



Borders Health Board

Annual Report to the Board &
the Auditor General for
Scotland 2013/14

July 2014



Scott-Moncrieff
business advisers and accountants

Borders Health Board

Annual Report to the Board & the Auditor General for Scotland 2013/14

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Executive summary

Financial Statements

Our audit of the 2013/14 financial statements is complete and our audit opinions are unqualified. NHS Borders achieved all of its financial targets and delivered a saving of £0.065 million against the Revenue Resource Limit (RRL). The Board also made a saving of £0.005 million against its Capital Resource Limit (CRL) and achieved its Cash Requirement target.

Use of Resources

The Board has good arrangements in place for managing its financial position and its use of its resources. The 2013/14 £0.065 million surplus against RRL represents an underspend of just 0.03%. It is consistent with the Board's 2013/14 budgeted outturn, which predicted a year end breakeven position. The Board also met its 2013/14 efficiency savings targets.

The CRL for 2013/14 was down £2.567 million on 2012/13, to £3.853 million. This was primarily due to increased capital of £1.5 million made available in 2012/13 to fund the Lauder Health Centre project (£0.79 million in 2013/14) and a further £2.8 million of central NHS funds due to national capital slippage. Capital spending during 2013/14 related mainly to property across Borders General Hospital, outpatients, Huntlyburn House, and Lauder Health Centre.

NHS Borders is projecting a break even position for the three years from 2014/15. Efficiency savings have been fully identified for 2014/15 and progress is being made to develop savings plans for the two financial years thereafter. Achievement of future financial targets will depend on continuing tight control of expenditure and delivery of challenging savings plans. Delivering against financial and non-financial targets in the coming years will require even closer monitoring given financial pressures. The recently established Financial Position Oversight Group will be important in scrutinising this area.

Performance

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

Governance

Our work on corporate governance focussed on reviewing the Board's arrangements to ensure effective systems are in place for internal control, prevention and detection of fraud and irregularity and standards of conduct. Governance arrangements at NHS Borders are satisfactory and appropriate. The Board is making progress in Health and Social Care integration with the Scottish Borders Council. Shadow arrangements have been put in place in line with suggested timescales issued by the Scottish Government. This will help the partnership to meet the target effective date of April 2015.

Conclusion

This report concludes our audit for 2013/14. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards. This report has been discussed and agreed with the Director of Finance and we would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff
July 2014

Introduction

1. Our 2013/14 audit work at Borders Health Board, commonly known as NHS Borders, covered the Board's arrangements for managing resources, performance management and governance. This is in addition to our work on the financial statements. This report summaries our findings in each of these areas. The scope of our audit was set out in our External Audit Plan, which was previously presented to the Audit Committee.
2. In addition to this annual report, we have delivered the following outputs during 2013/14:
 - External audit plan;
 - Interim management report;
 - National Fraud Initiative outputs;
 - Report on the audit of the financial statements; and
 - Best value report on Vision and Strategic Direction.

The key issues from these outputs are summarised in this annual report.

3. Wherever possible, and in line with our standard audit approach, we have also made use of the work of other inspection bodies including the Board's internal audit service and Audit Scotland.
4. The Board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
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 financial statements are the principal means of accounting for the stewardship of the resources made available to the Board.

Overall conclusion

An unqualified audit opinion

7. We expressed an unqualified opinion on the financial statements of the Board for the year ended 31 March 2014 and on those matters referred to below. The Board approved its annual accounts on 27 June 2014.
8. The annual accounts were submitted to the Scottish Government Health and Social Care Directorates (SGHSCD) and the Auditor General for Scotland prior to the 30 June 2014 deadline.
9. We are pleased to report that draft financial statements and relevant working papers were provided to us to support our audit process. These were of a generally good standard.

Our responsibilities

10. Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance. Specifically in relation to the financial statements, we are required to audit them in accordance with International Standards on Auditing (ISAs) and to give an opinion on:
 - whether the financial statements give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the Board's affairs as at 31 March 2014 and of its net operating cost for the year then ended;
 - whether the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the 2013/14 FReM;
 - whether the financial statements have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;
 - whether in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers (the regularity opinion);
 - 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; and
 - whether the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

11. We also report to you by exception on several matters, as discussed further in our report on the audit of the financial statements.

Board Members' responsibilities

12. It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare financial statements that show a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder. This means:
- applying the accounting policies and standards approved for NHS Scotland by Scottish Ministers on a consistent basis;
 - making judgements and estimates that are reasonable and prudent;
 - stating whether applicable accounting standards as set out in the Financial Reporting Manual (FRoM) have not been followed where the effect of the departure is material; and
 - preparing the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate.
13. 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 implementing appropriate internal control systems, safeguarding the assets of the Board and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independence

14. We confirm that we have complied with Auditing Practices Board Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:
- There are and have been no relationships between Scott-Moncrieff and the Board, its directors and senior management that may reasonably be thought to bear on our objectivity and independence,
 - Scott-Moncrieff has not provided any consultancy or non-audit services to the Board which would impair our audit independence.

Key areas of audit focus and significant findings

15. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the Board's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts. We did make some lower risk recommendations on internal controls in our 2013/14 interim report, in relation to payroll payment controls, debt management, and credit notes.
16. We are required by International Standards on Auditing (UK and Ireland) (ISAs) to report to the Board the main issues arising from our audit of the financial statements. We presented our Report on the Audit of the Financial Statements ("ISA 260 report") to the Audit Committee on 16 June 2014.

All adjustments to the financial statements were made during the audit

17. All adjustments identified during the audit have been reflected in the financial statements. These related primarily to disclosure issues, the new requirements of the remuneration report, and balance sheet adjustments. These are discussed in more detail in our ISA 260 report on the financial statements.

Non-current assets

18. As at 31 March 2014, the Board's asset register included 631 assets with net book value of nil. The Board's Financial Control Procedure: Capital Accounting requires a sample of assets to be physically verified on a regular basis. As no asset verification exercises have been carried out by the Board in 2013/14 there is a risk that the asset register does not accurately reflect the asset base in operation within the Board. This risk is exacerbated by the negligible asset disposals reported in the year.
19. We performed appropriate audit testing and concluded that the asset disclosure in the accounts is not materially misstated. However, NHS Borders should comply with its Financial Control Procedure to perform asset verifications and ensure the findings are reported in the asset register.

Action Plan Point 1

Exit packages

20. The Board agreed five exit packages in 2013/14. We concluded that these transactions were appropriately recorded in the financial statements. However, evidence demonstrating a valid obligation to settle these costs as at the 31 March 2014 could have been more robust. Further, whilst there was clear internal scrutiny of the packages during March 2014 (including discussion and approval at Remuneration Committee), documented evidence of liaison and approval through SGHSCD would improve the internal control framework.

Action Plan Point 2

Intra-group trading

21. 2013/14 is the first year the Board had to produce consolidated accounts, to include the NHS Borders Endowment Fund. Whilst we concluded that the consolidation is materially correct, the Board should ensure all internal transactions and balances are fully disclosed in the financial statements.

Action Plan Point 3

Claim settlement

22. The Board reached a provisional outline agreement on a large, historical clinical and medical negligence claim that has been provided for within the accounts for over a decade. The agreement is not expected to be signed off until late summer 2014 and expert input from the Central Legal Office is ongoing.
23. We agreed the accounting treatment for this case with NHS Borders during our audit fieldwork. The clinical and medical negligence provision has been significantly increased (from £3 million to £6.669 million) to recognise the increased liability arising from these latest developments. Given the accounting treatment for these types of provisions, this did not impact significantly on the Board's financial statements.

Remuneration report

24. NHS Boards were required to disclose a single total remuneration figure within the 2013/14 Remuneration Report, in line with Financial Reporting Manual (FRoM) requirements. This total includes a pension-related

benefits figure calculated in accordance with Employer Pension Notice (EPN) 380. Boards were advised of these requirements via a financial accounts update letter issued in April 2014 by the SGHSCD.

25. Some concern was expressed nationally over the pension benefits figures to be disclosed and the potential interpretation by users of the accounts. Following consideration of this feedback, clarification guidance was issued in June 2014. This enabled boards to agree the layout of the report and provide explanatory notes to aid user understanding. NHS Borders has complied with this guidance. The Remuneration Report was updated for 2013/14 and the 2012/13 report restated accordingly.

Funding Allocations

26. In our External Audit Plan we recognised the risk related to accounting treatments for particular strands of Scottish Government funding. We carried out appropriate audit testing to assess the Board's compliance with specific conditions of funding attached to certain SGHSCD allocations and found no reportable issues.

Revenue Recognition & management override

27. Under ISAs, there is a presumed risk of fraud in relation to revenue recognition. To address this risk we have reviewed the controls in place over the accounting records and found them to be sufficient. We have evaluated each type of revenue transaction and carried out testing to ensure that the Board's revenue recognition policy is appropriate and has been applied.
28. Management override is also a presumed risk under ISAs and we have carried out dedicated audit testing as a result. Management are 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. We have not identified any indications of management override during the year which impacts adversely on our financial statements audit work.

Appropriate disclosure of equal pay claims

29. The Central Legal Office (CLO) has restated its view that equal pay claims in Scotland do not currently allow for an assessment of financial risk to be included within the financial statements.
30. NHS Borders currently has 9 active equal pay cases (a very small amount relative to many other NHS Scotland bodies), of which no reliable financial estimate can be made. We agreed with management that these could be disclosed as an unquantifiable contingent liability in the 2013/14 accounts.

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

31. The Board participates in the NHS Superannuation Scheme for Scotland. This is a multi-entity defined benefit scheme which is accounted for as a defined contribution scheme. The Board's annual contribution to the scheme is charged to expenditure each year and no liability is recognised. The value of the Board's contributions is based on an actuarial valuation which is to be renewed every five years. The most recently published actuarial valuation was for the year ended 31 March 2004. An updated valuation was expected to be reflected in the 2013/14 accounts however this is now anticipated for 2014/15.
32. The actuarial valuation is essential for the determination of employer and employee contributions at a level appropriate to fund the scheme and for use in future financial planning. In common with all NHS Boards the information being disclosed is currently out dated. There is therefore a degree of uncertainty as to the adequacy of employer and employee scheme contributions for meeting the future commitments of the pension scheme.

33. NHS Borders has already raised this issue with the NHS Directors of Finance group and requested an updated valuation for the NHS Superannuation Scheme from the Scottish Public Pensions Authority. We endorse this action and encourage the Board to continue with efforts to obtain an updated valuation.

Enhanced pension disclosure requirements

34. Amendments to IAS 19, effective from April 2014, placed a number of additional disclosure requirements on Boards participating in the NHS Superannuation Scheme. These included the extent to which the Board could be liable to the plan for the obligations of other entities and information about the surplus or deficit in the plan which may affect the level of contributions required in future years.
35. The Scottish Public Pensions Authority (SPPA) issued suggested disclosure narrative to comply with these new requirements. NHS Borders included this narrative disclosure in the 2013/14 accounts.

Governance Statement

36. We are satisfied that the Governance Statement complies with the Scottish Ministers' guidance and that the content is not inconsistent with information gathered during the course of our normal audit work.

Regularity and other audit opinions

37. We issued an unqualified opinion on the regularity of transactions. This means that the Board has applied public funding for the correct purposes in accordance with Scottish Ministers' guidance.
38. We concluded that the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and related directions, and that information given in the Directors' Report and the Strategic Report is consistent with the financial statements.

Qualitative aspects of accounting practices and financial reporting

39. 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 disclosed within the accounts and found them 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 issues relating to the timing of transactions or the period in which they had been recognised.
The appropriateness of the accounting estimates and judgements used.	We have reviewed all accounting estimates and judgements applied in the preparation of the accounts and found them to be appropriate.

Qualitative aspect considered	Audit conclusion
	These are in line with those commonly applied within the sector.
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.	All significant uncertainties, risks and disclosures are appropriately reflected 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.	No issues identified in relation to unusual transactions during the period.
Apparent misstatements in the Directors' or the Strategic Report or material inconsistencies with the financial statements.	No issues have been identified. Both the Directors' and the Strategic Report have been found to be materially consistent with the financial statements and our understanding of the Board's operations during 2013/14.
Any significant financial statement disclosures to bring to your attention.	All disclosures have been made in accordance with relevant legislation and accounting standards. Of the disclosures made within the 2013/14 accounts there are none which we feel require particular attention.
Disagreement over any accounting treatment or financial statement disclosure.	There were no unadjusted differences to report following the audit we were able to reach agreement with management over all issues identified.
Difficulties encountered in the audit.	There were no difficulties encountered in the audit which merit disclosure here.

Use of resources

40. 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. Overall, the Board has good arrangements in place for managing its financial position and its use of its resources. Initiatives such as the Financial Position Oversight Group (with Non-Executive involvement) provide a good framework for scrutiny and challenge.

The Board's financial performance in 2013/14

The Board met its key financial targets in the year

41. The Board is required to work within the resource limits and cash requirements set by SGHSCD. As shown in Table 1 below, NHS Borders has met all of its financial targets in 2013/14.

Table 1 - Performance against key financial targets

Financial Target	Target £'000	Actual £'000	Underspend £'000	Target Achieved
Core revenue resource limit	197,706	197,641	65	Yes
Non-core revenue resource limit	7,722	7,722	-	Yes
Capital resource limit	3,858	3,853	5	Yes
Cash requirement	216,000	215,256	744	Yes

Source: Annual Accounts for year ended 31 March 2014

42. The 2013/14 £0.065 million surplus against RRL represents an underspend of just 0.03%. It is consistent with the Board's 2013/14 budgeted outturn, which predicted a year end breakeven position.
43. The CRL for 2013/14 was down £2.567 million on 2012/13, to £3.853 million. This was primarily due to increased capital of £1.5 million made available in 2012/13 to fund the Lauder Health Centre project (£0.79 million in 2013/14) and a further £2.8 million of central NHS funds due to national capital slippage. Capital spending during 2013/14 related mainly to property across Borders General Hospital, outpatients, Huntlyburn House, and Lauder Health Centre.
44. The Board received an additional £0.095 million in CRL during the year. This was agreed with the Scottish Government following an asset swap between NHS Borders and the Scottish Ambulance Service. This has been accounted for in the accounts as capital expenditure of £0.1375 million and a capital receipt of £0.0425 million. The additional allocation has meant that this transaction has had no net effect on the Board's performance against initial CRL.

Financial plans

The Board forecasts a breakeven position in 2014/15

45. Table 2 provides a summary of the Board's revenue financial plan for 2014/15, with comparative 2013/14 information included. Projected increases in funding and additional cost pressures have been incorporated into the LDP, as submitted to SGHSCD in March 2014.

Table 2 – Achievement of 2013/14 surplus and forecast for 2014/15

Description	2013/14 £million	2014/15 £million
Recurring income	193.119	201.616
Recurring expenditure	195.669	203.682
Recurring savings	2.550	2.066
Underlying recurring surplus/(deficit)	0	0
Non-recurring income	4.587	2.906
Non-recurring expenditure	6.801	5.415
Non-recurring savings	2.279	2.509
Non-recurring surplus/(deficit)	0.065	0
Financial surplus/(deficit)	0.065	0
Underlying recurring surplus/(deficit) as percentage of recurring income	0.03%	0%

Source: NHS Borders Board Report – Board Financial Plans / Director of Finance

Funding

46. The total income uplift is made up of various factors:

- A funding uplift of 2.7% in 2014/15, equivalent to £4.713 million. This is in line with the 3.1% uplift in resource allocation awarded to territorial Boards as a whole. This uplift has been fully reflected in the Board's financial plan.
- Funding uplifts of 2.7% for 2014/15 (£0.258 million) for healthcare provider and locally collected income.
- An uplift of 1% for Family Health Services (FHS) non cash limited funding in 2014/15. This £0.124 million reimburses the Board for expenditure managed on its behalf by the practitioner services division of NHS National Services Scotland and is therefore considered to be cost neutral.

47. Indicative allocation uplifts for 2015/16 and 2016/17 of 2.2% and 1.8% respectively have been used in the Board's initial revenue expenditure plans. These estimates have been taken from the current Scottish Government budget and will be subject to the next comprehensive spending review. In 2015/16, the 2.2% uplift is inclusive of a 0.4% increase for an integration fund.

Cost pressures

NHS Borders forecasts recurring expenditure growth of £7.161 million in 2014/15

48. NHS Borders has assessed each of the main drivers which influence expenditure in order to project additional expenditure in 2014/15. A total of £7.161 million has been incorporated within the financial plans for 2014/15. The two main areas of cost pressure are pay increases (£1.516 million) and prescribing cost growth (£1.597 million). Other areas include estimated inflation increases on contracts with external providers (£0.781 million) and spending on national initiatives (£0.555 million).
49. Assumptions made by the Board in the preparation of the 2014/15 financial plan, which are of particular significance in terms of financial risk, are summarised in Table 3 below.

Table 3 – Key Financial Assumptions

Key assumption/risk	Risk Rating	Potential financial impact
Pay Growth – 1% increase in pay for all staff and cost of increments per current terms and conditions. No financial liability recognised in respect of equal pay claims.	Low	£1.516 million
Prescribing cost growth – 6% uplift on drugs cost set following consideration of projected increases in costs and volumes and various benchmarking exercises.	High	£1.597 million
Out of Area Referrals – Work is on-going to ensure all referrals are appropriate and necessary. Good progress is being made however this will remain a financial pressure in 2014/15.	High	Not quantified at this stage
Non pay uplift – General uplift estimated at 1.5%, 10% in the case of utilities.	Medium	£0.659 million
Service cost pressures – Unavoidable service cost pressures have been considered within the 2014/15 financial plan following review by the Board's Strategy Group.	Medium	Not quantified at this stage
Discretionary spend controls – Controls put in place during 2013/14 are to remain in place in order to support the financial position.	Low	Not quantified
Efficiency delivery plan – Delivery of efficiency savings plans are key to the Board achieving financial balance in 2014/15.	High	£4.575 million

Source: NHS Borders Board Report on 2014/15 Financial Plan

NHS Borders projects a breakeven position in both 2015/16 and 2016/17

50. The Board's financial plan for 2015/16 and 2016/17 is using uplift assumptions as set out above. Likely expenditure growth has been based on a number of % uplift assumptions as detailed in Table 4 below.

Table 4 – Expected expenditure growth

Financial assumption	2015-16	2016-17
Resources	2.2%	1.8%
Pay	1.59%	1.46%
Prices	1.5%	1.5%
GP prescribing	5%	5%
Hospital drugs	6.24%	6.25%
Family health services	1%	1%

Source: Borders LDP Financial Plans 2014/15

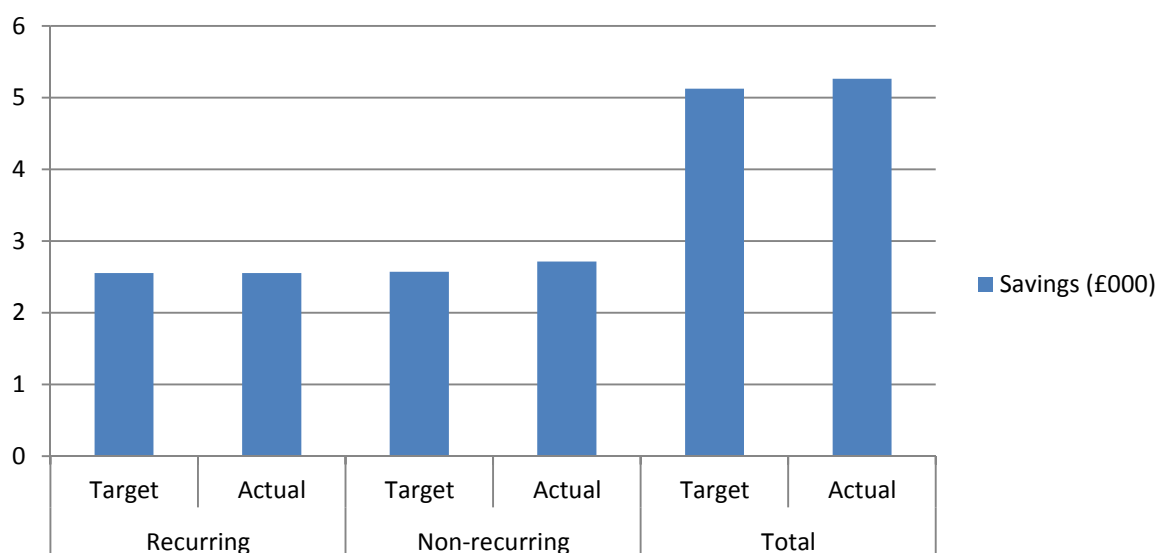
51. Based on our experience, these assumptions are not unreasonable from broad comparison across the sector. However, it is vital for NHS Borders to closely monitor, manage and update these as appropriate.

Savings plans

The Board has met its 2013/14 efficiency savings targets

52. The Board has met its efficiency savings targets as set out in the 2013/14 LDP. Chart 1 shows performance for recurring and non-recurring savings, with all targets achieved.

Chart 1 – Performance against recurring and non-recurring savings targets (£ million)

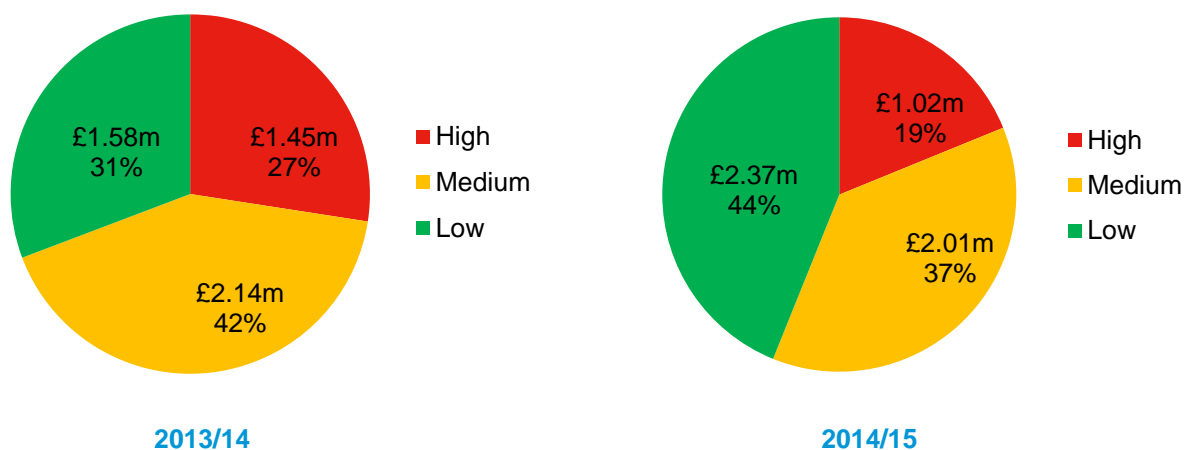


Source: NHS Borders FPR March 2014 / Finance Team

2014/15 savings target slightly higher than 2013/14, split relatively evenly between recurring and non-recurring savings

53. The Board again plans to deliver its cash releasing savings to support financial balance in 2014/15, with a “stretch” element of the target to maximise potential savings. The 2014/15 efficiency savings programme will include projects covering areas such as mental health, nursing skill mix, medical efficiency and public health interventions. LDP savings plans identify £5.404 million of total savings, split relatively evenly between recurring (£2.066 million) and non-recurring (£3.338 million). The likelihood of slippage is assessed and a risk rating assigned to each area of planned savings. Chart 2 shows the savings risk assessment. As only 19% of targeted savings are deemed to be of high risk, compared to 27% in 2013/14, the Board appears in a strong position to deliver the £5.404 million target.

Chart 2 - Risk composition of 2013/14 and 2014/15 savings plans



Source: NHS Borders LDP financial plans 2013/14 & 2014/15

54. The Efficiency Board was set up to facilitate the delivery of both recurring and non-recurring savings targets. Its aim is to support NHS Borders to deliver safe, effective and sustainable services within available resources. Savings projects are monitored on an on-going basis using the Aspyre system and monthly progress reports submitted to the Efficiency Board by project managers. The Financial Position Oversight Group, as part of its terms of reference, will take an active interest on the progress of the efficiency programme. That group will be important in scrutinising this area, within the wider context of ongoing financial management.

Overall conclusion on financial management and use of resources

Good financial management arrangements in place, but financial risks continue to need close monitoring

55. Our overall conclusion from our review of the Board's financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets is that the Board has good financial management arrangements in place. However, managing finances in the face of increasingly challenging resource and performance contexts will take significant effort and focus.

Performance

56. An effective performance management system is key to the delivery of safe, effective, person-centred care. We previously undertook a best value review of NHS Borders' performance management arrangements. We have used the findings of this review, our cumulated knowledge and experience of the Board's performance management framework, and 2013/14 performance reports to assess the overall performance management arrangements in place.

NHS Borders has a good overall performance management framework

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

58. Monthly performance scorecards are prepared and reported to the Board, Strategy and Performance Committee and Clinical Executive Board. These demonstrate the Board's performance across the organisation at both a service and strategic level. Mid-year and end-of-year 'Managing Our Performance' reports are also prepared for the Board. These reports include updates on targets which cannot be reported on a monthly basis, and allow Board members to review performance across the full range of national HEAT priorities and targets. Each report clearly sets out the actual performance against target or trajectory for each of the standards. The standards which are monitored on a monthly basis have also been given a RAG (Red, Amber, Green) status within the end-of-year report to demonstrate whether each is under performing, slightly below trajectory, or meeting trajectory.

Performance against Scottish Government 2013/14 HEAT targets

59. For 2013/14 19 targets made up the 'performance contract' between SGHSCD and NHS Boards. These 'HEAT' targets cover four priorities outlined by the Scottish Government. These targets and the planned trajectories are included in the Local Delivery Plan (LDP), with specific identified risks for each target and related management delivery actions.

60. A review of the Board's LDP identified that the Board only recognises 18 of the 19 HEAT targets set by the SGHSCD within the plan. The HEAT target not included relates to the ability of the Board to operate within their Revenue Resource Limit, Capital Resource Limit and to meet their Cash Requirement. This target, and the risks involved, is considered separately within the Board's annual Financial Plan. Progress against this target is however reported alongside other HEAT targets within the mid-year and year-end 'Managing Our Performance' reports.

61. Of the 19 targets set out by the SGHSCD, seven were due for completion by March 2014. The Board's 'Managing Our Performance' year-end report showed that one HEAT target was not achieved as at the 31 March 2014. This target was: *To support shifting the balance of care, NHS Boards will achieve agreed reductions in the rates of attendance at A&E between 2009/10 and 2013/14.*

62. Additionally, the Board's performance against the *Reduce suicide rate between 2002 and 2013 by 20%* target has not been clearly stated within the year-end report.

63. We therefore looked at the Board's performance against these two indicators in more detail.

Reduce suicide rate between 2002 and 2013 by 20%

64. The national target, originally set out under Choose Life (2002) was to reduce the suicide rate between 2002 and 2013 by 20%. In December 2013, this target was reduced to 10% as advocated by the World Health Organisation.

65. NHS Borders provides detailed descriptions within its 'Managing Our Performance' reports of the initiatives in place to reduce suicides within the region. A brief outline of the current challenges faced, steps to address these issues and the next steps for the programme as a whole are also provided. The target trajectory set for NHS Borders is 14.2 suicides per 100,000 head of population. The report states that in the Borders region, the rolling average annual suicide rate is 15.9 per 100,000. However, it does not explain how this figure compares to the rate of suicides in 2013/14 in relation to prior years, or how it relates to the Board's target trajectory.

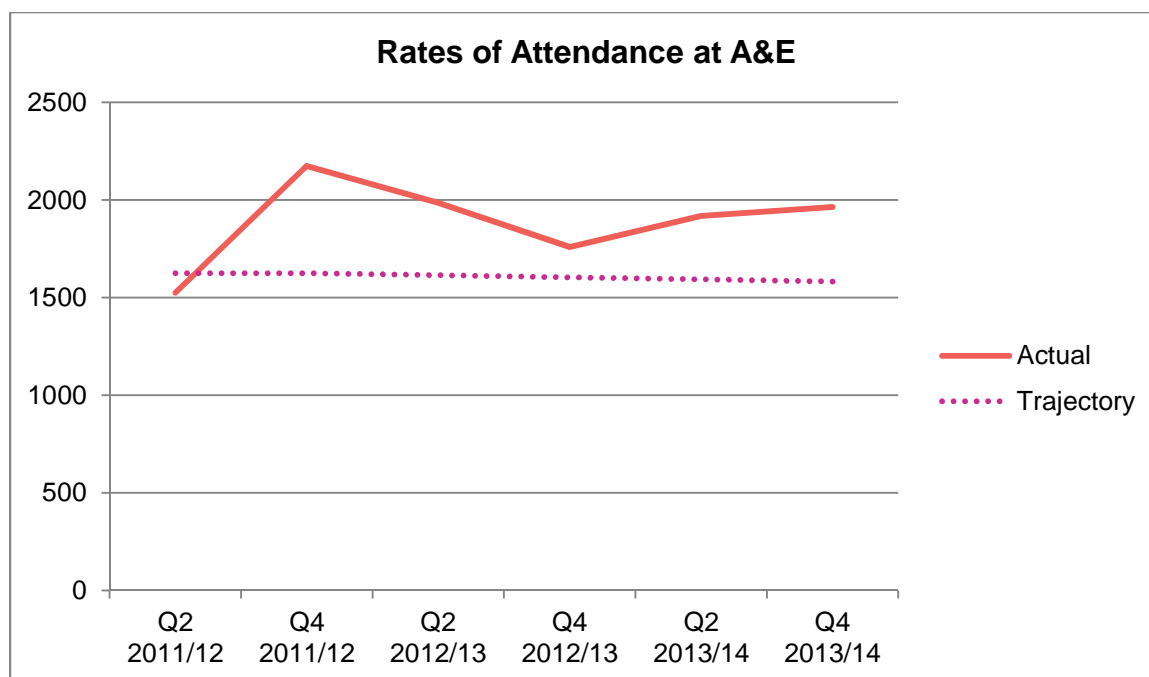
66. The Board must ensure that it monitors and reports on the impact of initiatives to reduce suicides. This will enable it to demonstrate that its actions are supporting continuous improvement and positive outcomes.

To support shifting the balance of care, NHS Boards will achieve agreed reductions in the rates of attendance at A&E between 2009/10 and 2013/14

67. In our 2011/12 and 2012/13 Annual Reports, we identified that the Board had failed to meet this HEAT target due to a significant increase in A&E attendance levels in the final quarter of the year. We recommended that management investigate the reasons for these increases and develop a detailed plan to proactively manage this area.

68. In response to our recommendation, and at the request of the Scottish Government, management developed a local Unscheduled Care Action Plan for 2013/14. The Plan was intended to aid implementation of actions to reduce patient reliance on A&E services. However, as at March 2014 the number of A&E attendances for NHS Borders was 1,964 against a target trajectory for the year of 1,582. Despite the additional measures proposed within the Unscheduled Care Action Plan, the Board continues to exceed this target. Board performance against this target between 2011/12 and 2013/14 is summarised in Chart 3.

Chart 3: Board performance against A&E attendance target 2011/12-2013/14



Source: Scott-Moncrieff, from figures provided by NHS Borders

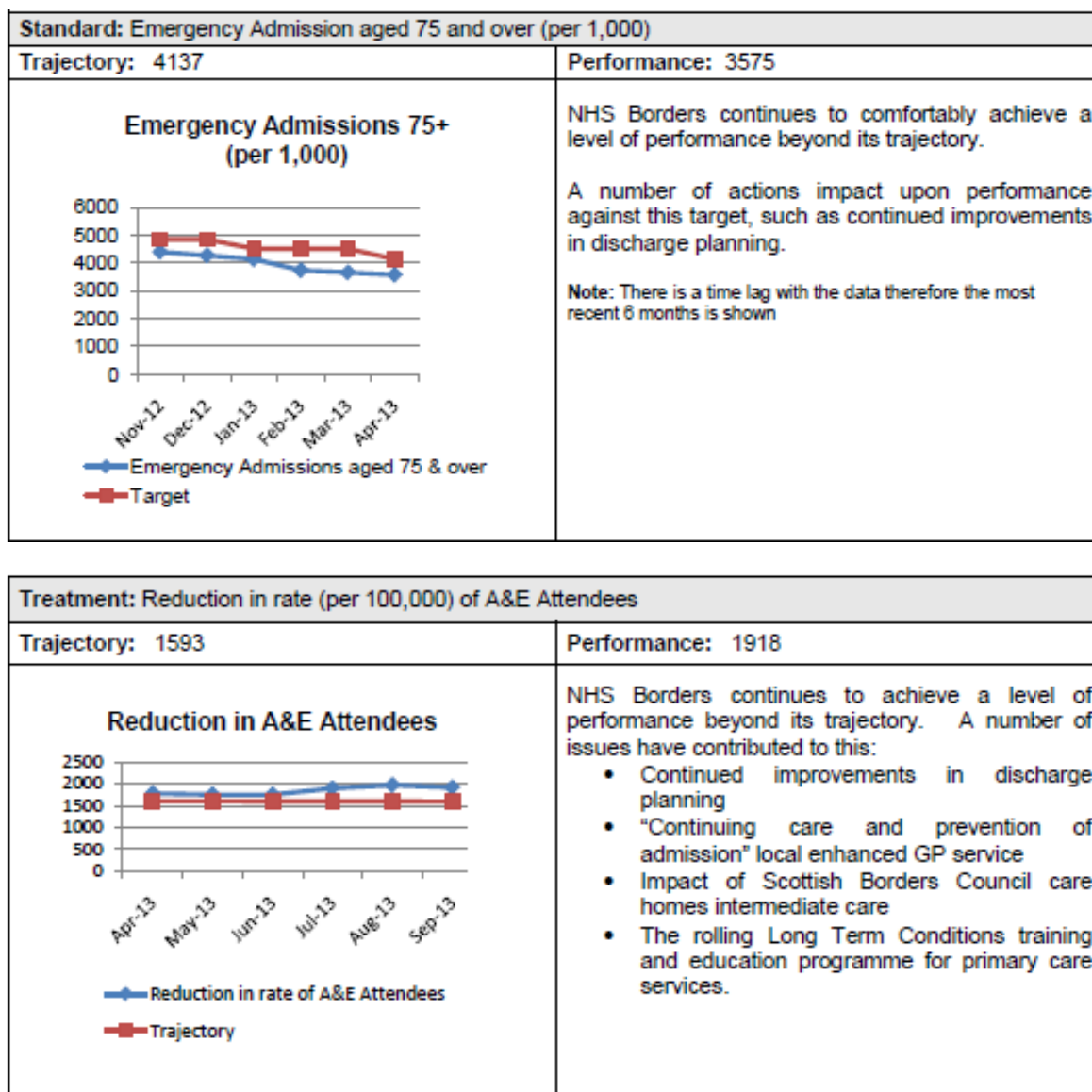
69. In the 2013/14 'Managing Our Performance' mid-year report, the Board set out a number of issues contributing to continued high levels of A&E attendances. These issues included: continued improvements in discharge planning, 'continuing care and prevention of admission' local enhanced GP service, impact of Scottish Borders Council care homes intermediate care, and the rolling Long Term Conditions training and education programme for primary care services. The end-of-year report states that *"the target agreed by NHS Borders was extremely ambitious given its positive performance when benchmarked against other Health Boards. There will be a continued focus in respect of patients who re-attend, and those who are admitted to medical wards through A&E"*.

Terminology within 'Managing Our Performance' Reports

70. Management utilise bi-annual 'Managing Our Performance' (MOP) reports to review the Board's performance against all HEAT targets applicable for the current financial year. Monthly HEAT Performance Scorecards review only those targets where data is readily available on a more frequent basis. For example, data on fluoride applications is only available on a quarterly basis, so it is only reported on twice a year.

71. Within the reports, some of the terminology used makes it unclear how NHS Borders is performing against target. For example, in the mid-year MOP, NHS Borders has commented in two instances that, 'NHS Borders continues to achieve a level of performance beyond its trajectory.' In one instance, the Board is on target and in the other the Board is not. Whilst the inclusion of graphs aids reader understanding of the current position, graphs are not included for every target. The following extracts from the Board's MOP demonstrate this point (Figure 1).

Figure 1: Extract from MOP report



Source: NHS Borders 'Managing Our Performance Mid-Year Report 2013/14

72. Similarly, in the end-of-year report, narrative is provided to report the performance of targets not reported on a monthly basis. This does not always clarify what the Board's actual performance against target has been for the year. In particular, no performance figures have been reported against the target to 'reduce suicide rate between 2002 and 2013 by 20%.'
73. In the Management Action Plan of our Annual Report 2012/13, management agreed that, 'where targets are due to be achieved in future years, any performance figures provided will show the actual against the targeted trajectory to aid on-going performance scrutiny and challenge.' The Board should ensure that the narrative provided to explain the performance target is explicit in illustrating the Board's current progress towards completion.

Action Plan Point 4

Best value toolkit – Vision and strategic direction

NHS Borders can demonstrate clear commitment to delivering best value in its vision and strategic direction

- 74.** We gained assurance that the organisation is achieving ‘better’ and elements of ‘advanced’ practice. There are opportunities for further enhancing the arrangements in place, as set out in detail in our separate best value report. These include further developing productivity and benchmarking processes, continuous development and explicit cross-referencing to NHS national priorities, demonstrating how the programmed approach has led to better use of resource and improved outcomes, and making all objectives as “SMART” as possible. Management are reviewing our recommendations and developing more detailed action plan in response.
- 75.** We also highlighted how health and social care integration offers opportunities and risks in taking forward the organisation’s vision and strategic direction, in collaboration with key partners.

Governance

- 76.** Corporate governance is concerned with the structures and processes for decision-making, accountability, control and behaviour at the upper levels of organisations. Through the Accountable Officer, the Board is 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.
- 77.** We have found that the Board has appropriate governance arrangements in place. Our audit work has included reviewing corporate governance arrangements as they relate to:
- systems of internal control;
 - risk management;
 - internal audit;
 - the prevention and detection of fraud and irregularity; and
 - standards of conduct and the prevention and detection of bribery and corruption.
- 78.** We have also considered the Board's progress with Health and Social Care integration.

Corporate governance and systems of internal control

- 79.** In line with ISAs we have considered the internal controls in place over the Board's key financial systems. 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. Whilst we identified a number of recommendations to further strengthen the control framework in place, these did not include any significant control deficiencies.
- 80.** The governance statement included within the Board's 2013/14 annual accounts does not disclose any material internal control weaknesses. We consider this assessment to be reasonable and in line with our audit findings. The Internal Audit annual report confirmed that the Accountable Officer has implemented a governance framework in line with required guidance sufficient to discharge the responsibilities of their role. Our audit work has not identified any further issues which we consider require to be disclosed in the governance statement.

Risk management

- 81.** A developed and integrated approach to risk management is a key feature of a robust system of internal control. The 2013/14 internal audit plan included a review of risk management arrangements at the Board. The findings of this review were presented to the Audit Committee in May 2014. Internal audit were able to provide adequate assurance that objectives are being met however a number of recommendations were made to further strengthen current arrangements. One high risk recommendation was made which referred to the arrangements for managing operational risks. This is in line with our observations initially made as part of our previous audit work, in which we identified that the responsibility for the management of operational risk was not made clear within the Board's risk management policy.

82. The Board has still to approve an updated version of the Risk Management strategy which incorporates the Healthcare Governance Strategy and Risk Management Policy. The consultation period for this document recently ended. It is important that this process is concluded as soon as possible and a new strategy is approved and implemented.

Internal Audit

83. An effective internal audit service is an important element of the Board's governance arrangements. The Board's internal audit service is provided through a shared service with NHS Lothian. During our audit we make use of the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the Board's audit resource.
84. Following the resignation in July 2013 of the NHS Lothian-based audit manager responsible for coordinating the NHS Borders internal audit service, PricewaterhouseCoopers (PwC) took forward the remainder of the 2013/14 audit plan. The NHS Lothian Chief Internal Auditor remained in post and was responsible for the oversight of the internal audit function. The Audit Committee expressed support for extending the current arrangement with PwC for a further six months and entering into a tendering exercise following this period.
85. 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 assurances from Audit Scotland's review of the NHS Lothian and NHS Borders shared service and our own consideration of the NHS Borders arrangements and compliance with Public Sector Internal Audit Standards, we have been able to take appropriate cognisance of the work performed and conclusions reached by internal audit. We are grateful to the NHS Borders internal audit team for their assistance during the course of our audit work.

Prevention and detection of fraud and irregularity

86. In accordance with the Code of Audit Practice, we have reviewed the Board's arrangements for the prevention and detection of fraud and irregularities. We have not identified any areas of significant concern from this review.

National Fraud Initiative

87. 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. We are required to consider the Board's arrangements for each NFI. In our interim audit we reported on the Board's approach to the most recent NFI exercise. We found that the Board had satisfactorily completed all investigations into the matches obtained however it had not recorded actions taken or reported outcomes on the NFI website tool. We are pleased to report that the Board met the deadline of 31 March 2014 for uploading this information onto the NFI website.

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

88. In our opinion, the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate and appropriate. We have reviewed the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for complying

with national and local Codes of Conduct. We have also considered the controls in place to ensure compliance with the regulatory guidance that is produced by the Scottish Government Health and Social Care Directorates (SGHSCD) throughout the year.

89. We have identified one opportunity for improvement. The Board Secretary maintains a spreadsheet detailing to whom each circular was issued and what action, if any, was taken. During our audit testing we found one instance in which the circular had not been forwarded on to the appropriate individual. In addition, for those circulars tested, we were unable to obtain sufficient evidence confirming what actions had been taken. The Board should ensure that it takes appropriate action and is able to evidence this for all key circulars issued by the SGHSCD. This will minimise the risk of non-compliance.

Action Plan Point 5

Health and Social Care integration

90. In May 2012 the Scottish Government released a formal consultation document on the integration of health and social care services for older people. Its response to the consultation was issued in February 2013. The resultant Public Bodies (Joint Working) (Scotland) Bill now requires local authorities and health boards to integrate health and social care services for all adults with the option of including other areas, such as housing or children's services.
91. The Board has agreed with Scottish Borders Council to adopt the 'body corporate' model. This will involve delegation of some of the Board's functions and resources to an integrated board. In line with the Scottish Government's direction for partnerships to have shadow arrangements in place from 1 April 2014 NHS Borders has formed an Integration Shadow Board, the first meeting of which was held on 28th April 2014.
92. In May 2014 a Chief Officer for Health and Social Care Integration in the Scottish Borders was appointed. Susan Manion is to take up the post from July 2014 and will be responsible for leading and managing the wide range of services and strategic programmes required to implement Integration. The Chief Officer will be directly accountable to the Chief Executives of NHS Borders and Scottish Borders Council, as part of the wider governance arrangements agreed by the partnership.

Appendix 1 - Management action plan

Our annual report action plan details the more significant control weaknesses and opportunities for improvement that we have identified during our audit, in addition to any reportable matters arising from our review of performance and governance systems.

The Board should assess these recommendations for their wider implications before approving the action plan.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Grading

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been graded, as follows:

Grade	Definition
Grade 5	Very high risk exposure - Major concerns requiring Board attention.
Grade 4	High risk exposure - Material observations requiring senior management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

No	Title	Issue Identified	Risk and Recommendation	Management Comments
1	Non-current assets (Paragraph 19)	The Board's Financial Control Procedure: Capital Accounting requires a sample of assets to be physically verified on a regular basis. However, no internal asset verification exercises have been carried out in 2013/14.	To ensure asset records are as accurate as possible, NHS Borders should comply with its Financial Control Procedure and perform regular asset verifications. The findings should be reported in the asset register. Grade 2	The Financial Control Procedure detailing the Asset Verification process will be reviewed, together with establishing where existing processes such as Medical Equipment Servicing can provide the required level of verification. A verification schedule will be compiled and the verification listed completed on an annual basis. Responsible officer: Deputy Director of Finance (Financial Accounting) Implementation date: 30 Sept 2014
2	Exit packages (Paragraph 20)	Evidence to demonstrate a valid obligation to settle exit package costs as at the 31 March 2014 could have been more robust. Further, whilst there was clear internal scrutiny of the packages during March 2014 (including discussion and approval at Remuneration Committee), documented evidence of liaison and approval through SGHSCD would improve the internal control framework.	To mitigate the risk of inappropriate accounting (which could lead to late adjustments to the Board's outturn position), NHS Borders should improve its documentation to show the existence of an obligation at year end and the extent of liaison with SGHSCD. Grade 3	A review of the Board's documentation in respect of Severance Packages will be completed. Revised documentation will be implemented to ensure the Board fully evidences all agreed financial obligations. Responsible officer: Director of Finance Implementation date: 30 Sept 2014

3	Consolidation (Paragraph 21)	<p>Whilst we have concluded that the consolidation is materially correct, the Board has made limited disclosure of certain internal transactions and balances with the Endowment Fund.</p>	<p>To mitigate the risk of incomplete disclosure, the Board should ensure all internal transactions and balances are fully disclosed in the financial statements.</p> <p>Grade 2</p>	<p>All Internal transactions and balances between the Board and the Endowment Fund will be fully disclosed within future midyear and yearend accounts.</p> <p>Responsible officer: Deputy Director of Finance (Financial Accounting)</p> <p>Implementation date: 31 Dec 2014</p>
4	Performance reports (Paragraph 73)	<p>Our review found areas where performance reporting narrative and status reporting could be further improved to support the review and scrutiny process.</p> <p>In 2012/13 management agreed that the next year-end MOP would include a 'RAG' status for all targets, including those not reported on a monthly basis. Any performance figures provided for future year targets would show the actual against the targeted trajectory.</p> <p>The 2013/14 year-end MOP does not include a 'RAG' status for targets not reported on a monthly basis, and the actual performance targets against trajectory has not been provided for all future year targets.</p>	<p>Performance management may not be as effective as possible, adversely impacting Board outcomes.</p> <p>We recommend the year end MOP performance report includes a 'RAG' status for all targets, including those not reported on a monthly basis. Where targets are due to be achieved in future years, any performance figures provided should show the actual against the targeted trajectory to aid on-going performance scrutiny and challenge.</p> <p>Grade 3</p>	<p>The 2013/14 MOP performance report included an agreed combination of performance information and supporting narrative.</p> <p>The 2014/15 mid year and year end performance reports will include performance information against all reported targets.</p> <p>RAG status positions will be included against all performance information.</p> <p>Where possible targeted trajectories will be provided for future year targets.</p> <p>Responsible officer: Head of Planning & Performance</p> <p>Implementation date: 30 November 2014</p>

5

**Scottish
Government
Circulars**

(Paragraph 89)

Through inspection of the circular tracking spreadsheet we found that one circular selected for testing had not been distributed to appropriate personnel. In addition, we were unable to find recorded details of the actions undertaken by the Board in response to those circulars.

Inadequacies in the distribution and management of actions taken in response to circulars increases the risk of the Board becoming non-compliant with emergent and changing legislation.

The circular tracking spreadsheet should be properly maintained and updated with actions taken. This will provide greater assurance that the Board is fully compliant with legislation.

Grade 2

The Chief Executive Office will implement the following processes

1. Circulars issued to the Board will be followed up on a regular basis with the appropriate Executive Director to confirm action has been taken.
2. Quarterly review against the Scottish Government circular list will be completed.

Responsible officer: Board Secretary

Implementation date: 30 June 2014

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