



NHS Borders

External Audit Annual Report
to Borders Health Board & the
Auditor General for Scotland
2012/13

July 2013



Scott-Moncrieff
business advisers and accountants

NHS Borders

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Executive summary

Financial Statements

Our audit of the 2012/13 financial statements is complete and our audit opinions are unqualified. NHS Borders achieved all of its financial targets and delivered a saving of £0.075m against the Revenue Resource Limit (RRL). The Board also made a saving of £0.007m against its Capital Resource Limit (CRL) and achieved its Cash Requirement target.

We do not agree with the Board's accounting treatment in relation to a £55,000 asset impairment, although this is not considered material to the financial statements. The impact on the RRL outturn position would be to decrease the surplus from £0.075m to £0.020m (assuming no matched annually managed expenditure funding would be received from the Scottish Government to negate the RRL impact, as is the normal process).

Use of Resources

The Board has good arrangements in place for managing its financial position and its use of its resources. The 2012/13 £0.075m surplus against RRL represents an underspend of just 0.04%. It is consistent with the Board's 2012/13 budgeted outturn, which predicted a year end breakeven position. The Board also delivered a balanced underlying recurring and non-recurring RRL position, showing that recurring funding has met the costs of providing core (recurring) services.

The Board had a significant CRL increase in 2012/13, up £2.69m to £6.420m. The Board's initial allocation was supplemented by over £1.5m received in relation to Lauder Health Centre and £2.8m of central NHS capital funds. With the latter, NHS Borders was able to respond quickly to national capital slippage made available, which the Board used in projects within Borders General Hospital in relation to outpatients works and ward 6 bed capacity and within Mental Health Services at the Huntlyburn House Acute Inpatient Unit.

NHS Borders had efficiency savings plans to achieve savings of £5.904m in 2012/13. This target was greater than the savings required to achieve a break even position. The Board delivered the required savings. For 2013/14, NHS Borders has savings plans of £5.121m against a minimum cash savings requirement of £4.823m.

NHS Borders is projecting a break even position for the three years from 2013/14. Efficiency savings have been fully identified for 2013/14 and progress has been made to develop savings plans for the two financial years thereafter. Achievement of future financial targets will depend on continuing tight control of expenditure and delivery of challenging savings plans. Delivering against financial and non-financial targets in the coming years will require even closer monitoring given financial pressures.

Performance

NHS Borders can demonstrate a clear commitment to continuous improvement in performance management in its overall performance management framework, including the performance reporting systems, benchmarking programme, and involvement of various levels of staff. The performance framework is aligned with the Local Delivery Plan and corporate objectives, and provides a good basis for managing the Board's performance.

In the main body of the report, we have commented on and suggested some ways in which the Board could continuously improve its performance management arrangements, to assist scrutiny and challenge.

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 satisfactory and appropriate.

Good progress has been made in the investigation of matches identified in respect of the 2012/13 National Fraud Initiative (NFI).

Conclusion

This report concludes our audit of NHS Borders for 2012/13. 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. We would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff

July 2013

Introduction

1. This report summarises the findings from our 2012/13 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 2012/13 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 people management;
 - Assessment of the Board's performance management arrangements; and
 - Follow up of certain Audit Scotland National Study reports, including *Scotland's Public Finances: Addressing the Challenges*.
3. In addition to this annual report, we have delivered the following outputs during 2012/13:
 - External audit plan;
 - Interim management report;
 - Report on the audit of the financial statements (ISA 260 report);
 - Best value report on people management; and
 - Targeted follow up report of the Audit Scotland National Study report *Scotland's Public Finances: Addressing the Challenges* and related Audit Scotland National Study updates.

The key issues from these outputs are summarised in this annual report.
4. Wherever possible, and in line with our standard audit approach, 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 2012/13 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 state of the Board's affairs and of its net operating cost for the year;
 - 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 Scottish Ministers;
 - Whether the information in the Operating and Financial Review and Directors' Report is consistent with the financial statements; and
 - Whether expenditure and income has been incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers (the regularity opinion).
8. We also review the Board's Governance Statement by:
 - Considering the adequacy of the process put in place by the Chief Executive, as Accountable Officer, to obtain assurances on systems of internal control; and
 - Assessing whether the disclosures in the statement are consistent with our knowledge of the Board and that they comply with guidance from the Scottish Ministers.
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.
10. We can also confirm that our independence and objectivity has been maintained throughout the audit.

Overall conclusion

An unqualified audit opinion

11. The Board approved its annual accounts on 27 June 2013. Our independent auditor's report expresses an unqualified opinion on the financial statements of the Board for the year ended 31 March 2013 and on the other matters referred to above.

12. 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 2013 deadline.
13. We are pleased to report that we were presented with draft financial statements and supporting working papers by the agreed date and note that these were generally of a high standard.

Issues arising from the audit

14. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the Board's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.
15. 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 17 June 2013.

Immaterial adjustments to the financial statements were made during the audit

16. During the audit various disclosure and presentational adjustments were identified, all of which have been reflected in the Board's updated financial statements. In the main these were adjustments between balance sheet lines and updates to disclosure notes. They are set out in more detail in our Report on the Audit of the Financial Statements.

Unadjusted difference in respect of impairment loss on assets held for sale

17. We do not agree with the Board's accounting treatment in the one area identified below, although this is not considered material to the financial statements. The impact on the RRL outturn position would be to decrease the surplus from £0.075m to £0.020m (assuming no matched annually managed expenditure funding would be received from the Scottish Government to negate the RRL impact, as is the normal process).
18. During 2012/13 an asset held for sale was impaired by £55,000 to its recoverable amount. Impairment on assets held for sale should be recognised in the statement of comprehensive income and expenditure, even where there is a balance on the revaluation reserve in respect of that asset. However, the impairment identified has been recognised as a reduction in the revaluation reserve in the Board's accounts.

SGHSCD Circulars

19. During our review of the processes in place for implementing circulars from SGHSCD we identified that a circular (PES 2012 15) had not been recorded in the Board's action register.

Action plan point 1

NHS Lothian – inter-board balance issues

20. NHS Borders has had difficulty in agreeing balances with NHS Lothian. The letter issued by NHS Lothian as part of the year-end exercise to confirm inter-board balances asserted that £0.983m was owed to it by NHS Borders. However, NHS Borders financial statements reflect a payables balance of £1.1m. The inter-board expenditure for 2012/13 has been agreed, suggesting an issue with year-end adjustments.
21. NHS Borders believes that its figures are an accurate representation of its balances with NHS Lothian, which is a key reason why it does not wish to amend the financial statements. The NHS Board Accounts

Manual stipulates that, in the event of a dispute between boards, the charging board (in this case NHS Lothian) takes precedence (although “this is not to be taken as acceptance of the charge or agreement to pay”). We would therefore expect to raise an unadjusted difference of £0.117m for the payables balance. However, we have obtained evidence supporting the ‘additional’ accrued amounts (including NHS Borders correspondence with NHS Lothian outwith the SFR 30 year end process) and, in considering the wider context and the minor impact on the financial statements, we are not formally proposing an unadjusted error.

22. NHS Borders has had difficulty in agreeing balances with NHS Lothian in previous years. We recommend that NHS Borders further develops its system for agreement of balances with NHS Lothian in future periods (as far as is possible, with NHS Borders being one of the two parties involved) to ensure that agreement is reached within the timescales set out in the NHS Board Accounts Manual.

Action plan point 2

Appropriate disclosure of equal pay claims

23. 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.
24. The Scottish Government sent a letter to all Boards on 28 March 2013 to provide guidance on accounting for equal pay claims in the 2012/13 annual accounts. Representatives from SGHSCD, the CLO and Audit Scotland met on 6 March 2013 to review the accounting treatment and disclosure requirements for the 2012/13 annual accounts.
25. It was agreed that Boards should continue to disclose equal pay claims as an unquantifiable contingent liability, consistent with prior years. The equal pay disclosure recommended by SGHSCD has been included in the Board’s 2012/13 annual accounts.

The actuarial valuation for the NHS Superannuation Scheme for Scotland remains outdated

26. The Board participates in the NHS Superannuation Scheme for Scotland. 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 2012/13 accounts. The periodic actuarial valuation is key to determining the adequacy of employer and employee contributions to the scheme and to inform financial planning.
27. In common with all health boards in Scotland, the information in relation to the scheme is 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.
28. NHS Borders has already raised this issue with the NHS Directors of Finance group and requested an updated valuation for the NHS Superannuation Scheme from the Scottish Public Pensions Authority. We endorse this action and encourage the Board to continue with efforts to obtain an updated valuation.

Governance Statement

29. We are satisfied that the statement complies with the Scottish Ministers' guidance. We found that the contents of this statement 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.

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Regularity and other audit opinions

30. 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.
31. We have 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 given in the Operating and Financial Review and Directors' Report is consistent with the financial statements. The Board restated its remuneration report comparatives, to include the accrued lump sum benefits of each of its executive directors, as well more pension details of the employee director. The Hutton Fair Pay disclosure of 2011/12 was also amended to comply with the clarified requirements of 2012/13, to support year on year comparison.

Qualitative aspects of accounting practices and financial reporting

32. During the course of our audit, we consider the qualitative aspect of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies which are disclosed in the financial statements and these are deemed appropriate.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	No issues were noted with significant accounting estimates or judgements in the preparation of the financial statements.
The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the financial statements.	There are no uncertainties, including any significant risk or required disclosures, which should be included in the financial statements and which have not been made.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these	From our testing performed, we identified no issues in this regard.

Qualitative aspect considered	Audit conclusion
transactions are separately disclosed in the financial statements.	
Apparent misstatements in the directors' report or material inconsistencies with the financial statements.	No issues noted from our consideration of this area.
Any significant financial statement disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All disclosures made are required by relevant legislation and applicable accounting requirements.
Disagreement over any accounting treatment or financial statement disclosure.	There was one unadjusted difference, as discussed above. We do not believe this to be material.
Difficulties encountered in the audit.	There were no difficulties encountered in the audit which merit disclosure here.

Use of resources

33. 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.

The Board's financial performance in 2012/13

The Board met its key financial targets in the year

34. 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 2012/13.

Table 1 - Performance against key financial targets

Financial Target	Target £'000	Actual £'000	Underspend £'000	Target Achieved
Core revenue resource limit	189,355	189,280	75	Yes
Non-core revenue resource limit	6,935	6,935	-	Yes
Capital resource limit	6,420	6,413	7	Yes
Cash requirement	205,000	204,180	820	Yes

Source: Annual Accounts for year ended 31 March 2013

35. The 2012/13 £0.075m surplus against RRL represents an underspend of just 0.04%. It is consistent with the Board's 2012/13 budgeted outturn, which predicted a year end breakeven position.
36. The Board had a significant CRL increase in 2012/13, up £2.69m to £6.420m. The Board's initial allocation was supplemented by over £1.5m received in relation to Lauder Health Centre and £2.8m of central NHS capital funds. With the latter, NHS Borders was able to respond quickly to national capital slippage made available. The 2012/13 capital spending mainly related to property (Lauder Health Centre, Huntlyburn House and Outpatients works at Borders General Hospital) and the purchase of medical equipment. There was also disposal of the Eildonburn and Priorsford properties, which the Board previously declared surplus. Costs of £3.243m were also capitalised in relation to the construction of the Margaret Kerr Unit, for which donated funding was received.

Recurring and non-recurring financial analysis

37. In Table 2 we have analysed the Board's 2012/13 outturn position into recurring and non-recurring items. This shows that there has been a breakeven and a small surplus achieved against recurring and non-recurring allocations respectively. Accordingly, recurring funding has met the costs of providing core (recurring) services.

Table 2 – Achievement of 2012/13 surplus

Description	£m
Recurring income	189.355
Recurring expenditure	193.264
Recurring savings	<u>3.909</u>
Underlying recurring surplus/(deficit)	0
Non-recurring income	6.935
Non-recurring expenditure	8.977
Non-recurring savings	<u>2.117</u>
Non-recurring surplus/(deficit)	0.075
Financial surplus/(deficit)	0.075
Underlying recurring surplus/(deficit) as percentage of recurring income	0%

Source: Acting Deputy Director of Finance / Director of Finance

Financial plans

Tight financial control and the delivery of savings plans are essential to meet challenging targets

38. The Board prepared a three year revenue and five year capital financial plan covering the periods 2013/14 to 2015/16 and 2013/14 to 2017/18 respectively, as part of its Local Delivery Plan (LDP). This includes various assumptions and identifies the risks which may prevent the Board from achieving its forecasts, in order to give a balanced assessment of the Board's financial operating environment. Table 3 below sets out the 2013/14 projected position.

Table 3 – Forecast financial outturn 2013/14

	£m
Recurring income	193.862
Recurring expenditure	196.412
Recurring savings	<u>2.550</u>
Underlying recurring surplus/(deficit)	0
Non-recurring income	3.825
Non-recurring expenditure	6.098
Non-recurring savings	<u>2.273</u>
Non-recurring surplus/(deficit)	0
Financial surplus/(deficit)	0
Underlying recurring surplus/(deficit) as percentage of recurring income	0%

Source: LDP Financial Plans / Acting Deputy Director of Finance & Director of Finance

39. NHS Borders is forecasting RRL break even in each of the three years covered by the plan. To achieve this, the Board will have to ensure that expenditure is tightly controlled. The LDP includes saving plans for each of the financial years covered by the revenue plan. The 2013/14 savings target is slightly less than savings delivered in 2012/13. However, delivering savings year-on-year whilst maintaining standards of service and delivering outcomes will continue to prove challenging.
40. The Board is also projecting a breakeven position against its CRL for the next five years. The CRL allocation for 2012/13 (£6.42m) was relatively high; CRL of just over £4m is anticipated in the next two years, before reducing further to £2.443m for the remainder of the plan period.

Funding

41. NHS Borders will receive a main funding uplift of 2.8% in 2013/14, equivalent to £4.711m. This is fully reflected in the Board's financial plan. Other funding uplifts have also been estimated at 2.8% (£0.534m) relating to other income, such as health care provider income and locally sourced income. Estimates for family health services (FHS) non-cash limited funding have been estimated at 1%. As these costs are effectively reimbursements from SGHSCD they are considered to be cost neutral.
42. SGHSCD has indicated a general funding uplift of 2.5% for both 2014/15 and 2015/16. The Board's other funding uplifts have been estimated at a similar rate and have been included in the three-year revenue plan accordingly.

Cost pressures

Efficiency savings are required to compensate for cost increases exceeding funding increases

43. NHS Borders has projected expenditure growth of £7.795m for 2013/14. This is an aggregate of a range of additional expenditure commitments which the Board is required to meet. Costs increases can be largely categorised as relating to general costs (£4.744), national initiatives (£0.633m) and service development (£2.418). These additional costs are deemed unavoidable, the most significant of which relate to:
- Pay inflation (£1.413m)
 - Prescribing cost growth / inflation (£1.322m)
 - Non-pay uplift (£0.632)
 - Contracts with external providers (£0.791m)
 - Medical staffing (£0.695m)
 - Nursing and surgery developments (£0.655m)
44. The 2013/14 financial plan has been prepared on the basis of the financial assumptions shown in Table 4.

Table 4 – Price increase assumptions

Assumptions – uplift	2013/14	2014/15	2015/16
Resources	2.80%	2.55%	2.50%
Pay	1.43%	1.48%	1.47%
Prices	2.10%	1.50%	1.50%
GP prescribing	4.66%	5.94%	5.94%
Hospital drugs	5.09%	6.10%	6.10%
Family Health Services	1%	1%	1%

Source: Borders LDP Financial Plans 2013/14

45. Efficiency savings plans have been developed for the full 2013/14 savings requirement. Savings plans for subsequent years have not yet been developed in full, but progress has already been made in identifying potential areas where savings can be made.
46. There is a detailed financial risk assessment framework in place within the Board to help identify, appraise and monitor financial risks. Board management factor these pressures into the financial planning process, reporting key details and assumptions to the Board via regular finance reports.

Savings plans

Savings in 2012/13 underpinned the achievement of the RRL target

47. Table 5 sets out the cash-releasing efficiency savings programme delivered during 2012/13. The Board deliberately set a stretching recurring savings target, to help ease pressure for achieving savings targets in future years.

Table 5 – Efficiency savings delivered 2012/13

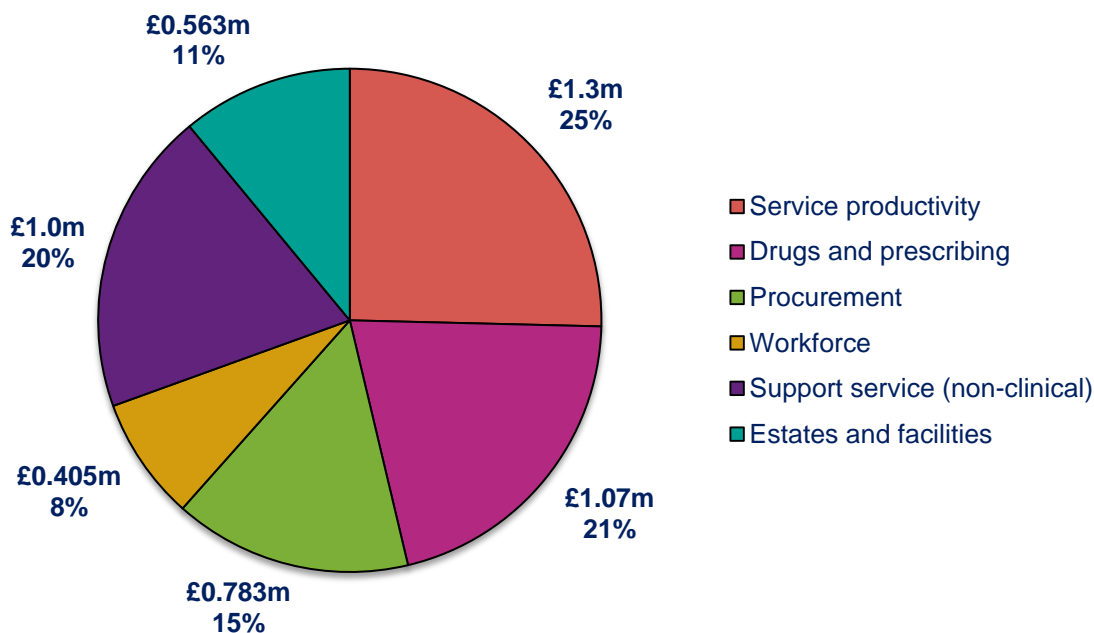
Savings scheme	Recurring £'000	Non-Recurring £'000	Total £'000
Savings target	3,905	1,999	5,904
Clinical productivity	2,744	708	3,452
Workforce	-	-	-
Drugs and prescribing	503	413	916
Procurement	80	392	472
Support services	532	546	1,078
Estates and facilities	50	58	108
Total in-year savings	3,909	2,117	6,026
Balance (shortfall) / overachieved	4	118	122
*Full year/12 month effect of in-year savings included above provides an additional £505,000 savings.			

Source: NHS Borders Board Report – March 2013

Savings targets for 2013/14 are slightly lower than in 2012/13, and relatively even across recurring and non-recurring savings

- 48. The Board has identified a cash-releasing savings requirement of £4.823m, which needs to be delivered to achieve financial balance in the 2013/14 financial year. Of this, at least £2.55m is expected to be recurring savings.
- 49. The 2013/14 savings plan sets a target of £5.121m of total savings, split relatively evenly between recurring (£2.55m) and non-recurring (£2.571m) savings. The areas covered by the savings plans for 2013/14 have been set out in Diagram 1, below:

Diagram 1 – Total savings plans 2013/14



Source: NHS Borders LDP Financial Plans 2013/14

50. There is a good savings monitoring process within the Board. A number of efficiency savings schemes have been developed for each of the savings areas identified above. Each scheme will be run as an individual project, with individual project owners responsible for developing and delivering an efficiency plan. The Board's established approach means all projects are 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.
51. 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. The Efficiency Board reports progress to the Clinical Executive Operational Group on a regular basis.
52. Delivery of the Board's efficiency savings requirement, together with the staff turnover issues (discussed below), represent key financial risks of the Board meeting its financial targets for 2013/14.

People and workforce management

Low staff turnover rates add to the challenge of achieving financial balance

53. A number of efficiency savings plans put in place by the Board have workforce implications. These include the Rebalancing Care Project, Clinical Nurse Specialist Review, AHP Workforce Redesign, Dementia Services Redesign and Support Services Workforce Reviews.
54. NHS Borders has a workforce plan in place, aligned with the Board's corporate plans. This is updated annually for workforce planning priorities. A stated priority is ensuring patient safety through effective workforce redesign. Management can obtain support to undertake workforce and risk assessments when opportunities arise to review workforce requirements through vacancy management and service redesign. However, the Board has experienced low turnover rates across the service, which leads to few opportunities for redeployment. This creates challenges as redeployment is the Board's main vehicle to

achieve workforce and service redesign, particularly given the financial and policy implications of voluntary severance schemes.

55. However, the Board has made progress in tackling workforce costs through a mix of vacancy control, internal redeployment, skill mix redesign and review of non-permanent contracts. Management need to monitor the success of these initiatives and might need to take further action if they do not lead to the savings and service reorganisation which the Board requires.

2012/13 best value review finds NHS Borders is committed to delivering best value through effective people management

56. The review identified a number of areas of the Board meeting the criteria for better practice. In particular, NHS Borders adheres to the NHS Scotland Staff Governance Standard and has a Staff Governance Action Plan which sets out its approach to people management. National and local policies are in place to support the delivery of this agenda and the Knowledge and Skills Framework (KSF) and Personal Development Review (PDR) process is used to ensure that all staff know what is expected of them.
57. Partnership arrangements have also been established to promote good employment relations, engage staff and deliver informed decision making. Staff representatives sit on the Area Partnership Forum, ensuring that the views of staff across all levels of the organisation are considered in key strategic and operational decisions. NHS Borders also works in partnership with other organisations to ensure coordinated service delivery, increase employment opportunities and deliver training. A Joint Staff Forum has been established with Scottish Borders Council to share HR expertise.
58. There are some further opportunities for the organisation to enhance its people management arrangements. For example, NHS Borders should ensure that its Staff Governance Action Plan is regularly reviewed, updated and approved by the Board.

Action plan point 3

59. Detailed commentary on opportunities for further improvement is included out in our separate best value report.

Scotland's public finances – follow-up review

60. During the year we carried out a follow-up review of the Audit Scotland National Study report *Scotland's Public Finances: Addressing the Challenges*. The original report was issued in August 2011. Our findings are the subject of a separate report to the Board and are summarised below.

NHS Borders has further developed budgeting arrangements and has made improvements incorporating the national report recommendations

61. NHS Borders has a well-developed budgetary framework, which facilitates the development of short and medium term financial performance. The Board has a three year revenue financial plan and five year capital financial plan as part of its LDP.
62. The Board's approach facilitates the development and monitoring of short and medium-term financial performance. Non-executive directors are involved in financial planning and monitoring, with financial performance subject to regular scrutiny and challenge. There is a good savings monitoring process within the Board, with an experienced Finance team in place to support the financial management process.

63. We identified three low-to-moderate rated areas in our follow up report where the Board could further develop its existing arrangements around alignment of budgets with corporate objectives, in benchmarking and in engaging with wider stakeholders when developing savings proposals.

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 monitoring

64. 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.
65. 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

66. 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 has a good overall performance management framework

67. In 2011/12 we carried out a best value review of NHS Borders' performance management arrangements. We have used the findings of this review, and our cumulated knowledge and experience of the Board's performance management framework, to assess the overall performance management arrangements in place during 2012/13. NHS Borders can demonstrate a clear commitment to continuous improvement in performance management in its overall performance management framework, including the performance reporting systems, benchmarking programme, and involvement of various levels of staff. The framework is aligned with the Local Delivery Plan and corporate objectives, and provides a good basis for managing the Board's performance.

Performance against Scottish Government 2012/13 HEAT targets

68. For 2012/13 15 targets made up the 'performance contract' between SGHSCD and NHS Boards. These 'HEAT' targets cover four priorities outlined by the Scottish Government. The Board has further divided three HEAT Targets into two more specific targets, making 18 HEAT targets overall. These targets and the planned trajectories are included in the Local Delivery Plan (LDP), with specific identified risks for each target and related management delivery actions.

69. The Board has faced funding reductions which could affect its ability to achieve these targets. Clinical boards work with the Strategy and Performance Committee on savings proposals, for the latter to review and approve. This helps ensure that proposed savings are not detrimental to corporate objectives and HEAT targets.

70. In prior years the Board has set itself performance targets and standards above the HEAT targets. For example, in 2011/12 NHS Borders set itself a 9 rather than 12 week target between referral to an outpatient appointment. In 2012/13 the Board set its local targets in line with the national HEAT targets to stretch the organisation and improve performance.

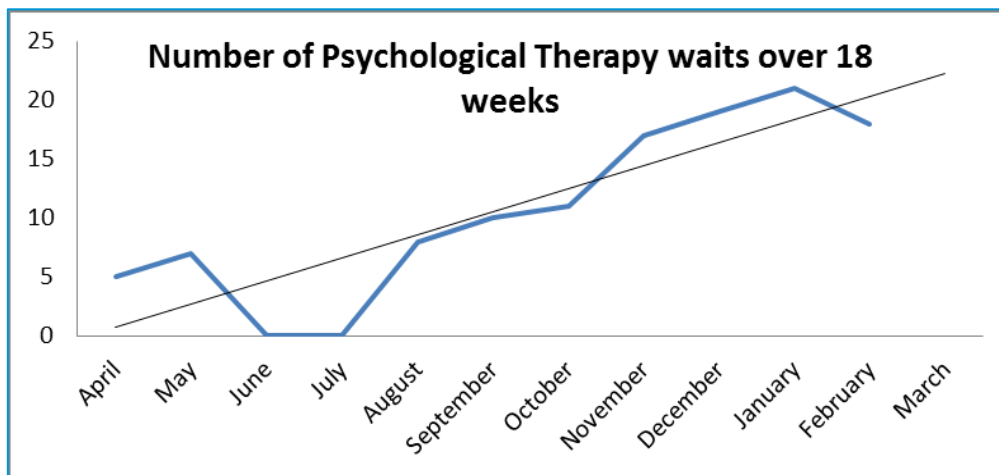
71. The Board's HEAT Performance Scorecard showed two HEAT targets were not achieved as at the 31 March 2013. We therefore looked at the Board's performance against these indicators in more detail. The two targets were:

- To deliver faster access to mental health services by delivering 18 weeks referral to treatment for Psychological Therapies from December 2014; and
- To support shifting the balance of care, NHS Boards will achieve agreed reductions in the rates of attendance at A&E between 2009/10 and 2013/14.

No patient must wait longer than 18 weeks from referral to treatment for psychological therapy

72. The Board reported that as at 31 March 2013, 18 patients waited longer than the 18 week HEAT target for referral to treatment for psychological therapies. Performance reported by NHS Borders shows an upward trend in the number of patients waiting more than 18 weeks for treatment since July (Chart 1).

Chart 1 – Number of psychological therapy patients waiting more than 18 weeks



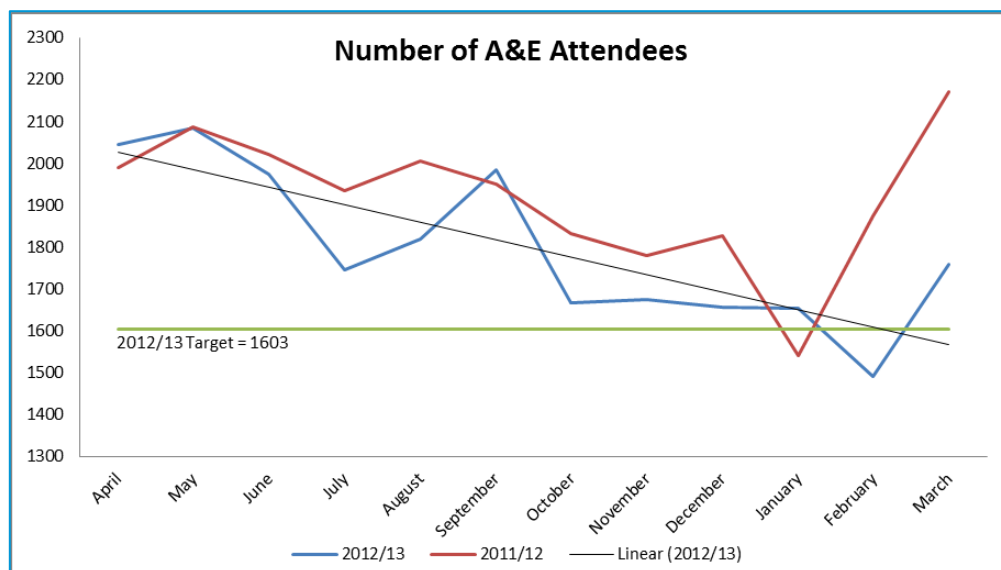
Source: HEAT Performance Scorecards presented to the Board throughout 2012/13

73. NHS Borders has identified two key causes: (i) a shortage of clinical psychology staff (exacerbated by a relatively small team and maternity leave which the Board was unable to find cover for, despite various efforts) and (ii) delays in getting sufficient numbers of patients to run group therapy activities (NHS Borders does not provide group therapy if patients have not completed the pre-course work or if there are insufficient numbers to deliver group exercises).
74. The Board has established a HEAT Action Group to oversee this HEAT target. This includes identifying patients with longer waiting times so pre-breach action can be taken. Training is being run to increase the range of activities that can be delivered by non-psychology staff (eg mental health nurses). Alternatives to group therapy are also being explored, such as targeted support from mental health services and enhanced use of pre-course work. The national target for compliance with this HEAT target is December 2014. The Board must have ongoing assurance that the activities to address performance are proving effective and sustainable.

Accident & Emergency and Minor Injuries Unit attendees

75. NHS Borders must achieve a maximum target rate of 1,582 per 100,000 by March 2014. Our 2011/12 annual report noted that the Board did not meet this HEAT target due to a significant increase in A&E attendance levels in the final quarter of the year. We commented that reporting “did not provide a narrative to explain this large surge in attendance levels”; without clear understanding of the causes of the increase, this could be repeated in future years.
76. In the final quarter of 2012/13, NHS Borders again experienced a significant increase in A&E attendance figures. Because of this increase the Board has not met this HEAT target. The pattern of Board performance is set out in Chart 2.

Chart 2 – A&E attendance figures 2011/12 and 2012/13



Source: HEAT Performance Scorecards presented to the Board throughout 2012/13.

77. The Board’s Performance report does set out what it calls three main areas for concern in relation to this target:

- Attendance by patients aged 85+;
- The flow 3 attendances which are related to patients which go through A&E but are redirected there due to consequent issues around medical beds availability; and
- The flow 1 attendances that could have been redirected away from A&E.

78. The report does not explain in any particular detail why these are areas of concern. Neither does it set out what detailed actions will be taken to reduce the impact these areas could have on the Board’s performance against this target. If this is a seasonal increase every year, understanding the cause in more detail would ensure the Board can focus resources on addressing the issue in future years.

79. The current performance reporting is not fully supporting the Board’s scrutiny of the issues impacting on the delivery of this HEAT target, including assessing the effectiveness of actions put in place by management. We recommend that management further investigates this area, particularly the three main areas of concern noted above. A detailed plan should then be agreed and regularly reported on to proactively manage this area.

Action plan point 4

Performance reports could provide greater clarity on performance against certain targets

80. To provide the Board with details of performance against targets, monthly performance reports include a narrative update for each target. These updates outline progress made to date, the challenges the Board is facing, and what actions need to be taken to ensure the target is met. However, our review found areas where this narrative could be improved to support the review and scrutiny process.

81. For example, the 60% fluoride varnishing HEAT target is to be achieved by March 2014. In September 2012 NHS Borders reported 7.7% performance, rising to 11.2% in December 2012. However, as the

trajectory target in the Board's LDP is 13.0% for December 2012, this was only 1.8% off target and not the 48.8% as could be interpreted.

82. RAG (red, amber, green) ratings providing a simple method of assessing performance at a glance. Additional narrative is an effective way of providing further information and explanation. In the fluoride varnishing example above, including a RAG rating could have shown performance as green/amber, with explanatory narrative so members could understand that the Board was generally in line with its trajectory.
83. We recommend the year end MOP Performance report includes a 'RAG' status for all targets, including those which are not reported on a monthly basis. We also recommend that where targets are due to be achieved in future years, any performance figures provided show the actual against the targeted trajectory to aid scrutiny and challenge.

Action plan point 5

Governance

84. This section sets out the main findings from our review of the NHS Borders governance arrangements as they relate to:

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

Corporate governance and systems of internal control

The Board's overall governance arrangements are satisfactory and appropriate

85. The Board continues to receive regular and detailed performance and financial information. This generally facilitates effective scrutiny and challenge by members. Key risk factors which may impact on achievement of financial and non-financial outcomes are also identified and discussed.
86. NHS Borders is required to produce a Governance Statement, to be published as part of the annual accounts. 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. NHS Borders continues to have a good process in place to demonstrate the sources of assurance to the Audit Committee and the Board as part of the annual accounts approval process.
87. The Governance Statement disclosed no material internal control weaknesses in 2012/13. This is consistent with the findings in Internal Audit's annual report, which noted that the Board continues to operate effective overall governance and control arrangements.

Risk management

88. 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. 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.
89. The Board has an existing Risk Management Strategy in place, although this has been undergoing review and update for some time. This existing strategy sets out the reporting and monitoring framework in place to manage risk within the Board. The Risk Management Group was replaced by the Healthcare Governance Steering Group (HGSG) in February 2013. The HGSG reports to the Clinical Executive Strategy and Operational Groups through to the Board Executive Team and the Board. The Audit Committee is assured of the governance arrangements in place for risk by receiving a half-yearly report from the Executive Director for Risk and by receiving an annual report from the Risk Management

Group/now HGSG. NHS Borders developed a new risk structure and system, informed by the Significant Adverse Events report produced by Healthcare Improvement Scotland following a review at NHS Ayrshire and Arran in June 2012. The new risk structure was approved by the Risk Management Group and the Board.

90. Given the importance of robust risk management arrangements, and whilst acknowledging an ongoing system is in place to manage and monitor risk, we recommend that the Board completes its review and update of the risk management strategy as soon as possible.

Action plan point 6

Internal Audit

91. We are committed to avoiding duplication of audit effort and ensuring an efficient use of NHS Borders' total audit resource. The Board's internal audit service is provided through a shared service with NHS Lothian. During our audit we make use of the work of internal audit wherever possible.
92. 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. We are grateful to the NHS Borders internal audit team for their assistance during the course of our audit work.

Prevention and detection of fraud and irregularity

93. 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.
94. However, we did note an issue relating to the review of Audit Scotland technical bulletins. Management review the health section of these technical bulletins on a quarterly basis. The key issues are then presented to members of the Audit Committee for discussion. We noted that these reviews do not cover the cross-sectoral section of the technical bulletins, where specific fraud cases are highlighted (although we are aware that fraud alerts from Counter Fraud Services are brought to the attention of the Audit Committee).

Action plan point 7

Ongoing work in relation to the National Fraud Initiative

95. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises are undertaken every two years as part of the statutory audit of the participating bodies. In 2012 Audit Scotland reported that the cumulative outcomes from NFI in Scotland were around £78 million. NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error. These are called matches. Where matches are identified these are made available to bodies to investigate

via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.

96. We reviewed the Board's arrangements and progress for following up on identified matches as part of the 2012/13 NFI exercise. NHS Borders completed a self-assessment and this was reported to the Audit Committee on 14 December 2012. The relevant data sets were uploaded promptly and the relevant online forms were submitted on time.
97. The Acting Deputy Director of Finance (also the Fraud Liaison Officer) has responsibility for reviewing the matches identified. Good progress has been made around the investigation of matches identified in the matches report. At time of writing, the results of these investigations have not yet been updated on the NFI website. Progress towards the closing of matches, and any potential frauds identified as a result of the investigations, has been recorded on an internal spread sheet, which is reported to the Audit Committee. The website will be updated in due course.

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

98. 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. 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: Management 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	Definition
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	SGHSCD circulars (Para 19)	During our review of the processes in place for actioning circulars from SGHSCD we identified a circular (PES 2012 15) which had not been recorded in the Board's action register.	<p>There is a risk that instructions issued by SGHSCD may not be adhered to where circulars are omitted from the action register.</p> <p>We recommend that all circulars applicable to the Board should be recorded on a central register and the implementation of these instructions should be co-ordinated by a responsible individual.</p> <p>Grade 2</p>	<p>NHS Borders operates an action register for all circulars issued by SGHSCD which is coordinated by a responsible officer from the Office of the Chief Executive. In response to the recommendation made a quarterly reconciliation to SG Publications will be completed by the Office of the Chief Executive in future.</p> <p>Responsible officer: Board Secretary</p> <p>Deadline: July 2013</p>
2	Inter-board balances (Para 22)	NHS Borders has had difficulty in agreeing balances with NHS Lothian in this and in previous years.	<p>There is a risk of misstatement in the annual accounts and/or inefficiency in the accounts preparation process.</p> <p>We recommend that NHS Borders further develops its system for agreement of balances with NHS Lothian in future periods (as far as is possible, with NHS Borders being one of the two parties involved), to ensure that agreement is reached within the timescales set out in the NHS Board Accounts Manual.</p> <p>Grade 2</p>	<p>NHS Borders has supporting information to evidence the balances transacted to the 2012/13 Annual Accounts. In response to the recommendation made the NHS Borders Director of Finance will write to the Director of Finance at NHS Lothian and formally raise the requirement to agree year end balances within the timescales set out in the NHS Board Accounts Manual.</p> <p>Responsible officer: Director of Finance</p> <p>Deadline: July 2013</p>

3

People management

(Para 58)

The 2012/13 best value review of people management identified potential for further improvement in relation to the Staff Governance Action Plan.

To minimise inefficiency and ineffectiveness, NHS Borders should ensure that its Staff Governance Action Plan is regularly reviewed, updated and approved by the Board and/or its Committees.

Grade 3

The Joint Chairs of the Staff Governance Committee (SGC) will ensure that progress with the Staff Governance Action Plan (SGAP) is a standing agenda item for their meetings. A monitoring and reporting template for SGAP is being piloted nationally by the Scottish Government's Staff Governance Associate and three NHS Boards. NHS Borders will adopt this documentation at its September meeting for purposes of regular local monitoring and review of SGAP.

Responsible officer: Director of Workforce & Planning

Deadline: September 2013

4 **HEAT targets**
(Para 79)

The current performance reporting is not fully supporting scrutiny of the issues impacting on the delivery of the A&E HEAT target, including assessing the effectiveness of actions put in place by management.

HEAT targets may not be achieved.

We recommend that management further investigates this area, particularly the three main areas of concern noted above. A detailed plan should then be agreed and regularly reported on to proactively manage this area.

Grade 3

A local Unscheduled Care Action plan will be developed for 2013/14 as requested by the Scottish Government. Links between identified actions and expected improvements will be clear and monthly performance management information to support delivery across the systems in line with KPI's will be developed within the next 6 months. This will include information to support improvement at a ward level, and link key information across the entire system to allow for a comprehensive picture of overall systems performance.

Responsible officer: Service Manager - Medicine, DME & Unscheduled Care

Deadline: January 2014

5 **Performance reports**
(Para 83)

Our review found areas where performance reporting narrative and status reporting could be further improved to support the review and scrutiny process.

Performance management may not be as effective as possible, adversely impacting Board outcomes.

We recommend the year end MOP performance report includes a 'RAG' status for all targets, including those not reported on a monthly basis. Where targets are due to be achieved in future years, any performance figures provided should show the actual against the targeted trajectory to aid ongoing performance scrutiny and challenge.

Grade 3

The next year end MOP will include 'RAG' status for all targets, including those not reported on a monthly basis. Where targets are due to be achieved in future years, any performance figures provided will show the actual against the targeted trajectory to aid ongoing performance scrutiny and challenge.

Responsible officer: Head of Planning & Performance

Deadline: July 2014 (Next end of year MOP Report)

6

Risk strategy
(Para 90)

The Board has an existing Risk Management Strategy in place, although this has been undergoing review and update for some time.

Given the importance of robust risk management arrangements, and whilst acknowledging an ongoing system is in place to manage and monitor risk, we recommend that the Board completes its review and update of the risk management strategy as soon as possible.

Grade 3

The Board is working to finalise an Integrated Healthcare Governance Strategy which will incorporate risk management.

Responsible officer: Director of Nursing & Midwifery (Board Executive Lead for Risk)

Deadline: December 2013

7

Technical bulletins
(Para 94)

Management review the health section of the Technical Bulletins issued by Audit Scotland each quarter. The key issues are then presented to members for discussion. We have noted that these reviews do not cover the cross-sectoral section of the Technical Bulletins, where specific fraud cases are highlighted (although we are aware that fraud alerts from CFS are brought to the attention of the Audit Committee).

There is a risk that fraudulent practices, which were identified in other areas of the public sector, may not be identified and investigated at NHS Borders.

We recommend that management formally review the cross-sectoral section of the Technical Bulletins in the context of NHS Borders.

Grade 2

The cross-sectoral section of the Audit Scotland Technical Bulletin is now being reviewed and noted for appropriate action as necessary.

Responsible officer: Acting Deputy Director of Finance

Deadline: Implemented

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