



NHS Health Scotland

External Audit Annual Report
2012/13 to the Board and the
Auditor General for Scotland

June 2013



Scott-Moncrieff
business advisers and accountants

NHS Health Scotland

External Audit Annual Report 2012/13 to the Board and the Auditor General for Scotland

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Executive Summary

Financial statements

The NHS Health Scotland annual accounts are due to be approved by the Board on 26 June 2013. We expect to report within our independent auditor's report an unqualified opinion on the financial statements for the year ended 31 March 2013.

We also expect to issue an unqualified opinion on the regularity of the transactions.

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 2013 deadline.

Use of resources and performance

The Board reported a surplus (£0.298m) against its Revenue Resource Limit (RRL). The Board broke even against its capital target, with total capital expenditure of £1.154m. Major asset additions have been made through the year on leasehold improvements and fit out costs for the new offices at Meridian Court in Glasgow, which the Board occupied from February 2013.

NHS Health Scotland has a history of underspending against its RRL. Although the Board underspent by £298,000 against its RRL in 2012/13 this is an improvement on recent years' performance. Close financial monitoring through the year has led to NHS Health Scotland's individual directorates having no material variances reported against budgets.

The Board has submitted its Local Delivery Plan for the next three years, as requested by the Scottish Government. This forecasts a break even position in each year. The Scottish Government has approved the financial plan on a two year basis. The Board has been urged to hold early discussions with their Scottish Government Sponsor Team to agree an approach to delivering the LDP for 2014/15.

The Board has moved into new Glasgow offices at Meridian Court. In 2013/14 the Board plans to move out of the leasehold properties at The Priory and Thistle House, dispose of Woodburn House, and relocate to Gyle Square, Edinburgh.

The Board has developed a performance management framework. The Board receives reports on corporate performance at every meeting. In 2012/13, performance reports have been updated to reflect the Board's new corporate strategy, *A Fairer Healthier Scotland*.

Governance

We are pleased to report that, in our view, the governance arrangements at NHS Health Scotland are effective and in line with expectations. 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 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 Resource Management and we would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff
June 2013

Introduction

1. This report summarises the findings from our 2012/13 audit of NHS Health Scotland (the Board). 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 2012/13 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 'Scotland's Public Finances: Addressing the Challenges'.
3. In addition to this annual report, we have delivered the following reports during 2012/13:
 - External audit plan;
 - Interim management report; and
 - Targeted follow up of Audit Scotland's 'Scotland's Public Finances: Addressing the Challenges'.

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 2012/13 financial statements.

Overall conclusion

An unqualified audit opinion on the financial statements

7. The annual accounts are due to be approved by the Board on 26 June 2013. We expect to report, within our independent auditor's report, an unqualified opinion on the financial statements for the year ended 31 March 2013.
8. 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. In addition, the part of the Remuneration Report to be audited has been properly prepared in accordance with applicable legislation and directions made thereunder by Scottish Ministers.
9. We are also satisfied that the Governance Statement complies with guidance from Scottish Ministers.

An unqualified audit opinion on regularity

10. 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 expect to issue an unqualified opinion on the regularity of transactions.

Good administrative processes were in place

11. 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.
12. Arrangements are in place to enable the annual accounts to be submitted to the Scottish Government and the Auditor General for Scotland prior to the 30 June 2013 deadline.

Board Members' responsibilities

13. 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 thereunder. This means:
 - applying on a consistent basis the accounting policies and standards approved for NHS Scotland by Scottish Ministers;
 - making judgements and estimates that are reasonable and prudent;

- stating whether applicable accounting standards as set out in the Financial Reporting Manual (FReM) have been followed, subject to any material departures disclosed and explained in the financial statements; and
- preparing the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate.

14. Board members are responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Board and enable them to ensure that the accounts comply with the National Health Service (Scotland) Act 1978 and the requirements of Scottish Ministers. They are also responsible for safeguarding the assets of the Board and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

15. 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 net operating cost 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).

16. 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.

Independence

17. International Standard on Auditing (UK & Ireland) 260, "Communication of Audit Matters with those charged with Governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

18. In addition to the audit of the financial statements, Scott-Moncrieff has provided NHS Health Scotland with employment taxation advice. This was provided by an independent partner and staff who have no involvement in the audit of the financial statements. Scott-Moncrieff also facilitated a seminar for the

Board on “risk appetite” which was provided by an independent partner and staff with no involvement in the audit of the financial statements.

19. We can confirm that we have complied with the APB’s Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

Key areas of audit focus and significant findings

20. 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.

Staffing

21. During the year the Head of Finance and Contracts Manager left the organisation. A Head of Finance and Procurement was subsequently appointed but there was a period when the finance team operated without a team head. In addition to this there were significant staffing constraints during the accounts preparation process. The Board responded to these challenges by bringing in two temporary accountants and we are pleased to report that the accounts preparation and audit processes were not unduly affected. We have carried out audit testing as appropriate to ensure that the staffing issues did not affect the recording of transactions and have found no significant instances where transactions have not been correctly recorded in the financial statements.

Estates Strategy

22. The Board has approved a relocation to new offices at Gyle Square, Edinburgh and at Meridian Court, Glasgow. The office moves will be the largest capital projects carried out by NHS Health Scotland. The fit out work on Meridian Court started in October 2012 and was completed on schedule in February 2013. Significant capital expenditure was recognised in the year on leasehold improvements and fit out costs for the new office.
23. In 2013/14 the Board plans to move out of the leasehold properties at The Priory and Thistle House, dispose of Woodburn House, and relocate to Gyle Square. The Board reports that financial assistance to support the move has been agreed in principle with the Scottish Government.
24. We have reviewed the Board’s treatment of capital expenditure in the year and have found it to be in line with the NHS Capital Accounting Manual. We will continue to maintain a watching brief over the progress made against the estates strategy over the term of our appointment.
25. As the Board plan to dispose of Woodburn House we have considered the valuation basis used for this asset in the financial statements. In line with the Financial Reporting Manual (FRoM), Woodburn House has been valued as an ‘in use’ non-specialised property. The fair value of Woodburn House is interpreted as the market value for existing use which, in 2012/13, amounted to £1.2m.

NHS Superannuation Scheme

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.

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 have not recently been revised, there is uncertainty as to the adequacy of current contribution levels for meeting the future commitments of the pension scheme.
28. NHS Health Scotland 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 Agency. We endorse this action and encourage the Board to continue with efforts to obtain an updated valuation.

Tax compliance

29. NHS Health Scotland has recently been the subject of an Employer Compliance visit by HMRC which focused on two issues:
30. In recent years NHS Health Scotland paid board member's travel expenses gross without including these amounts in a PAYE Settlement Agreement (PSA) with HMRC. This approach was taken following advice from the Board's previous tax advisers on the basis that Board meetings were being held in different locations across Scotland. The approach was also discussed with HMRC's Employer Liaison Team. Following the recent review HMRC have advised that these expenses are taxable regardless of where the meetings were held. There is the potential for retrospective liabilities to be raised by HMRC on the completion of their review.
31. NHS Health Scotland has historically made a deduction of 35% from payments made to certain suppliers who did not have their own limited companies and met certain criteria. This approach was taken following advice from the Board's previous tax advisers. It is not clear why this advice was given as the payments should either have been made gross, or the individuals should have been treated as employees (with any payments made to them being subjected to PAYE and NIC through the payroll). Amounts were deducted from payments to two suppliers and HMRC are trying to reconcile P35 and supplementary P35 returns for the 2011/12 tax year. HMRC has asked for more information regarding the two suppliers to allow them to advise the correct employment status.
32. We will maintain a watching brief on these matters.

Management override

33. Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Management override is a presumed risk under International Standards on Auditing and we have carried out dedicated audit testing as a result. We have not identified any indications of management override during the year.

Audit Adjustments and unadjusted items

34. We did not identify any audit adjustments during our audit other than amendments to disclosure.

35. We identified one unadjusted item during our audit work. This is not considered to be material and through discussion with the Director of Resource Management the decision was taken not to adjust the annual accounts. The unadjusted item is included in our representation letter and is shown below.

No	Narrative	SOCNE		Balance Sheet		Impact £000
		DR £000	CR £000	DR £000	CR £000	
1	Accruals			15		
	Expenditure		15			15
	<i>Being the removal of accruals for goods received in 2013/14</i>					
	Updated RRL surplus as a result of the above adjustments					313

36. NHS Health Scotland has accrued £15,000 of expenditure in 2012/13 on leaflets which were actually received in early 2013/14. As the goods were received in 2013/14 the expenditure should be recognised in that year.

Management representations

37. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements.

Provision for dilapidations

38. In our 2011/12 Annual Report to the Board and the Auditor General for Scotland we reported an unadjusted difference in relation to the cost of dilapidations on leasehold properties. We noted that under the terms of existing lease contracts, NHS Health Scotland is required to ensure that premises occupied are returned, at the termination of the lease, to their original standard.
39. The Board plans to move out of rented offices at The Priory and Thistle House in 2013/14 and has accrued dilapidation costs of £90,000 for these premises in its 2012/13 financial statements. These costs have been estimated by the Head of Estates. We have not however been able to agree these calculations to supporting documentation. In addition we have been unable to determine whether a requirement for dilapidations actually exists for The Priory. While we do not consider that any amendment to the dilapidation costs would likely have a material impact on the financial statements we have asked for representations to be made on this matter.

Prior year audit recommendations

40. As part of our work we have reviewed the current status of the recommendations made in our 2011/12 Annual Report to the Board and the Auditor General for Scotland. We are pleased to report that the Board has implemented all of the audit recommendations made therein.

Qualitative aspects of accounting practices and financial reporting

41. 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 we consider these to be appropriate to the Board.
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 significant accounting estimates or judgements were required in the preparation of the financial statements. We note that the Board has reviewed its estimated asset lives for IT assets and fixtures and fittings. This was carried out in line with IAS 16 Property, Plant and Equipment.
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, that should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the financial statements.	From our testing performed, we identified no unusual transactions in the period.
Apparent misstatements in the directors' report or material inconsistencies with the financial statements.	There has been no misstatement or material inconsistency with the financial statements included in the directors' report.
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 standards.
Disagreement over any accounting treatment or financial statement disclosure.	There was no disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no difficulties encountered in the audit.

Use of resources and performance

42. 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

43. The Board has met its key financial targets in the year.
44. The Board is required to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD). As shown below, the Board has met all of its key financial targets in 2012/13.

Performance against key financial targets

	Target £'000	Actual £'000	Underspend £'000	Target achieved
Revenue Resource Limit – Core	22,437	22,139	298	Yes
Revenue Resource Limit – Non core	103	103	0	Yes
Capital Resource Limit	1,155	1,154	1	Yes
Cash Requirement	23,100	23,033	67	Yes

(Source: Annual Report and Accounts for the year ended 31 March 2013)

45. The Board reported an underspend of £298,000 (1.3%) against its Revenue Resource Limit (RRL). This surplus is close to the Board's 2012/13 planned outturn of £220,000.
46. We have analysed the Board's 2012/13 outturn into recurring and non-recurring items, as shown below. This shows that the Board has underspent against its recurring allocations. A break-even position is reported against non-recurring funding.

Achievement of the 2012/13 saving against RRL

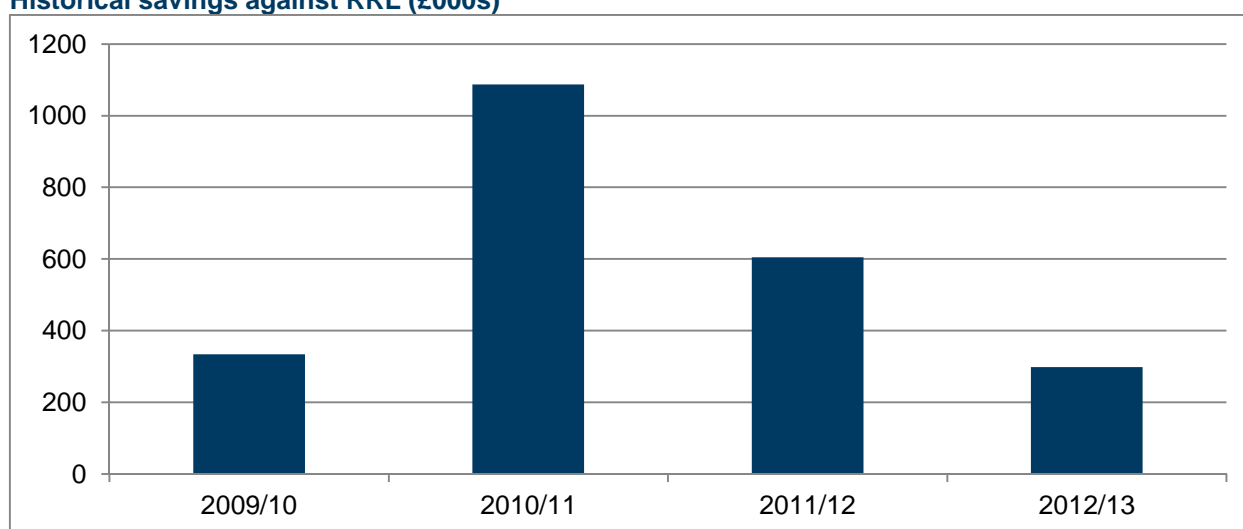
Income / expenditure	£000
Recurring income	19,494
Recurring expenditure	(20,204)
Recurring savings	1,008
Underlying recurring surplus/(deficit)	298
Non-recurring income	3,046
Non-recurring expenditure	(3,046)
Non-recurring savings	0
Non-recurring surplus/(deficit)	0
Financial surplus/(deficit)	298
Underlying recurring surplus/(deficit) as percentage of recurring income	1.53%

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

Financial performance management

47. NHS Health Scotland has a history of underspending against its RRL. Although the Board made a further saving of £298,000 against its RRL this year, this is an improvement on recent years' performance.

Historical savings against RRL (£000s)



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

48. One of the main reasons for this improvement was the introduction of new financial controls in the year. In our 2011/12 Annual Report to the Board and the Auditor General for Scotland we noted that NHS Health Scotland recognised that financial performance management remained an area for improvement. The Audit Committee requested that management carry out a financial governance review in 2012/13 to ensure that improvements were made in financial performance management.
49. One of the measures introduced by the Board is the requirement for directorates to have 95% of budgets fully committed by 31 January 2013 and 99% of budgets to be either spent or fully committed by 31 March 2013. The Board achieved these targets in the year; 98.5% of directorate budgets were fully committed by 31 January 2013 and 98.7% of budgets were either spent or fully committed by 31 March 2013.
50. For 2012/13 the Board received an uplift in funding of approximately 1% which was then reduced by the requirement for 5% efficiency savings. In line with previous years, the Board set the budget for 2012/13 to achieve a small surplus of £220,000. The Board did not report specifically on efficiency savings.
51. Close financial monitoring through the year has led to NHS Health Scotland's directorates having very little variance in expenditure against their allocations. As at the end of the year there were no material variances reported against directorate budgets.

Scotland's Public Finances: Addressing the Challenges – Follow Up review

52. The Audit Scotland report 'Scotland's Public Finances: Addressing the Challenges' was published in August 2011. External auditors for all health boards are required to carry out a targeted follow-up of each board's response to this national report. This is to assess how each board has sought to improve its performance and operations in response to Audit Scotland's report. This work is the subject of a separate report to the Board.
53. As part of the review we assessed the progress that the Board has made in dealing with budget constraints and achieving financial stability. Our follow-up review has identified one area where the Board could further improve its financial arrangements. This is in relation to its use of benchmarking. Although the nature and activities of NHS Health Scotland are quite unique, management have recognised that its use of benchmarking could be increased.

Financial Plans

54. The Board has submitted its Local Delivery Plan (LDP) for the three years 2013/14 – 2015/16, as requested by the Scottish Government. The Board is forecasting a break even position for the next three years. The 2013/14 plans include the achievement of efficiency savings of £1.009m (approximately 5% of the 2012/13 Core RRL) as well as a general uplift of 1%. In real terms the Board will have to deliver the same services from a budget reduced by approximately 4% next year.
55. From 1 April 2013, two new teams have joined NHS Health Scotland – Community Food & Health Scotland and the Healthy Living Award. The Board is currently in discussions with the Scottish Government as to the levels of additional funding that these two teams will attract. The financial plan for 2013/14 assumes additional funding of £1.2m will be received for these two teams. We will consider the

implications of these additional responsibilities and any related impact on the Board's funding through our 2013/14 audit work.

56. The Scottish Government has approved the Board's delivery plan for 2013/14, noting that it sets out a clear programme for delivering the Board's planned progress towards meeting key national targets. The Scottish Government has also provided indicative allocations for 2014/15 and has agreed to the Board's efficiency savings for that period. As such the financial plan has been approved for a two year period. The Board has been urged to hold early discussions with their Scottish Government Sponsor Team to agree an approach to delivering the LDP for 2014/15.

Capital Resource Limit

57. The Board met its Capital Resource Limit (CRL) in 2012/13 with total capital expenditure of £1.154m. Major asset additions have been made through the year on leasehold improvements and fit out costs for the new offices at Meridian Court in Glasgow. The initial CRL allocated to the Board was £0.5m however additional allocations were received during the year towards the implementation of the Estates Strategy and for the purchase of furniture.

Performance management framework

Corporate Strategy

58. In 2012 the Board set out its new corporate strategy, *A Fairer Healthier Scotland*. This sets out the role, direction and priorities of NHS Health Scotland to 2017. The new strategy shifts the Board's focus to reducing health inequalities and improving health across Scotland. Partnership working is a key element of the new strategy as the Board seeks to emphasise its national role, and work together with its partners to build a fairer, healthier Scotland.
59. The Board reports that the strategy is consistent with the main tenets of World Health Organization (WHO) strategies which seek to:
- improve daily living conditions, especially for the worst off;
 - tackle inequitable distribution of power, money and resources; and
 - measure and understand the problem and assess the impact of action.
60. At a national level the Board's work under the new strategy is designed to contribute significantly to the following national outcomes:
- We have tackled the significant inequalities in Scottish society.
 - Our children have the best start in life and are ready to succeed.
 - Our people are able to maintain their independence as they get older and are able to access appropriate support when they need to.
 - We live longer, healthier lives.
61. To monitor the achievement of its new strategy the Board has developed a performance management framework. The Board receives reports on corporate performance at every meeting. In 2012/13 performance reports have been updated to reflect *A Fairer Healthier Scotland*. Reporting is structured by Directorate and gives an overview of how each team has performed against target.

62. 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

63. Best value is defined as continuous improvement in the performance of functions. The positive impact of the best value concept in local government led Scottish Ministers to introduce a non-statutory best value duty on all public sector Accountable Officers (across health and central government) in 2002. 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.
64. Overall the Board has developed appropriate arrangements for achieving best value. The Board has developed a best value framework to evidence how it is delivering against each of the seven best value themes. 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.

Governance

65. Corporate Governance is concerned with the structures and processes for decision-making, accountability, control and behaviour at the upper levels of organisations. The Accountable Officer and the Board are responsible for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.

Governance Arrangements

66. During 2012/13 one Board member retired and has been replaced. There have been no further significant changes to the governance arrangements during 2012/13. We are pleased to report that, in our view, the governance arrangements at NHS Health Scotland are effective and in line with expectations. The Board continues to receive regular performance and financial information which facilitates scrutiny and challenge. Key risk factors which may impact on achievement of financial and non-financial outcomes are also identified and discussed.
67. All new board members are put through an induction training programme specifically tailored to their needs. On-going training for the Board is identified through annual performance reviews.

Board development

68. The Board hold an annual development day during which a formal evaluation of Board, each Committee and each Director's performance is carried out. This assessment informs the Board Development Plan which outlines the Board's approach to the key challenges that face the organisation. In 2012/13 the key challenges were:
- Ensuring implementation of *A Fairer Healthier Scotland*, with a particular emphasis on demonstrating impact;
 - Maintaining relationships and profile with a range of key stakeholders;
 - Dealing effectively with financial and political constraints and uncertainties; and
 - Ensuring that the organisation is fit for future purpose.
69. The 2012/13 plan was agreed in June 2012 and included thirteen specific actions themed around four areas for improvement:
- engaging with stakeholders;
 - strategic intent;
 - holding to account; and
 - Board dynamics.
70. Each action is explicitly linked to one or more key challenges and has a measure and timeframe set. The Board reviewed progress against the plan in April 2013 and this review subsequently informed the 2013/14 Board Development plan which was reported to the Board in May 2013.

Systems of internal control

71. During the year we reviewed the Board's key accounting systems and internal financial controls. As reported in our interim management report, we identified no significant weaknesses in relation to the internal financial controls in place over the Board's key accounting systems. We found the internal financial controls to be well designed and operating effectively.
72. The governance statement included within the Board's 2012/13 annual accounts discloses no material internal control weaknesses. Our audit identified no issues which we consider need to be disclosed in the governance statement. This is in keeping with the findings from internal audit which reported that *'The Board has adequate and effective internal controls in place.'*

Risk Management

73. As reported in our 2012/13 Interim Management Report, risk management arrangements at NHS Health Scotland continue to develop and be embedded across the organisation. The Audit Committee has taken an active role in risk management. Periodic reports are presented to the Audit Committee which include an annual review of the full risk register and reflect high level and corporate risks. These have enabled the Audit Committee to provide assurance to the Board on risk management arrangements. At present, the Board receives updates on risk management through audit committee minutes and an interim financial update. A 'Management of Risk' Policy and a 'Protocol for the Management of Risk' have been approved. These documents outline the risk management framework at the Board, including all relevant roles and responsibilities.
74. During 2012/13 the Board and senior management team attended a facilitated workshop on risk appetite. The workshop assessed both the Board's perceived levels of current risk taking in the organisation, and the actual risk appetite. The results of the workshop are consistent with NHS Health Scotland's strategy for 2012-2017 and have been reported separately to the Board.

Internal Audit

75. Internal audit is a key component of the Board's corporate governance arrangements. The Board's internal audit service for 2012/13 was provided by Fife, Tayside and Forth Valley Audit and Management Services (FTF). This was the first year of their appointment.
76. 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." Coupled with the work of Audit Scotland (who are the lead external auditor for boards that are part of the FTF consortium) we concluded that FTF provides 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 FTF internal audit team for their assistance during the course of our audit work.

Prevention and detection of fraud and irregularity

77. 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 concluded that the Board's internal controls and financial procedures were adequate to prevent and detect material fraud and irregularity.

National Fraud Initiative

78. 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.
79. The 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 which 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.
80. NHS Health Scotland received 51 recommended matches from a total of 314 matches highlighted through the web application. The Board are yet to conclude on any of the matches. Three were in progress at the time of our audit, however none of these are recommended matches. While there is a commitment towards NFI, limited progress has been made to date on reviewing the recommended matches. This has been due to resource constraints within the finance team around the year end. The Head of Finance and Procurement has carried out a high level review of all matches and as none were identified as of particular risk to the organisation the decision was made to postpone investigations until after the accounts process had been completed.
81. When investigations recommence the Board should ensure that it takes a risk based, prioritised approach. Participants in NFI are not expected to investigate all data matches. Priority should be given to following-up recommended matches and high quality matches. Lower quality matches and those that are not highlighted as recommended may best be investigated on a sample basis.
82. We will continue to monitor the Board's approach to NFI during the year.

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

83. 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. Our review has also considered controls over the register of interests. We are pleased to report that our audit identified no significant issues of concern in relation to standards of conduct and the prevention and detection of bribery and corruption.

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