289,000 (with a corresponding understatement in the general fund). This sum is inclusive of the expected in-year transfer for 2011/12 which has been estimated at £27,000.

Provision for dilapidations

23. Under the terms of existing lease contracts NHS Health Scotland is required to ensure that some premises occupied are returned, at the termination of the lease, to their original standard. The Property and Asset Management Strategy (PAMS) recognises that the preferred relocation option could incur remedial costs to return leasehold property to its original condition. These dilapidation costs are estimated to be £223,000. The Board has not however accounted for any provision for dilapidations at the balance sheet date. Recognising a provision for dilapidations would reduce the Board's underspend to £382,000.

Key areas of audit focus and significant findings

24. We are required by international auditing standards to report to the Board the main issues arising from our audit of the financial statements. The most significant issues are noted below.

Indexation of land and buildings

Extract from the NHS Scotland Capital Accounting Manual 2011/12

4.3 Frequency of valuations

4.3.3 Each Board needs to ensure that the whole of the estate is revalued every 5 years. NHS bodies may choose to do this as a single exercise every five years or by way of a rolling programme. Any property not fully revalued in year will require an interim revaluation on 31st March, either by applying appropriate indices from a professional valuer or by interim revaluation.

25. The Board's accounting policies state that revaluations will be carried out every two years, with asset values remaining constant between valuations. At 31 March 2011, Woodburn House was valued at £1.150million. This was an upwards revaluation of £13,000 against the net book value of this asset.
26. The Board's policy does not strictly comply with the CAM. As the policy fairly reflects the value of this asset we have concluded the Board's approach is reasonable.

Voluntary redundancy scheme

27. During 2011/12 the Board launched a voluntary redundancy scheme which was open to all staff. 24 members of staff expressed an interest in the scheme which subsequently led to 18 individuals agreeing to exit packages in the year, worth a combined £904,000. The terms of the scheme were approved by the Remuneration Committee and the Board and included a weighted scoring mechanism as part of the selection criteria. Under this mechanism affordability accounted for 50% of the weighted score, with a payback period of over two years scoring zero out of a possible four points. The average pay back period for the scheme was around one year.

Extract from the Scottish Public Finance Manual

A SG [core Scottish Government] sponsored body must obtain prior approval from the SG for a new severance, early retirement or redundancy scheme or changes to a previously approved scheme. Approval lasts for the duration of the scheme.

28. We reviewed the scheme and found that it had been administered in line with the terms and conditions approved by the Board and that the associated transactions had been accounted for correctly in the financial statements. We did however note that the Board did not receive formal approval from the Scottish Government before implementing its voluntary redundancy scheme. The Board took the view that accepted practice allowed them to offer such a scheme without formal approval so long as it remained in line with current guidance and regulations. The Board have since contacted the Scottish Government to determine whether the terms of the scheme and any future scheme need approval.

NHS Superannuation Scheme

29. The Board participates in the NHS Superannuation Scheme for Scotland. This is a defined benefit pension scheme, where contributions are credited to the Exchequer and are invested in a portfolio of Government securities. The Board is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis and therefore accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the statement of comprehensive net expenditure represents the Board's contributions payable to the scheme in respect of the year. The most recent actuarial valuation available was for the year 31 March 2004. Given that the Scheme ought to be subject to a full actuarial valuation every five years, we would have expected that a more up to date valuation would have been published by

Scottish Public Pensions Agency. Furthermore, the periodic actuarial valuation is key to determining the adequacy of employer and employee contributions to the Scheme.

30. In common with all health boards in Scotland, the net liability figure for the Scheme as disclosed in Note 14 is out of date. There is a risk that, as the level of contributions from employers and employees has not been recently reviewed, there is uncertainty as to their adequacy to meet the future commitments of the Scheme.

Use of resources

31. 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

32. The Board is required to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates. As shown in Table 2 below, the Board has met all of its financial targets.

Table 2 – Performance against financial targets

Financial Target	Target £'000	Actual £'000	Underspend £'000	Target achieved
Revenue Resource Limit – Core	22,448	21,843	605	Yes
Revenue Resource Limit – Non-core	121	121	0	
Capital Resource Limit	90	90	0	Yes
Cash Requirement	23,000	22,833	167	Yes

(Source: 2011/12 Annual Accounts)

33. The Board reported an underspend of £0.6million (2.7%) against its RRL. The Board has held discussions with the Scottish Government and agreed that this underspend can be carried forward to 2012/13.
34. We have analysed the Board's 2011/12 outturn into recurring and non-recurring items, as shown in Table 3. This shows that the Board has underspent against its recurring allocations. A break-even position is reported against non-recurring funding. Where non-recurring allocations are not fully expended the Board typically agrees a return of the funding to the Scottish Government.

Table 3 – Achievement of 2011/12 surplus

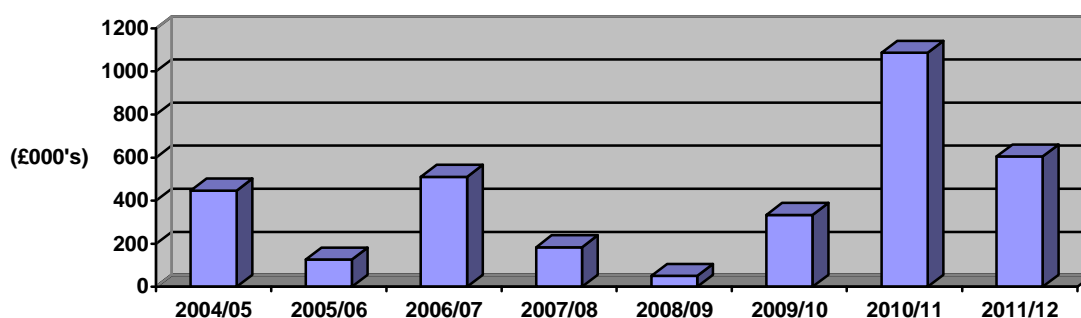
	£'000
Recurring income	20,672
Recurring expenditure	<u>20,067</u>
Underlying recurring surplus/(deficit)	605
Non-recurring income	1,897
Non-recurring expenditure	<u>1,897</u>
Non-recurring surplus/(deficit)	0
Financial surplus/(deficit)	605
Underlying recurring surplus/(deficit) as percentage of recurring income	<u>2.7%</u>

(Source: Final allocation letter, March Monthly Monitoring Return & client discussions)

Financial performance management

35. NHS Health Scotland has a history of underspending against its Revenue Resource Limit (see diagram 1 below). SGHSCD allowed NHS Health Scotland to carry forward the 2010/11 underspend of £1.087m and this was received as an additional allocation in 2011/12. Repeated underspends have been recognised as a concern by the Board and in April 2012 the Audit Committee requested that management carry out a governance review to ensure that the budget is on track for 2012/13.

Diagram 1 – Historic underspends against RRL



Source: NHS Health Scotland Annual Reports 2004/05 to 2010/11

36. In 2011/12 the Board received an uplift in funding of 1%. This was however offset by a requirement to meet an efficiency savings target of 5% (£1.051million). The Board set the budget at the start of the year to deliver a break even position. Discussions with SGHSCD have indicated that further budget reductions will be required in future years on a similar basis. The Board's current Local Delivery Plan (LDP) indicates that further savings will be required of £1.009million, £0.391million, and £0.395million over the next three years. This could exert further pressure on the Board's financial performance.
37. During 2011/12 the Board monitored its expenditure against budget closely to meet its RRL. This has included initiating a bid and surrender scheme where underspending projects have budgets reduced with the funding being set aside as unallocated. The funding is then made available to other projects through a bidding scheme.
38. The Board's projected outturn as at December 2011 was an under spend of £0.22million, whilst the year to date position against phased budgets, at this time, was an underspend of £0.508million. Although bids and surrenders have been reviewed on a weekly basis throughout the year the Board have not been able to meet these expectations and the year end underspend of £0.605million is higher than the projections and year to date figures reported in December 2011. The year end financial position is principally due to underspends in the unallocated funding being held by the Board and has occurred despite the Board reporting that £3.5million had been spent in the last few days of the financial year. This equates to 16% of the Board's total RRL being spent in a matter of days.

39. Significant factors identified in the repeated underspend position have been:
- In 2011/12 the Board had over 400 projects, each being managed on an individual basis;
 - Possible over optimism in the budget setting process;
 - Partner organisations not fulfilling expectations;
 - Changing SGHSCD and Board project priorities; and
 - Dealing with vacancy management and other resourcing issues such as maternity leave.
40. Internal audit reported during the year that the Board can take reasonable assurance that the controls in place over financial performance management are suitably designed, consistently applied and effective. Our own audit work has not found any significant control deficiencies in the financial management process. We are concerned however that there remains underlying weakness behind the Board underspending against its RRL. Indeed, initial discussions indicate that the Board will report a small underspend position against budget for the first two months of 2012/13.
41. NHS Health Scotland recognises that financial performance management remains an area for improvement and this is disclosed within the Governance Statement. We strongly support the Audit Committee's request for a Governance Review and consider that addressing the weaknesses in ongoing financial performance management should have a high priority for the Board. The Board should ensure that the findings of the Governance Review are addressed as soon as is practicable and it would be appropriate for such a significant issue to remain under the ownership of the Board until it is resolved.

Action plan point 1

Estates strategy

42. Following the Strategic Accommodation Review, NHS Health Scotland is exploring options to consolidate the existing five office locations into two, one in Edinburgh and one in Glasgow. The proposals from the review have been taken forward through the Property and Asset Management Strategy (PAMS).
43. The strategy and the review both conclude that the current estates arrangements act as a constraint on the Board's efficiency. As a result an option appraisal has been conducted over the following five options:
- 'do nothing';
 - rationalisation of the existing estate;
 - re-location to two buildings (Edinburgh & Glasgow);
 - co-location to a single site; or
 - a central site with satellite teams in regional health boards.

44. The appraisal of the financial and non-financial benefits of each option concluded that re-location to two buildings appears to offer the best outcome for the Board. With the draft PAMS now in place the Board is now seeking to ensure that the required arrangements are being made to allow it to be fully implemented. This has included early discussion with SGHSCD over the impact this may have on future revenue and capital funding. We will maintain a watching brief over the progress made against the estates strategy over the term of our appointment.

Capital Resource Limit

45. The Board met its Capital Resource Limit (CRL) in 2011/12 with total capital expenditure of £90,000. All asset additions made in the year were through the rolling IM&T programme. The initial CRL allocated to the Board was £150,000 however a return of capital funding of £60,000 was agreed during the year.

Performance

46. This section of the report looks at performance management arrangements at NHS Health Scotland. An effective performance management system is a key component in the effective monitoring and management of resources.

Performance management framework

47. NHS Health Scotland has a well-developed reporting system which satisfies the information needs of the Board and facilitates effective decision-making. The Board receives regular reports on key performance areas. The Board places a high priority on ensuring that reports are relevant and as informative as possible to support effective challenge and decision-making.
48. Performance reports are aligned to the four strands of work set out in the Corporate Framework and the 2011/12 business plan:
- Local Delivery Plan HEAT Targets;
 - Health Improvement and Health Inequalities Strategies;
 - Better practice in improving population health, reducing inequality and promoting equality; and
 - Ensuring the organisation is resourced and managed to deliver its goals.

Performance is reported on an exceptions basis with a red, amber, green system in place to identify financial and non-financial performance levels.

49. In May 2012 the Board received a proposal from the Chief Executive and the Directors to amend the structure of the performance reports to bring them in line with the 2012/13 business plan and the first year of the new corporate strategy, "A Fairer Healthier Scotland". This will change the reporting model to three broad groupings of reporting programmes:
- External delivery programmes in priority health improvement areas;
 - The expertise required to deliver programmes and support partners; and
 - The internal-facing corporate services required for the whole organisation to enable effective and efficient business plan delivery and good governance.
50. NHS Health Scotland's intranet gives access to near-live financial information for all projects. This enables team leaders to review financial performance on a daily basis with data accurate up to the end of the previous day. This information includes spend and commitments to date, as well as outstanding unapproved orders.

Best value framework

51. The Scottish Government's guidance defines best value as:

*"[seeking to] secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost) and in doing so to have regard to economy, efficiency, effectiveness, equal opportunities requirements and to the achievement of sustainable development. Best value places the emphasis on the customer, not just the bottom line."*¹

52. Following the successful introduction of the best value regime in local government, Scottish Ministers introduced a non-statutory duty to deliver best value on all public sector accountable officers. This was reinforced by refreshed Ministerial guidance, highlighting the importance that the Scottish Government places on best value as a means of supporting public service reform. The *Scottish Public Finance Manual* now places a duty on the Chief Executive, as Accountable Officer, to make arrangements to secure best value.

53. Scottish Government guidance on best value sets out five core themes and two cross-cutting themes.² These themes are as follows:

- Vision and leadership
- Effective partnerships
- Governance and accountability
- Use of resources
- Performance management
- Sustainability – cross cutting theme
- Efficiency – cross cutting theme.

54. The Board has developed a best value framework to evidence how it is delivering against each of the seven best value themes. The framework is currently being revised and developed by the Board. Senior management is currently being consulted on the draft in order to ensure that all aspects of best value work currently being delivered by the Board have been identified.

55. The framework provides the Board with an effective baseline on how it is delivering best value. The Board can therefore monitor and demonstrate continuous improvement and developments in best value. The framework identifies the lead for each aspect of existing best value work and timescales for when the existing work will be monitored or reviewed.

¹ <http://www.scotland.gov.uk/Topics/Government/PublicServiceReform/14838/>

² Best Value in Public Services; Guidance for Accountable Officers, *Scottish Government, April 2011*

56. The Board has not however identified its priorities for improving and enhancing its best value arrangements. The framework does not identify which of the seven best value themes are priorities for the Board. Therefore where senior management or the Board have several actions to be delivered within the same timescale there is no guidance or confirmation on what are the priority actions for the Board. Neither does the framework give clear timescales or actions for continuous improvement. For example, almost 70% of the timescales under the effective partnership theme are identified as “ongoing.” Board members are therefore unable to assess if progress is being made or if this is being made in line with expectations. The Board should revise the timescales and actions in the best value framework and ensure that they are clear and measurable. This should include clearly designating which themes are seen as priorities.

Action plan point 2

Governance

57. This section sets out the main findings arising from our review of the Board's governance arrangements as they relate to:

- systems of internal control;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and arrangements for the prevention and detection of bribery and corruption.

The role of boards

58. In 2010, the Auditor General for Scotland published a report 'The role of boards'. This report examined the system of accountability of Scottish public bodies, the public appointments system and the performance of boards. The report made a series of recommendations for bodies to consider, covering for example, the level of performance and financial information provided to a board to enable effective scrutiny and training and induction of board members. As part of our audit we carried out a targeted follow up review based on the recommendations contained in the original report. The review considered the following:

- How effective is the Board and is it seeking to continuously improve its performance and ways of operating?
- How is the Board ensuring that it has the skills and expertise to enable it to perform effectively?

59. Overall we concluded that NHS Health Scotland is committed to reviewing and continuously refining its Board practices. A self assessment was carried out in April 2012 with each non-executive and executive director completing a questionnaire. The findings from these self assessments were used as the basis for a Board development day. Following this an outline development plan has been produced.

60. Four new board members were appointed from 1 April 2011. All new board members are put through an induction training programme specifically tailored to their needs. Ongoing training for the Board is identified through annual performance reviews.

61. Our targeted follow up review did however identify areas for development. We will issue a separate report on our findings that will include recommendations for the Board to consider.

Systems of internal control

62. 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 Governance Statement and concluded that the

content is consistent with the information gathered during the course of our audit and the requirements set out in guidance from the Scottish Government.

63. The Chief Executive, as Accountable Officer, has overall responsibility for maintaining a sound system of internal control. In line with the previous year, the 2011/12 statement discloses two areas where action is required to address weaknesses identified and ensure continuous improvement of systems. These relate to:
- Business continuity and disaster recovery planning, information management, information governance, and embedding risk management; and
 - The need for improvements in financial performance management.
64. During our audit we reviewed the Board's key accounting systems and internal financial controls. As reported in our interim audit report, we have found the internal controls over the accounting systems to be generally well designed and operating adequately.
65. Our audit identified no further issues which would give rise to a disclosure in the 2011/12 Governance Statement.

Risk Management

66. An important feature of a robust system of internal control is a developed and integrated approach to risk management. Effective risk management will deliver an appropriate balance between risk and control, more effective decision making, better use of limited resources and greater innovation.
67. During the year the Board's internal auditors, RSM Tenon, carried out a review of the risk management arrangements. Internal Audit concluded that the Board has a defined risk maturity level and demonstrates characteristics of being a risk managed organisation. The recommendations raised by internal audit, one of which was assessed as high priority, have been amalgamated into the Board's Information Governance and Risk Management action plan. Progress against the plan is reported to the Audit Committee. We placed reliance on the work of internal audit in relation to risk management during the year.

Internal Audit

68. Internal audit is a key component of the Board's corporate governance arrangements. The Board's internal audit service was provided by RSM Tenon for the year to 31 March 2012.
69. In accordance with 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.” Overall we concluded that RSM Tenon has provided a service which complies with Government Internal Audit Standards and which we can rely upon. 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 RSM Tenon internal audit team for their assistance during the course of our audit work.

Prevention and detection of fraud and irregularity

70. 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 to prevent and detect fraud and irregularity. We did not find any indication of fraud and irregularity and concluded that the Board's internal controls and financial procedures were adequate to prevent and detect material fraud and irregularity.

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

71. 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.

Appendix 1 - Action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during 2011/12, in the course of our audit. 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 that may exist.

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. The grading structure is summarised 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.

No.	Title	Issue Identified	Risk and Recommendation	Management Comments
1.	Financial performance management (para 41)	NHS Health Scotland recognises that financial performance management remains an area for improvement. The Audit Committee requested that management carry out a governance review in 2012/13 to ensure the budget is on track.	<p>Repeated underspends against Revenue Resource Limit (RRL) pose a significant reputational risk to the Board.</p> <p>The Board should ensure that the findings of the Governance Review are addressed as soon as is practicable and it would be appropriate for such a significant issue to remain under the ownership of the Board until it is resolved.</p> <p>Grade 5</p>	<p>2012/13 financial performance management will be reviewed by the Audit Committee in July and again at its meeting on 31 August 2012, and a report will be made to the Board thereafter.</p> <p>Responsible officer: Director of Resource Management</p> <p>Deadline: Report to Board meeting on 14 September 2012.</p>
2.	Best value framework (para 56)	<p>The Board has not prioritised its plans for improving and enhancing its best value arrangements.</p> <p>The best value framework does not always give clear timescales or actions for continuous improvement.</p>	<p>Board members may be unable to assess if progress is being made in line with expectations.</p> <p>The Board should revise the timescales and actions in the best value framework and ensure that they are clear and measurable. This should include clearly designating which themes are seen as priorities.</p> <p>Grade 3</p>	<p>This recommendation has been discussed with the external auditor and it has been agreed that entries in the timescale column in the best value framework will be changed to reflect progress made against evidence sources. This process will indicate areas in need of further action and this in turn will lead to identification of priority actions.</p> <p>Responsible officer: Director of Resource Management</p> <p>Deadline: Initial discussion with Audit Committee at its meeting on 31 August 2012, actions to be taken thereafter to be confirmed.</p>



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