Healthcare Improvement Scotland NHS Body

Annual Report to Members and the Auditor General for Scotland

27 June 2013

Final for Board

Year ended 31 March 2013

Contents

Section 1. Executive Summary

Financial Statements

The financial statements of Healthcare Improvement Scotland (the "Body") for the year ended 31 March 2013 are unqualified.

As a result of our work, we proposed a number of disclosure adjustments. All of these adjustments have been processed by management in the final version of the 2012/13 financial statements.

Financial Performance

The Body has met the financial targets for 2012-13 set by the Scottish Government Health and Social Care Directorate (SGHSCD) and to operate within these prescribed limits.

The revenue resource limit was almost completely utilised during 2012-13. The underspend has reduced from £0.131 million in 2011/12 to £0.034 million in 2012/13. This is a consequence of improved budget management throughout the Body and is within the parameters agreed with SGHSCD.

In 2011/12 the Body identified the need for improvements in financial management arrangements. Internal Audit and the Chartered Institute of Public Finance Accountancy (CIPFA) were commissioned on separate pieces of work. As a result, improved controls were implemented to address the issues. Internal audit's subsequent review, completed in October 2012, recognised that clear improvement had been made since the CIPFA review, although there remains scope for further improvement.

The Body will need to maintain this momentum and improvement in 2012/13 and beyond, including maximising the benefits of moving to Gyle Square, to meet their targets on an ongoing basis.

Governance and Control

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

The Code of Audit Practice requires us to review and report on the Body's Annual Governance Statement. The Body has used the correct format for its Statement and has outlined the processes it had employed to identify and evaluate risks. In addition, key elements of the Body's control framework have been highlighted.

Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

Performance

In 2012/13 the Body reported delivery on the commitment to inspect all independent healthcare providers at least once between April 2011 and March 2013.

A two-year Improving Care for Older People in Acute Care programme, built around the themes arising from the older peoples inspection reports, has been established. The improvement programme, launched in 2012, supports all boards in NHS Scotland to improve two key care processes;

- the assessment; and
- delivery of appropriate care for delirium and frailty.

The Body confirmed that in 2012/13 arrangements have been made to secure Best Value as set out in the Scottish Public Finance Manual. In 2012/13 Internal Audit worked in collaboration with management to develop a best value assurance framework, to map the Body's activities and sources of assurance against the Scottish Government's best value themes. Management will update this on a continuous basis.

In consultation with management, as part of our 2012/13 external audit we agreed to undertake a follow up of our 2011/12 review of Procurement, which was undertaken using the Audit Scotland Best Value toolkit. Our review was based on interviews with management to consider their assessment of performance to date and validating this to supporting evidence on a sample basis where appropriate.

In four of the seven areas of the Best Value toolkit the Body has been classified as performing at a "Better" level of performance (as defined in Section 6). In 2011/12, we classified three areas as a "Better" level of performance, representing a slight improvement.

Section 2. Introduction

Purpose of this report

Our Annual Audit Report is designed to set out the scope, nature and extent of our audit, and to summarise our opinion and conclusions on issues arising. Specifically this will direct the Body's attention to matters of significance that have arisen out of the 2012/13 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

This report is addressed to the Board members and to the Auditor General for Scotland.

Scope, nature and extent of our audit

Our overall responsibility as the external auditor of the Body is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The special accountabilities that attach to the conduct of public business, and the use of public money, means that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and use of resources in accordance with the principles of Best Value and 'value for money'.

This fuller responsibility is met by a range of audit services undertaken by Audit Scotland, including its appointment of PwC as appointed external auditor.

In addition to this annual report, we have completed and reported the following matters to those charged with governance (the Audit Committee) of the Body:

- External Audit Plan;
- Interim management letter;
- Best Value report on Procurement; and
- Report to those charged with Governance (ISA 260 Report).

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 (revised and re-drafted): "Communication with those charged with governance", we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This Annual Audit Report to Members and our separate ISA 260 report together with previous reports to the Audit Committee throughout the year discharges the requirements of ISA 260.

Acknowledgement

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

PricewaterhouseCoopers LLP
Glasgow
27 June 2013

Section 3. Financial Statements

Basis of Preparation

The financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2012/13 Government Financial Reporting Manual (the 2012/13 FReM).

Audit Approach

Our audit approach was set out in our Annual Audit Plan as presented to the Audit Committee Members on 6 February 2013.

As part of our audit planning work, and in line with International Standards on Auditing (UK and Ireland), we are required to review and identify (where relevant) significant risks which require a greater detail of audit testing for us to conclude on their truth and fairness in the financial statements. The following areas of significant risks were identified:

- Management override of controls
- Revenue and Expenditure Recognition

Our separate ISA 260 report discusses the work we have performed in relation to each of these and our key conclusions reached. Both management and auditor's responsibilities are set out in Appendix 2.

Unadjusted Misstatements

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

There are no unadjusted misstatements for us to bring to your attention. All adjustments identified as part of our audit fieldwork have been adjusted by management, none of these were material and were largely of a disclosure nature.

Audit Opinion

Our audit opinion concerns the true and fair statement of the Body's financial results for the year ended 31 March 2013 and the regularity of its income and expenditure for the year.

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

We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is unqualified. Our audit opinion does not extend to any other part of the Directors' Report.

We have also reviewed the Body's Governance Statement to consider its compliance with guidance issued by the Scottish Government and consider if the contents are consistent with our audit findings. Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Approval

The Financial Statements will be submitted to the Body's Audit Committee on the 24 June 2013 and are to be approved, adopted and signed at the Board meeting on 26 June 2013.

Other matters

Equal Pay

The Body has received no claims under the Equal Pay Act 1970 [mainly] from women seeking compensation for past inequalities with male colleagues, under their pay arrangements.

This is consistent with the return received from the Central Legal Office.

Actuarial valuation

The Body participates in the National Health Service Superannuation Scheme for Scotland. The latest actuarial valuation for the scheme is dated 31 March 2004 and plans for future valuations have been put on hold by instruction of HM Treasury due to changes that have taken place as a result of the move from RPI to CPI inflation for the revaluation of liabilities, as well as plans for long term reform of public sector pension schemes.

While the Body has no direct influence over this, attention should be brought to the matter as it may have a future impact if increased employer's contributions are required when the valuation is updated.

The Body should ensure that the potential for increased employer's contributions in relation to the National Health Service Superannuation Scheme for Scotland is considered in future financial plans to ensure resources are available to fund this if required.

Action 1

NHS Tayside

During September 2012 the Body undertook an inspection at Ninewells Hospital (NHS Tayside). The release of the final report was subject to delay which attracted interest from Scottish Parliament and the media. We have been informed that an independent review has been commissioned to investigate this matter and mention has been made in the Governance Statement.

Section 4. Financial Performance

Performance against Key Financial Targets

The Body has reported the achievement of all three of its financial targets in the year, as follows:

Table 1: Financial targets summary 2012/13

	Limits set by SGHSCD £million	Actual Outturn £million	Underspend[Overspend] £million
Core Revenue Resource Limit (RRL)	18.835	18.801	0.034
Capital Resource Limit (CRL)	0.531	0.527	0.004
Cash Requirement	18.000	17.580	0.420

The performance in year for the Body is an underspend of £0.034 million in 2012/13 reducing from £0.131 million in 2011/12 moving closer to meeting SGHSCD targets. Within the overall underspend there are no significant single areas of under or overspend noted.

The Body attributes this improved position to better management of budgets following the review of budget processes undertaken by CIPFA (June 2012) and Internal Audit (October 2012), with improved controls implemented to address the issues arising. The main areas of focus noted by the CIPFA review was to:

- Improve budgetary control procedures;
- Implement effective guidance to project manage expenditure relating to additional resource allocations; and
- Issue guidance to budget holders relating to the setting and monitoring of budgets.

Workshops were delivered to key budget holders providing guidance on setting and managing budgets effectively. Internal audit's review, completed in October 2012, recognised that clear improvement had been made since the CIPFA review, with some scope for further improvement.

The Body should ensure that any momentum is maintained to ensure that the recommendations made by Internal Audit and CIPFA are fully embedded.

Action 2

Non-recurring Funding Allocations

During the 2012/13 year the Body received £2.491 million of non-recurring funding from the Scottish Government as per the table below:

Table 2: Non recurring revenue and capital funding

Non-recurring Funding	£million	
Non-core Revenue Resource Limit	0.173	Provided for depreciation costs including those related to moving from former Edinburgh Office.
Core Revenue Resource Limit	1.787	Allocated to the Body from non recurring allocations received in year for a range of projects.
Core Capital Resource Limit	0.531	Capital costs incurred in 2012/13 including those relating to the office move to Gyle Square.
TOTAL	**2,491**	

The Body has project managed the additional expenditure and utilised the additional allocation in 2012/13.

Movement in cash balances

During 2012/13 there has been a deliberate reduction in the cash balances held the Body. The balance held at the end of 2011/12 was seen as higher than normally expected due to the need to make payments for voluntary redundancies. These were agreed in 2011/12 but not due for payment until the early months of 2012/13. The Body considers the cash balance held at the end of 2012/13 to be in line with their ongoing requirements.

Efficiency Savings 2012/13

The 2012/13 Efficiency savings target was set at £1.700 million by the Body. Management have reported to the Body that recurring savings of £1.622 million and non-recurring savings of £0.333 million (£1.955 million in total) have been delivered for the year against the planned target, representing additional delivery of £0.255 million in year.

The majority of savings came from pay related cost savings. See a further breakdown below:

Table 2: Categorisation of savings

Category	Savings £'000
Workforce	1,311
Property	382
Other	262
Total reported	**1,955**

The workforce savings are a result of the realisation of previous voluntary redundancies and restructuring to reduce the overall cost to the Body. Property costs have been reduced primarily as a result of renegotiating the lease on the Glasgow office.

Capital Resource Limit

The core capital resource limit in the current year was set by SGHSCD as £0.531 million primarily relating to costs of the office move to Gyle Square, with the actual outturn of £0.527 million generating a small underspend of £0.004 million. This is consistent with the prior year where there was a similarly small underspend of £0.007 million.

Financial planning –looking forward

The Local Delivery Plan (LDP) (2013-2016) was submitted in accordance with guidance from the Scottish Government.

The LDP sets out forecasts for a baseline allocation of £15.918 million, and non-recurring funding of £5.635 million in 2013/14.

Table 3: Financial target summary 2013/14*

NHS Body (2013/14)	2013/14 Projected £ million
Recurring income	15.918
Recurring expenditure	(16.784)
Recurring savings	0.866
Underlying recurring deficit	**0**
Non-recurring income	5.635
Non-recurring expenditure	(5.635)
Non-recurring savings	0.000
Non-recurring surplus	**0.000**
Financial surplus/(deficit)	**0.000**
Recurring deficit as a percentage of recurring income	**0%**

*The values noted in the table above are based on the assessment of management and have not been subject to audit.

The following 2 years forecast sees recurring funding increasing to an average of £17.056 million with a decrease in non-recurring funding averaging £1.805 million. The main non recurring element relates to the Prisoner Healthcare and Death Certification which is currently classed as non recurring funding that will become a recurring allocation from 2014-15.

The Body has not planned any underspends, with a break even position forecast for the next 3 years. It intends to carry forward the small underspend (£0.034 million) in the current year into a change fund which it believes is necessary to support the reorganisation of the Body as part of the planned efficiency and productivity programme.

The Body is not anticipating significant capital allowances in future years as a result of moving the main Edinburgh operations to Gyle Square in 2012/13, subject to the probable relocation of the Glasgow office in 2015/16.

Efficiency Savings 2013/14

The Body has set savings of £2.600 million over three years, which is a significant target and likely to require considerable change to the infrastructure of the Body. Plans are in place to achieve savings of £0.963 million for 2013-14 and efficiency and productivity plans to cover 2014-16 are being devised.

All savings have been reported by management against the Efficient Government guidelines and as being derived from local schemes only. The Body plans to continue to closely monitor progress with savings plans throughout the course of the year, to ensure they are achieved.

Cost Pressures and Key Risks to Achieving Financial Balance

The Body have identified several key pressures and risks to the achievement of in-year financial balance, including the continued requirement to meet efficiency savings targets, the uncertainty around the probable relocation of the Glasgow office in 2015/16 and further reductions in core and non-core allocations. These have been risk assessed and plans are in place to monitor progress throughout the year.

Section 5. Governance and Control

Governance Statement

The SGHSCD has issued guidance on the information to be provided in the 2012/13 Governance Statement which goes further than previous disclosures required for Boards. This disclosure includes an overview of risk management, including the organisation's risk profile and any significant control weaknesses or issues identified.

The disclosure in the Body's Governance Statement highlights two specific disclosures of events during the year which have affected the Body, reflecting the nature of matters addressed by the Board and its sub-committees. These cover:

- The inspection for the care of older people at Ninewells Hospital (NHS Tayside); and
- The approach to budget management.

We are satisfied that the Body's Governance Statement complies with the current guidance and we do not disagree with the matters reported.

Systems of Internal Control

The results of our work on systems of internal control were communicated to the Audit Committee in our Interim Management Letter 3 April 2013. We reported that we noted no instances relating to the 2012/13 period where the controls were not operating as intended.

We also note that all prior year recommendations have been implemented.

The Body's Chief Executive left the Body in February 2013 to move to a post within Scottish Government and has been replaced with an interim Chief Executive, who has previously been Chief Executive of NHS Borders.

Risk Management

The Body appears to take an integrated approach to risk management. This can been seen in the ongoing review and update of both corporate and operational risk registers, supported by the introduction of the DATIX electronic risk management system. DATIX continues to be rolled out across the Body, as a means to help further embed operational risk management processes. The risk register considers threats or opportunities to the achievement of the strategic objectives and all risks recorded are linked to the strategic objectives.

The Executive Team review the approach to risk as part of the performance management arrangements. During the review, the Executives will discuss the overall risk appetite of the Body and agree the level of risk the Body is willing to accept. Response to risk can be to tolerate, treat, transfer or terminate risks.

The Audit Committee and Board also scrutinise the corporate risk register. In addition, each Committee of the Board reviews those risks assigned specifically to that Committee.

Internal Audit

The role of internal audit is determined by management and therefore its objectives differ from ours. Part of our overall audit approach involves gaining an understanding of the internal audit function to determine if it would be effective and efficient to use their work.

During 2012/13, the Body continued to have an outsourced internal audit function provided by Scott Moncrieff. Internal audit have completed 13 reviews within the year, and have no remaining reviews that are currently work in progress.

We have gained an understanding of the work of internal audit. Internal Audit have found that they are able to provide reasonable assurance regarding the effective and efficient achievement of the Body's objectives and the management of key risks which supports the Governance Statement with the information available from the work undertaken within Internal Audit.

Prevention and detection of fraud and irregularity

The National Fraud Initiative (NFI) brings together data from health bodies, councils, police and fire rescue bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.

At 24 May 2013, the Body had downloaded NFI report which found only 13 matches. Management have confirmed that they will investigate all recommended matches by 31 August 2013. This includes reviewing payroll records, liaising with the Human Resources Department or other Boards and Local Authorities. The majority of the matches the Body received related to employees working on multiple jobs.

As at 31 May 2013 no frauds have been identified through the 2012/13 NFI exercise performed by the Body.

Section 6. Performance

Best Value Toolkit

In consultation with management, as part of our 2012/13 external audit we agreed to undertake a follow up of our 2011/12 review of Procurement, which was undertaken using the Audit Scotland Best Value toolkit.

Our review was based on interviews with management to consider their assessment of performance to date and validating this to supporting evidence on a sample basis where appropriate.

N	**Does not meet basic requirements**	An organisation may not yet demonstrate the basic practice level in any particular category.
B	**Basic practices**	Minimum acceptable standards, which would be sufficient to allow an organisation to demonstrate sound performance.
Be	**Better practices**	As basic, with some elements of good or even best practice, but not on a consistent basis.
A	**Advanced practices**	Consistently demonstrating good or best practice and contributing to innovation.

In four of the seven areas of the Best Value toolkit the Body has been classified as performing at a "Better" level of performance (as defined above). In 2011/12, we classified three areas as a "Better" level of performance, representing a slight improvement.

The Finance and Performance Committee are responsible for monitoring financial performance. The reports they produce are presented to the Board and they contain sufficient and detailed information to enable effective challenge and scrutiny

Appendices

Action plan

	Finding	Management Response
1	**Financial planning for pension actuarial valuation**	
	The Body should ensure that the potential for increased employer's contributions in relation to the National Health Service Superannuation Scheme for Scotland is considered in future financial plans to ensure resources are available to fund this if required.	Management is aware of the possibility relating to future changes regarding superannuation and will respond to the situation in terms of financial planning when substantive information is made available as to the direction and scale of any changes.
2	**Budgeting**	
	The Body should ensure that any momentum is maintained to ensure that the recommendations made by Internal Audit and CIPFA relating to budgeting are fully embedded.	The amended budgetary control processes that were introduced as a result of the CIPFA review will continue to be actioned for the foreseeable future to ensure that the improvements made are both maintained and enhanced.

Responsibilities

Management responsibility

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made there under. 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 Body and its expenditure and income for the period ended 31 March 2013; and
- preparing a Directors' Report, an Operating and Financial Review, a Governance Statement and a Remuneration Report.

Auditor's responsibilities

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 Body and its expenditure and income for the period in question;
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
- whether the information which comprises the annual report included with the financial statements is consistent with the financial statements; and
- whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).