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NHS Tayside

Annual Report to Board Members and the Auditor General for Scotland

Year ended 31 March 2013

25 June 2013

Contents

Section 1. Executive Summary

Financial Statements

The financial statements of NHS Tayside (the "Board") for the year ended 31 March 2013 are **unqualified**.

As a result of our work, we proposed a number of audit adjustments to the draft financial statements. There are no unadjusted misstatements at the conclusion of our audit, as these have been resolved and accepted by management. Of the adjustments made during our audit, no adjustments were required which impacted the Board's reported surplus for the year.

The Board brought into service the new mental health facility at Murray Royal. This has been subject to an impairment of £9 million compared with the contract value. While this impairment is funded by the Scottish Government, it is not clear why the contract value for both phases of the facility was around 12.6% higher than the initial valuation undertaken.

Financial Performance

NHS Tayside's final outturn for the year was a £0.274 million surplus against the Core Revenue Resource Limit.

In order to achieve the planned year end result of breakeven, the Board had planned for the sale of property during the year which in the event did not take place. The sale of property remains in the Board's plans, however due to the reliance on external factors the timing of the disposal cannot be certain. The Scottish Government provided additional funding through a brokerage arrangement agreed in January 2013 to cover the shortfall which has ensured that the Board has been able to achieve its financial targets.

Capital expenditure for the year was on budget against a revised Core Capital Resource Limit of £15.1 million, with only a £0.01 million underspend in the year.

Looking ahead to 2013/14 the Board is again forecasting a breakeven position. To achieve this the Board must deliver a further £21 million of efficiency savings. The 2012/13 financial result has been achieved through a large proportion of non-recurring savings which adds to the burden of identifying new efficiency savings in future years. The Board is forecasting that reliance on non-recurring savings will reduce from 50% to 40% of saving over the next three years. This remains a high proportion of efficiency saving that must be identified on an annual basis.

Governance and Control

The Board has responded to the Scottish Government Health and Social Care Directorates (SGHSCD) requirements for the Governance Statement through consultation with management, internal audit, non-executives and through our year end review. We are satisfied that the Board's Governance Statement complies with the current guidance and we do not disagree with the matters reported.

Performance

During the year, the Board's internal audit review of waiting times identified a sample of patient cases that gave cause for concern as it appeared that unavailability codes had been applied systematically to avoid a breach position. Following these findings the Board took action to address the issues raised and further satisfy itself that there were no wider issues that may affect the Board's waiting time responsibilities. The Board's Internal Auditors have subsequently concluded that the increased staff awareness and communication with patients, set out in the updated guidance, combined with the management action plan should prevent recurrence of the issues.

The Board has worked closely with our team in sharing the actions taken in response to the 'Addressing the challenges' recommendations. We have also found an increased level of engagement and seniority in respect of our follow up of performance management arrangements. While this has the delayed the receipt of some information, this reflects additional self assessment time being factored in by the Board and we will continue to work with the Board in this area.

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 Board'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 the Auditor General for Scotland.

Scope, nature and extent of our audit

Our overall responsibility as external auditor of the Board 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 Board:

- External audit plan;
- Interim management letter;
- Progress reported to each Audit Committee meeting; 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

The financial statements and supporting schedules were presented to us for audit in accordance with the agreed timetable and the quality of working papers provided by management was of a high standard. Overall we believe than an effective audit process was achieved through a cooperative working relationship with your staff. This was developed through a detailed debrief of the prior year audit and working together throughout the year to clarify expectations and develop a detailed yet concise programme of work.

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

PricewaterhouseCoopers LLP
Glasgow
25 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 in November 2012. We confirm that there has been no cause for us to vary the planned scope of our work.

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 at the conclusion of our audit. Of the adjustments made by management in response to our audit, no adjustments were required which impacted the Board's reported surplus for the year.

Audit Opinion

Our audit opinion concerns the true and fair statement of the Board'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 Board'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 were submitted to the Board's Audit Committee on the 18 June 2013 and are to be approved, adopted and signed at the Board meeting on 25 June 2013.

Other matters

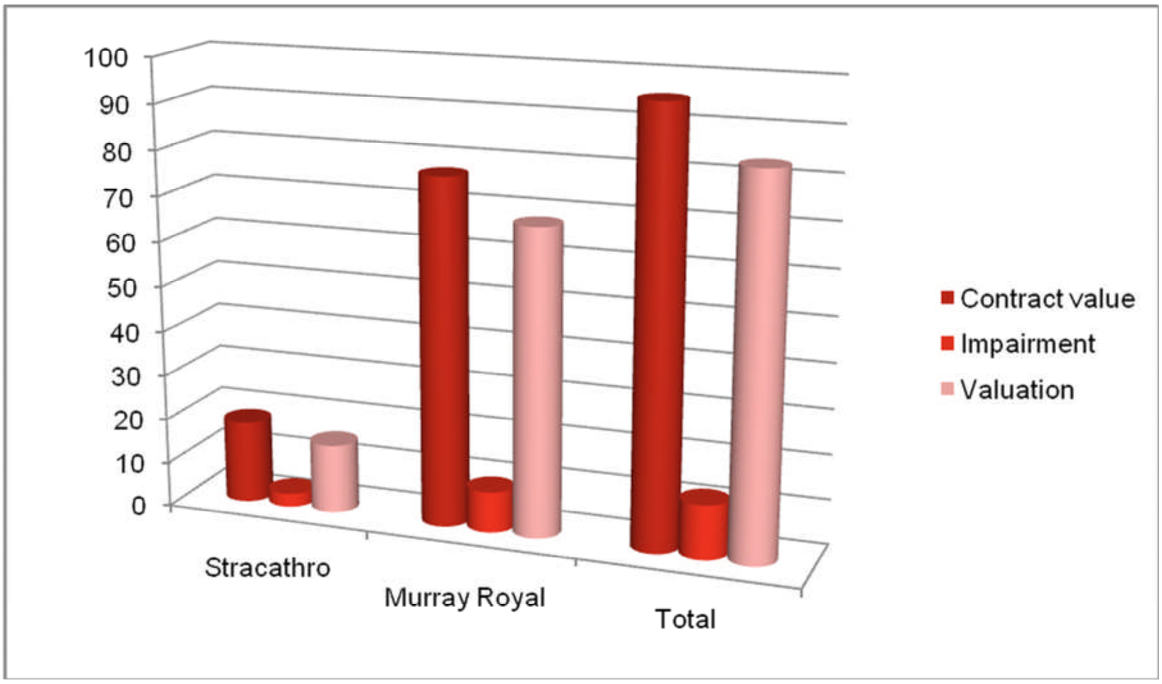
Asset impairment

In 2010 the Board entered into an agreement with a private sector contractor for the development of the Mental Health project to deliver new psychiatry facilities in Tayside together with a Medium Secure Forensic Unit serving the North of Scotland region. This was under a Non Profit Distribution Organisation (NPDO) arrangement. The first phase of the project, the Susan Carnegie Centre at Stracathro (contract cost £18.4 million) was accepted by the Board in December 2011. In 2012 we reported that the facility was subject to an impairment of £3.0 million.

The second phase of the project at the Murray Royal Hospital site in Perth was handed over in June 2012 with a total project cost of £77.1 million. At the time of the handover the asset underwent a valuation and was valued at £68.0 million resulting in an impairment of £9.1 million.

As part of our assessment of the Board's third party property valuation undertaken, we are satisfied with the approach and methodology used in valuing the property.

Diagram 1: Analysis of the new mental health facilities contract value compared with valuation from outset (£ million)



This impairment is treated as Annually Managed Expenditure in the Board's financial statements, which in effect means that the impairment does not impact the Board's reported outturn in terms of Revenue Resource Limit.

In respect of the Board's calculation, treatment and disclosure of the arrangements we are satisfied that these are appropriate.

While the accounting for the contract is as required, it does not provide clarity as to why there should be an immediate impairment of £12.1 million from day 1, reflecting 12.6% of the total contract value. Effectively NHS Tayside is disclosing that facilities which cost £95.5 million are only worth £83.4 million.

There are a number of similar contracts in place across the NHS in Scotland; therefore consideration should be given by the Board in conjunction with SGHSCD to establish the root cause of such impairments to ensure that from a best value perspective, any lessons can be addressed in future contracts.

Action 1

Actuarial valuation

As we reported in 2012, the Board 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 continued to be put on hold by instruction of HM Treasury.

While NHS Tayside 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 finally updated.

The Board should ensure that the potential for increased employer's contributions in relation to the National Health Service Superannuation Scheme for Scotland is kept closely to the fore when considering future financial plans, to ensure resources are available to fund this potential cost.

Action 2

Section 4. Financial Performance

Performance against Key Financial Targets

The Board 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 £ million
Core Revenue Resource Limit (RRL)	693.4	693.1	0.3
Capital Resource Limit (CRL)	15.1	15.0	0.1
Cash Requirement	767.0	766.2	0.8

The performance of NHS Tayside for the year is an underspend of £0.3 million (2011/12: £0.2 million). Within the overall underspend for the year the following are the main variances against the Board's plan:

- Access Group – an underspend of £1.1 million relating to the implementation of a Laboratory Managed Service Contract, the single site reorganisation of Microbiology and a focus on the management of vacancies, reflecting effective workforce planning and vacancy control.
- Medical Group – increased drug costs and delays in identifying and achieving efficiency savings on the workforce targets resulted in an overspend of £1.9 million;
- Surgery and Theatres Group – overspend of £4.0 million was recorded relating to pressures delivering on the workforce component of the Strategic Financial Plan;
- Income – An underspend of £1.1 million was achieved from benefits from contractual arrangements in respect of VAT including partial exemption VAT reclaims and VAT recovered;
- Operational Unit Committed – Committed earmarks available to assist the Operational Unit totalling £2.6 million was unused at the year end; and
- There were further underspends in corporate areas and the CHPs, while other variances resulted in a net underspend for the year.

The Board also made a transfer of £3.5 million from capital to revenue in January 2013 to support backlog maintenance for non value adding repairs and statutory compliance following the publication of the Scottish Government's State of the Estate report. The transfer and use of funds was agreed with SGHSCD.

Financial Flexibility (brokerage)

In 2012/13 an agreement was reached with the SGHSCD for NHS Tayside to receive brokerage of £2.25 million split as per the table below:

Table 2: Terms of brokerage received

£ million	Details of Brokerage received	Repayable
2.00	Support for deferment of capital sales	Yes - On profits on sale of property by 2015/16
0.25	Additional impairment/lease costs	Yes - Included in 2013/14 financial plan
£2.25 million		

A £2.0 million profit on disposal of property was anticipated to be realised during 2012/13 and the profit on disposal had been assumed as a contribution to the £24.5m savings target. No property disposals were completed during the year due to unfavourable market conditions.

In May 2013 the SGHSCD agreed that £0.25 million will be required to be repaid in 2013/14 and the balance of £2.0 million is repayable from profits on sale of property assets to be achieved by 2015/16. Management has implemented a disposal strategy, identifying 28 properties to be sold which may allow increased flexibility to repay the brokerage, as the repayment is not tied directly to any one property. Associated with this delayed disposal, the Board received an additional £0.25 million of funding to cover related bridging costs; this amount is not repayable.

The brokerage arrangement agreed with the SGHSCD has been appropriately disclosed in the Directors' Report and also in the Governance Statement of the 2012/13 financial statements.

Non-recurring Funding Allocations

During the 2012/13 year the Board received £146.2 million of non-recurring funding from the Scottish Government as per the table below:

Table 3: Non recurring revenue and capital funding

Non-recurring Funding	£ million	
Revenue		
Non-core Revenue (ODEL) Resource Limit	21.2	IFRS revenue including Murray Royal impairment discussed above
Non-core Revenue (DEL) Resource Limit	23.2	Capital grants and depreciation
AME Resource Limit	7.4	Impairments and donated assets depreciation
Core Revenue Resource Limit	2.2	Adjustments including brokerage of £2.5m
Total non-recurring revenue	**54.0**	
Capital		
Core Capital Resource Limit	15.1	Capital formula allocation and capital grants, this includes the formula allocation of circa £8.4 million which is provided recurringly to fund capital projects.
Non-core Capital (ODEL) Resource Limit	77.1	Capital for the Murray Royal (phase 2 of the new mental health facility)
Total non-recurring capital	**92.2**	
Total non-recurring funding	**146.2**	

Capital Resource Limit

Core capital expenditure for 2012/13 was £15.1 million (2011/12: £18.9 million), which largely represents progress on three projects: radiotherapy equipment including associated building costs (£2.1 million), medical equipment (£7.0 million) and a contribution to the Whitfield Regeneration Scheme (£2.3 million). The reduction from the prior year reflects a number of adjustments including a reduction in formula capital allocation of £3.3m, the Board's £3.5 million transfer of capital to revenue resource during the year for backlog maintenance offset by additional late allocations of £5.3m.

Efficiency Savings 2012/13

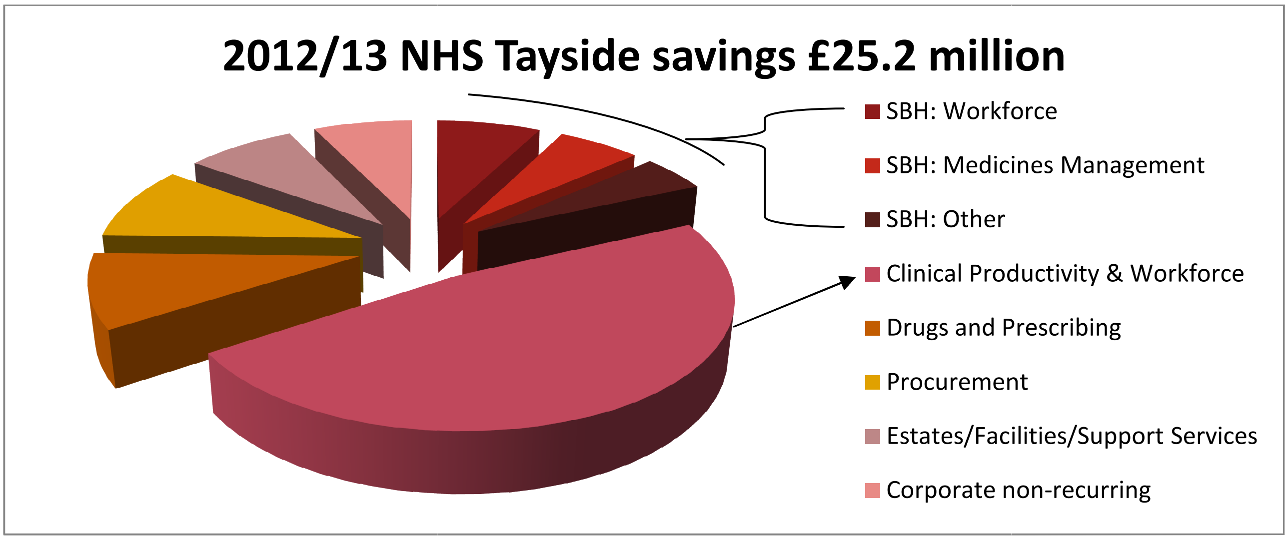
The NHS Scotland Efficient Government 3.0% efficiency savings target for NHS Tayside was £18.3 million for 2012/13. The total savings reported in respect of Efficient Government targets for 2012/13 amounted to £23.4 million. Additional savings amounting to £1.8 million were also reported resulting in total savings of £25.2 million (table 4).

Table 4: 2012/13 Efficiency savings reported

NHS Tayside	Savings £ million	% of total
Steps to Better Healthcare (SBH):		
Workforce	1.9	7.5
Medicines management	1.5	6.0
Other SBH	1.2	4.8
Clinical Productivity & Workforce	12.0	47.7
Drugs and Prescribing	2.4	9.5
Procurement	2.4	9.5
Estates/Facilities/Support Services	2.0	7.9
	23.4	**92.9**
Corporate non-recurring (excluded from Efficient Government target)	1.8	7.1
Total reported	**25.2**	**100.0**

These savings are reported to include £12.4 million savings that are non-recurring. As highlighted in diagram 2 below around half of the savings are in respect of clinical productivity and workforce, with a fifth from the Steps to Better Healthcare (SBH) programme and the remaining spread over other areas.

Diagram 2: Source of efficiency savings: driven by clinical productivity and workforce



Performance monitoring

The Board continues to develop the suite of performance management reporting received at each Board meeting. This includes increased reporting on the performance against HEAT targets and the risk associated with new targets which impact from 2013/14.

Management receives detailed financial information to help manage performance against budgets and control expenditure. Detailed management accounts are prepared on a monthly basis, while management accountants liaise with directors and senior management to analyse the management reports and understand key variances against budgets. Directors receive responses from budget-holders within their directorates regarding variances, which is fed through to management accountants.

Financial planning – looking ahead

Table 5 below summarises the Board's 2013/14 projected outturn as per the Strategic Financial Plan approved by the Board in April 2013.

Table 5: 2013/14 Financial Plan

NHS Tayside	2013/14 Projected £ million
Recurring income	760.3
Recurring expenditure	(772.8)
Recurring savings	11.0
Underlying recurring deficit	**(1.5)**
Non-recurring income	79.6
Non-recurring expenditure	(88.1)
Non-recurring savings	10.0
Non-recurring surplus	**1.5**
Financial surplus/(deficit)	**0.0**
Recurring deficit as a percentage of recurring income	**(0.2)%**

Efficiency Savings 2013/14

Efficiency savings continue to be required for local reinvestment, other commitments and to achieve financial balance. Additional costs of £39.0 million have been identified by Management in 2013/14 along with funding increase of £18.0 million, primarily from the general allocation uplift. The net budgeted saving required of £21.0m is due to be met in broadly equal measure between recurring and non-recurring savings and efficiencies.

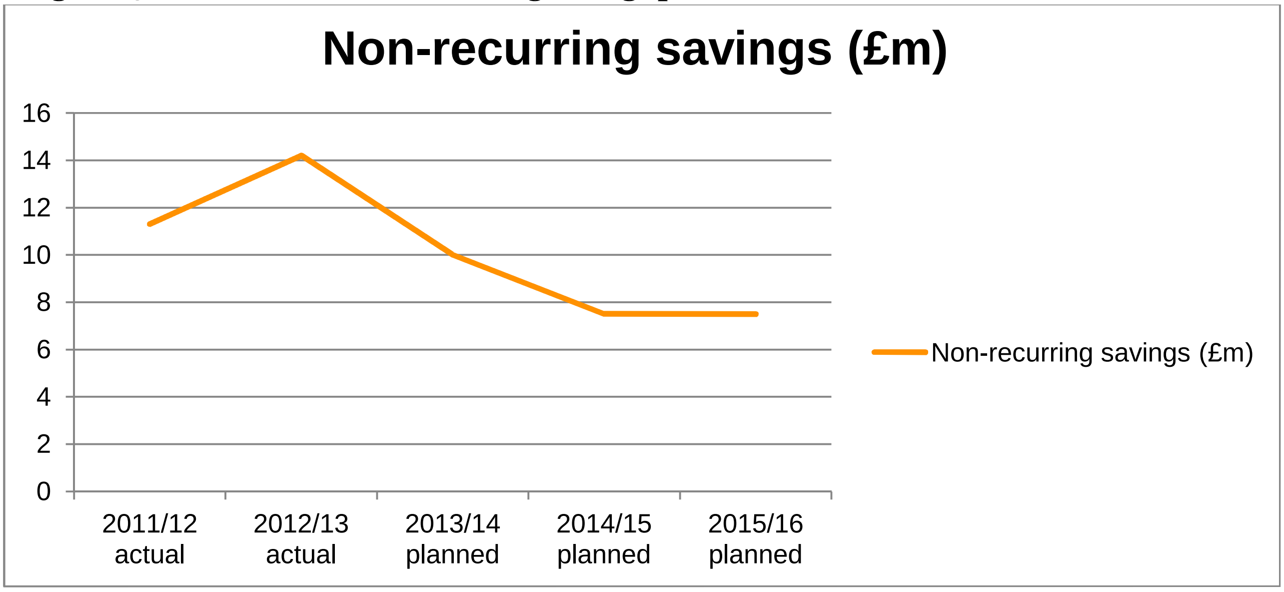
The main cost increases facing the Board in 2013/14 include:

- Total pay uplifts including incremental drift and inflation of £17.8 million
- Other provisions for cost pressures and waiting times of £7.3 million
- Commitments carried forward from 2012/13 of £11.8 million
- Brokerage repayment for the Kingsway Initiative of £0.25 million

Reliance on recurring/non-recurring saving

The level of reliance on non-recurring savings has increased since the prior year. The Board's financial plans commit to deliver a greater share of the annual savings on a recurring basis with a target of non-recurring savings of 50% in 2013/14 and reducing to 40% or less by 2015/16.

Diagram 3: Reduction in non-recurring savings planned



The Board continues to commit to the policy of no compulsory redundancies for public sector workers increasing the challenge of identifying areas of recurring savings from non pay areas.

Health and Social Care Integration

We have set out below some of the key risks identified by the Board in delivering a balanced budget in the short to medium term:

- Failure to achieve cost reduction/savings targets of £21.0 million;
- Medicines cost increases may be greater than planned; and
- Failure to increase the level of recurring savings.

In addition the Board faces further uncertainty in respect of the proposals for integration of health and social care between the Board and it constituent local authorities. While there is widespread acceptance of the benefits for the public of a more integrated service, there remain practical uncertainties that may have an impact on both the finances of the Board and the level and nature of services that it is required to provide.

As with other NHS Boards in Scotland the uncertain impact on funding and service requirement cannot be fully reflected in the medium term plans of the Board. Therefore any early indication of the impact of the integration will affect previously reported financial plans.

Action 3

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

- Waiting times, both in respect of the findings of the internal audit work and the number of patients that have exceeded the Treatment Time Guarantee during the year;
- Patient identifiable data discovered in a public area of Dundee;
- Skin health improvement notice status; and
- Financial flexibility (brokerage) received during the year.

We are satisfied that the Board'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 initial work on systems of internal control were communicated to the Audit Committee in our Interim Management Letter presented to the Audit Committee in March 2013. The report contained two recommendations to improve controls, one of which was graded as higher risk. Management has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion.

As part of our year end testing, we also identified areas of for improvements in internal control. One high risk recommendation was reported in our ISA 260 report to those charged with governance in respect of control arrangement over the Board's register of interests.

Risk Management

The Board has in place a Risk Management Strategy confirming aims and objectives, structures, processes and management responsibilities. In accordance with the Board's Code of Corporate Governance, the Standing Committees of the Board seek to address each area of risk as appropriate.

The Strategic Risk Management Group meets four times per year and monitors the corporate risk profile of the Board to ensures it is aligned to the organisation's Corporate Objectives. The Strategic Risk Management Group is also responsible for evaluating the effectiveness and performance of risk management across the organisation and providing a half year and annual report to the Audit Committee giving assurances on the effectiveness, adequacy and robustness of the risk management arrangements in place.

Key risks identified by NHS Tayside are recorded in the Risk Register and are categorised as either a corporate or an operational risk. Key risks are reviewed quarterly by the Board.

Governance Structure

The established Committee Framework at the Board remains in place. Each of the Committees meets regularly in the year and has at least one non-executive director present. Our audit work covering governance highlighted that Committees were operating as intended.

During the 2012/13 financial year the Audit Committee met in May, June, September, November, December 2012, January and March 2013. It considered risk management, general and financial corporate governance issues and is responsible for ensuring that an effective internal audit service is provided, which includes a review of the annual plan, progress reports, action taken in respect of recommendations and the annual report.

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 us gaining an understanding of the internal audit function to determine if it would be effective and efficient for us to use their work. Specifically we used the internal audit findings in respect of the payroll departmental review, as the draft report was made available during our fieldwork. We understand that while the report has not yet been finalised, there are no substantive changes to the findings.

During 2012/13, the Board continued to use the Fife, Tayside and Forth Valley Audit and Management Services.

Prevention and detection of fraud and irregularity

The National Fraud Initiative (NFI) brings together data from health bodies, councils, police, fire and 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.

The Board has reviewed all recommended Payroll to Payroll matches and all Payroll requests received from other public sector bodies to investigate and conclude on the reasons and circumstances for the matches. This includes reviewing payroll records, liaising with the Human Resources Department of other Boards and Local Authorities.

At the time of our audit work there were 55 Recommended Payroll to Creditors matches outstanding. The majority of these matches are payments to Out of Hours Doctors as they are often paid via the Cashier or Accounts Payable rather than through the payroll. All of these matches will be investigated by management. There are also 103 Recommended Duplicate Invoice Record matches still to be investigated by management.

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

Section 6. Performance

Scotland's public finances: Addressing the challenges

Scotland's public finances: Addressing the challenges was the performance audit report to be selected for targeted follow-up in 2012/13.

The report provided an overview of the scale of budget cuts expected to be faced by the Scottish public sector in the period 2010/11 to 2014/15, and how public bodies were beginning to respond to the challenges of reducing expenditure. In particular, the report highlighted some of the main cost pressures facing public bodies and emphasised the importance of them achieving long-term financial sustainability.

We undertook a follow-up of the actions identified in the original report, posing two key questions to Tayside:

1. Do public bodies have sustainable financial plans that reflect a strategic approach to cost reduction?
2. Do senior officials, elected members and non-executive directors demonstrate ownership of financial plans and are they subject to sufficient scrutiny before approval?

In accordance with Audit Scotland's request we are in the process of agreeing our reporting on this area and will report separately both to the Board's Audit Committee and Audit Scotland.

Waiting Times

Audit Scotland published a report on the "Management of patients on NHS waiting lists" on behalf of the Auditor General for Scotland in February 2013. The audit involved a detailed review of NHS Board's electronic waiting list systems and analysis of the application of waiting list codes in patients' records between April and December 2011, to identify whether NHS Lothian's manipulation of waiting lists in 2011 was an isolated incident or whether the issue was more widespread across the NHS.

During the 2012/13 year the SGHSCD required an audit of Waiting Times arrangements and processes to be undertaken. The NHS Tayside Internal Audit report identified 63 transactions (17% of a high risk sample) out of a sample of 20,000 that gave cause for concern as it appeared that unavailability codes had been applied systematically to avoid a breach position.

In response, the Board reviewed guidance and associated training schemes to address the issues raised. Internal Audit concluded that the increased staff awareness and communication with patients, set out in the updated guidance, combined with the management action plan should prevent recurrence of the issues. The action plan arising from the audit report was satisfactorily implemented, with all recommendations completed by 31 March 2013.

As things currently stand, Health Boards have been asked (per the Chief Executive (NHS Scotland) letter of April 2013) to allocate Internal Audit time to a follow up of previous recommendations made in December 2013. However, the Parliamentary Audit Committee of 9 May 2013 mandated a number of other actions for both the Scottish Government and individual Boards around Waiting Times which are currently under consideration and will be subject to forthcoming guidance.

While there will be ongoing external reporting requirements in respect of waiting times, the Board must ensure that internal controls developed over the management and reporting of key targets (including waiting times) are robust and provide the ongoing assurance required out with these one-off inspections.

Action 4

Best Value Toolkit

The Performance Management Best Value toolkit had been chosen by the Board as the subject of its 2012/13 Best Value self assessment. However, due to the focus and sensitivity of the Waiting Times review, resources were prioritised to complete this work instead and the work on the Performance Management BV Toolkit was delayed. The Board's self assessment and our related report on the toolkit selected will be presented to the Audit Committee during the 2013/14 year.

Local Response to National Performance Reports

Audit Scotland undertakes studies on topics relevant to the performance of health bodies. While the recommendations from some of the studies have a national application, elements of the recommendations are also capable of implementation at Board level.

As part of our 2012/13 audit procedures we have requested evidence of how the Board has responded, at a local level, to relevant national health and community care reports published between June 2012 and December 2012:

- Commissioning social care; and
- Cardiology services

In each case the reports noted above have been considered by the Audit Committee. The self assessment checklist provided was completed for Cardiology Services and the Commissioning social care self assessment was referred to the Local Authority to take the lead on. An update on the self assessment of Cardiology Services was also undertaken in February 2013.

Action plan

	Finding	Management Response
1	**Impairment**	
	Consideration should be given by the Board in conjunction with SGHSCD to establish the root cause of the impairments recognised in respect of the new mental health facility to ensure that any lessons can be addressed in future contracts.	Local management will consult with SGHSCD to determine the actions considered necessary. Local Management will respond to guidance issued nationally in due course by SGHSCD. Action: Director of Finance By: March 2014
2	**Financial planning for pension actuarial valuation**	
	The Board should ensure that the potential for increased employers' 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.	The financial impact of increased employers' contributions will be taken into account should this be necessary. As this would be a national issue guidance would be expected from SGHSCD. The Board has recognised the potential for increased contributions as an unquantified contingent liability in the risk register. Action: Director of Finance By: March 2014
3	**Integration of health and social care**	
	As with other NHS Boards in Scotland the uncertain impact of the integration of health and social care on funding and service requirement cannot be fully reflect in medium term plans of the Board. Therefore any early indication of the impact of the integration will affect previously reported financial plans, meaning they cannot be achieved. The impact and timing of this should be made visible in the ongoing monitoring of the Board's financial performance.	There are several national workstream groups that are considering the impact of integration. The reports from these groups will be taken into account in financial planning. Notwithstanding, the expectation is that the Efficient Government savings target of 3% per annum will need to be achieved by any new integrated body. Action: Director of Finance By: March 2014
4	**Controls over key targets**	
	The Board must ensure that internal controls developed over the reporting of key targets (including waiting times) are robust and provide the ongoing assurance required out with these one-off inspections. This should be achieved through ongoing management controls.	Management is committed to continuous improvement in internal cotrols and is developing performance (Qlikview) dashboards to provide managers with real time information on which to take action. A summary of the dashboards is presented to the Board. Chief Operating Officer March 2014

We also reported one internal control recommendation in our ISA 260 Report to those charged with Governance. This is also provided below for information:

Arrangements for Board Members declaration of interests

Finding	Recommendation
As a result of the control deficiencies identified concerning the signing and approval of the declaration of interest forms, there is a risk that the Board's register of interests is not complete or appropriate action is not taken on a timely basis. This could impact required disclosures in the year end financial statement and disclosure of related party transactions.	Management should ensure all declaration of interest forms are prepared appropriately and ensure there is evidence of appropriate action being taken on receipt of these declarations.

Management response

Management acknowledge their responsibility for the design and implementation of controls to detect related parties and potential conflicts of interest. The requirement for a controlled process to inform Board Members and to collate and analyse information disclosed in the declaration of interest forms is critical for management to detect conflicts of interest and related parties.

The Board Secretary during 2012/13 specified and commissioned the development of an electronic registration system from NHS Tayside's Information Delivery Team. Work has progressed on development of the electronic system and this is now at the proof of concept stage with a pilot to commence during June 2013 with members of the Staff Governance and Improvement and Quality Committees.

The plan is that following the pilot and any remedial enhancements the system will be rolled out to the Board and all its Committees by September 2013. The IT system will remove the weaknesses identified as part of this audit.

Responsible Officer:
Board Secretary

Target Date:
September 2013

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 Board 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 Board and its expenditure and income for the period in question;
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
- whether the information 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).