



NHS Health Scotland

Annual report on the 2013/14
audit to the Board and the
Auditor General for Scotland

June 2014



Scott-Moncrieff
business advisers and accountants



NHS Health Scotland

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Executive summary

Financial statements

NHS Health Scotland's annual accounts were approved by the Board on 25 June 2014. Our audit of the annual accounts is complete and our independent auditor's report is unqualified.

We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable and document requests. We are pleased to report that the audit process ran smoothly, and our thanks go to the finance team for their assistance with our work.

The annual accounts will be submitted to the Scottish Government and the Auditor General for Scotland prior to the 30 June 2014 deadline.

Use of resources and performance

The Board has met all of its key financial targets in 2013/14, reporting an under spend of £0.210 million against its revenue resource limit and a saving of £30,000 against its capital resource limit. The Board has a history of under spending against its revenue resource limit, however the reported level of under-spend continues to decrease year on year.

During 2013/14, the Board ran a voluntary severance scheme. The cost of this scheme was £0.716 million which had not been initially budgeted for. The Board met these costs as result of underspends in other budget areas. As part of our audit, we reviewed a sample of the payments made to individuals under the scheme and concluded that the payments made had been calculated and approved in line with Scottish Public Finance Manual guidelines.

The Board has consolidated from a five site model to one base in Glasgow and one base in Edinburgh. We have reviewed the accounting treatment and disclosures in relation to the estates strategy and concluded that they were in accordance with the Accounts Manual and Capital Accounts Manual. It is expected that the Board's previous Edinburgh base, Woodburn House, will transfer to NHS Lothian during 2014/15.

The Board expects to break even in each of the next three years. The core revenue resource available to the Board is forecast to decrease by 4.4% in 2014/15 with further decreases of 4.6% and 4.8% projected for the subsequent two years.

The Board has an established performance management framework. The Board receives reports on performance against the corporate plan, *A Fairer Healthier Scotland*, at every meeting. The financial and non-financial information available to the Board facilitates an effective level of scrutiny and challenge. 2013/14 was the second year of the Board's corporate plan and the Board reports that it remains on track to deliver its five year plan.

Governance

We have reviewed the Board's corporate governance arrangements, to ensure effective systems are in place for internal control, the prevention and detection of fraud and irregularity, standards of conduct and the detection and prevention of bribery and corruption. Our audit work identified no issues of concern in relation to these arrangements.

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 agreed with the Director of Resource Management and we would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff
June 2014

Introduction

1. This report summarises the findings from our 2013/14 audit of NHS Health Scotland ('the Board'). The scope of our audit was set out in our External Audit Plan, which was previously presented to the Audit Committee.
2. The main elements of our audit work in 2013/14 have been:
 - An audit of the financial statements, including a review of the Governance Statement; and
 - A review of governance arrangements, internal controls and financial systems.
3. As part of our audit, we have also made use of the work of other inspection bodies including the Board's internal audit service and Audit Scotland's Public Reporting Group.
4. The Board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors 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 members of the Board and to the Auditor General for Scotland and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Financial statements

Introduction

6. The annual accounts are the principal means of accounting for the stewardship of the resources made available to the Board. In this section we summarise the findings from our audit of the 2013/14 financial statements.

Overall conclusion

An unqualified audit opinion

7. The annual accounts for the year ended 31 March 2014 were approved by the Board on 25 June 2014. Our independent auditor's report includes:

- an unqualified opinion on the financial statements;
- an unqualified audit opinion on regularity; and
- an unqualified audit opinion on other prescribed matters.

8. We are also satisfied that there are no matters which we are required to report to you by exception.

Good administrative processes were in place

9. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to the finance team for their assistance with our work.
10. Arrangements are in place to enable the annual accounts to be submitted to the Scottish Government and the Auditor General for Scotland prior to the 30 June 2014 deadline.

Board members' responsibilities

11. It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder. This means:
 - applying on a consistent basis the accounting policies and standards approved for NHS Scotland by Scottish Ministers;
 - making judgements and estimates that are reasonable and prudent;
 - stating whether applicable accounting standards as set out in the Financial Reporting Manual (FRoM) have been followed, subject to any material departures disclosed and explained in the financial statements; and
 - preparing the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate.
12. Board members are responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Board and enable them to ensure that the accounts comply with the National Health Service (Scotland) Act 1978 and the

requirements of Scottish Ministers. They are also responsible for safeguarding the assets of the Board and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

13. 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 they give a true and fair view of the financial position of the Board and its net operating cost for the year then ended;
 - whether the financial statements, and the part of the Remuneration Report to be audited, have been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder;
 - whether expenditure and income has been applied and incurred in accordance with guidance from Scottish Ministers;
 - whether the information given in the Operating and Financial Review for the financial year is consistent with the financial statements;
 - whether the Board has kept proper accounting records, or if we have not received all the information and explanations we require for our audit; and
 - whether the Governance Statement complies with the guidance issued by Scottish Ministers and report if the statement does not comply with the guidance or if it is misleading or inconsistent with other information we are aware of from our audit.

Independence

14. International Standard on Auditing (UK & Ireland) 260, "communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
15. In 2013, Scott-Moncrieff provided NHS Health Scotland with employment taxation advice. This was provided by an independent partner and staff who have no involvement in the audit of the financial statements. Scott-Moncrieff also facilitated a seminar for the Board on "risk appetite" which was provided by an independent partner and staff with no involvement in the audit of the financial statements. All work undertaken was agreed in advance with the Firm's Ethics Partner.
16. We confirm that we have complied with APB Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement, the audit process is 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 Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

Key areas of audit focus and significant findings

17. As noted in our External Audit Plan the following audit risk areas were identified as significant matters and therefore considered in detail during our audit fieldwork.

Financial position

NHS Health Scotland has a history of under spending against its revenue resource limit (RRL). Although the Board underspent by £298,000 against its RRL in 2012/13 this is an improvement on prior years' performance. Close financial monitoring during 2012/13 led to NHS Health Scotland's individual directorates having no material variances reported against budgets.

To date, in 2013/14, the Board is experiencing an under spend against budget. A balanced budget has been set for 2013/14 and we understand that the Board are committed to achieving this.

Extract from our 2013/14 External Audit Plan

18. The Board has met all of its key financial targets in 2013/14, reporting an under spend of £0.210 million against its revenue resource limit and a saving of £30,000 against its capital resource limit.
19. During our audit we have considered the Board's financial position, related budgets and projections to ensure that they are soundly based. Overall, we have found that the Board has effective arrangements in place for financial management and the use of resources. Our findings are reported more fully in the 'use of resources and performance' section of this report.

Estates strategy

The Board is consolidating from a five site model to one base in Glasgow and one base in Edinburgh. The Board has moved into new Glasgow offices at Meridian Court. In 2013/14 the Board plans to move out of the leasehold properties at The Priory and Thistle House, dispose of Woodburn House, and relocate to Gyle Square, Edinburgh.

There is a risk that the associated costs/transactions are not accounted for correctly in the financial statements. Consideration will be given during our audit to, for example, the fit out costs associated with the move, provision for lease dilapidations on the existing leasehold properties and the disposal of Woodburn House.

Extract from our 2013/14 External Audit Plan

20. Consideration was given during our audit to the fit out costs associated with the move, provision for dilapidations on leasehold properties and the accounting treatment of Woodburn House. We noted the following during our audit:
 - The Board has recognised asset additions of £1.010 million in relation to the fit out costs for the new Edinburgh office at Gyle Square. We found the valuation and categorisation of these asset additions in the financial statements to be in accordance with the Capital Accounting Manual.
 - The Board exited the leased properties at Thistle House and the Priory during 2013/14 and the dilapidation costs associated with the move have been appropriately recognised in the financial statements.
 - At the balance sheet date, Woodburn House remained the Board's asset. We have reviewed the valuation and categorisation of Woodburn House in the financial statements and concluded that it was in line with the Capital Accounting Manual. It is expected that Woodburn House will transfer to NHS Lothian during 2014/15.
 - The Board moved in to its new Glasgow office, in Meridian Court, at the end of 2012/13. By the end of 2013/14 the Board had also moved into its new Edinburgh office, in Gyle Square. We have reviewed the accounting disclosures in relation to the leasehold properties and find them appropriate.

Community Food & Health Scotland and the Healthy Living Award

From 1 April 2013, two new teams have joined NHS Health Scotland – Community Food & Health Scotland and the Healthy Living Award. The financial plan for 2013/14 assumes additional funding of £1.2 million will be received for these two teams.

There is a risk that the income and expenditure associated with these teams is not disclosed and accounted for correctly in the financial statements.

Extract from our 2013/14 External Audit Plan

21. In September 2013, the Board received a recurring funding allocation of £1.171 million from the Scottish Government Health and Social Care Directorates (SGHSCD) for the two new teams. Future allocations in relation to these teams will be included within the Board's baseline allocation. The initial funding allocation received in 2013/14 was based on the full complement of staff being in place. Due to delays in achieving the full complement, the SGHSCD agreed to reduce the allocation by £100,000. The financial performance of the two new teams has been monitored through the Board's established budget monitoring framework. We have not identified any concerns with the accounting treatment adopted for the income and expenditure associated with these teams.

Revenue recognition

Under International Standard on Auditing (UK & Ireland) 240, "The auditor's responsibilities relating to fraud in an audit of financial statements" there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

Extract from our 2013/14 External Audit Plan

22. We have evaluated each material revenue stream, considered the Board's revenue recognition policy and carried out testing to ensure this is appropriate and has been applied. Satisfactory assurance has been gained in respect of the completeness and occurrence of revenue transactions in the year.

Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with International Standard on Auditing (UK & Ireland) 240, "The auditor's responsibilities relating to fraud in an audit of financial statements".

Extract from our 2013/14 External Audit Plan

23. We have reviewed the accounting records and did not identify any significant transactions outside the normal financial control processes. We did not identify any evidence of management override. Satisfactory assurance has been gained in respect of the mitigation of this risk.

Audit issues identified during our audit fieldwork

24. During the course of our audit work we noted the following:

NHS Superannuation Scheme

25. The Board participates in the NHS Superannuation Scheme for Scotland. All NHS Boards in Scotland participate in this defined benefit scheme in which contributions are credited to the Exchequer and are invested in a portfolio of Government securities. Due to the multiple participants and the pooling of contributions it has been the case that Boards are unable to identify their share of the underlying assets and liabilities on any reliable or reasonable basis. The scheme is therefore accounted for as if it were a defined contribution scheme with the only accounting entry being to the statement of comprehensive net expenditure for the Board's contributions payable during the year.
26. The amount charged to the statement of comprehensive net expenditure represents the Board's contributions payable to the scheme in the year, determined by an actuarial valuation. However, the most recently published actuarial valuation was at 31 March 2004. Given that the scheme ought to be subject to a full actuarial valuation every five years, a more up to date valuation should have been received by now and reflected in the 2013/14 accounts. The periodic actuarial valuation is essential to determine the adequacy of employer and employee contributions to the scheme.
27. In common with all health boards in Scotland, the information in relation to the scheme is out of date. There is a risk that, as the level of employer's contributions have not recently been revised, the current contribution levels may not be sufficient to meet the future commitments of the pension scheme. The NHS Directors of Finance group has requested an updated valuation for the scheme from the Scottish Public Pensions Agency. We endorse this action and encourage the Board to continue with efforts to obtain an updated valuation.

Audit Adjustments

28. The audit identified some disclosure and presentational adjustments. We are pleased to report that all the identified adjustments have been reflected in the financial statements. None of the adjustments identified had an impact on the Board's net operating cost for the year.

Board representations

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

Qualitative aspects of accounting practices and financial reporting

30. During our audit we have considered the qualitative aspects 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.

Consideration of the qualitative aspects of the financial reporting process

Qualitative aspect considered	Audit conclusion
<p>The appropriateness of the accounting policies used.</p>	<p>The significant accounting policies, which are disclosed in the financial statements, are considered appropriate to the Board.</p>
<p>The timing of the transactions and the period in which they are recorded.</p>	<p>We did not identify any significant transactions where we had concerns over the timing of the transaction or the period in which they were recognised.</p>
<p>The appropriateness of the accounting estimates and judgements used.</p>	<p>The accounting estimates and judgements used by management in the preparation of the financial statements are considered appropriate. The principal areas of estimates and judgements have been: property valuations and asset depreciation rates. Where appropriate, the Board have utilised the work of independent experts or industry practice to support the estimates made.</p>
<p>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.</p>	<p>We have not identified any uncertainties, including any significant risk or required disclosures, that should be included in the financial statements.</p>
<p>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.</p>	<p>From the testing performed, we identified no significant unusual transactions in the period.</p>
<p>Apparent misstatements in the directors' report or material inconsistencies with the financial statements.</p>	<p>There has been no misstatement or material inconsistency with the financial statements included in the annual report.</p>
<p>Any significant financial statement disclosures to bring to your attention.</p>	<p>There are no significant financial statement disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p>
<p>Disagreement over any accounting treatment or financial statement disclosure.</p>	<p>There was no material disagreement during the course of the audit over any accounting treatment or disclosure.</p>
<p>Difficulties encountered in the audit.</p>	<p>There were no significant difficulties encountered during the audit.</p>

Use of resources and performance

31. 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, we have found that the Board has effective arrangements in place for financial management and the use of resources. Our conclusions are based on a review of the Board's financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets.

The Board's financial performance in 2013/14

The Board has met all of its key financial targets in the year

32. The Board has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD). As shown below, the Board has met all of its key financial targets in 2013/14.

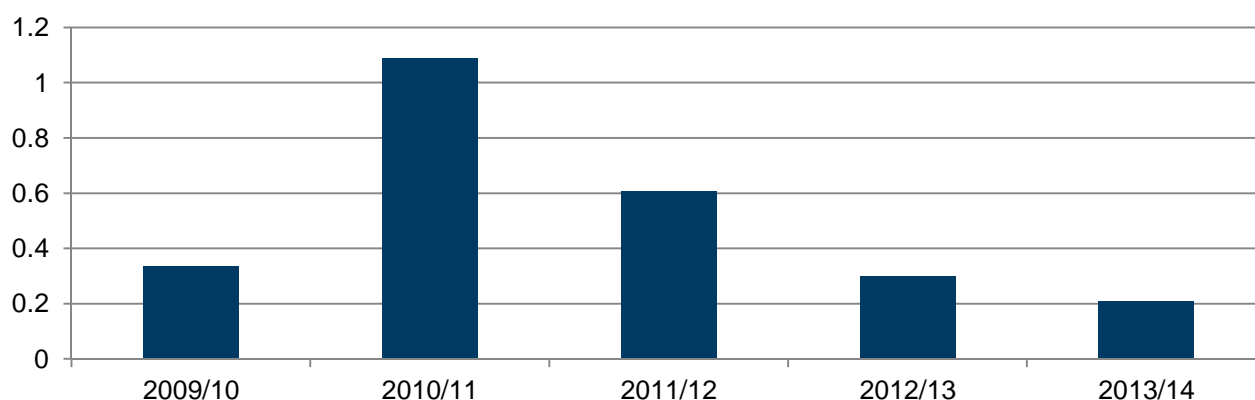
Performance against key financial targets

	Target (£'000)	Actual (£'000)	Saving (£'000)	Target achieved?
Core revenue resource limit	21,282	21,072	210	Yes
None-core revenue resource limit	219	219	0	Yes
Capital resource limit	1,010	980	30	Yes
Cash requirement	21,000	20,339	661	Yes

(Source: Annual Accounts for the year ended 31 March 2014)

33. The Board has underspent against its revenue resource limit (RRL) by £0.210 million (1%). This outcome has been agreed with the SGHSCD although the Board's Local Delivery Plan (LDP) had forecast that a break even position would be achieved in 2013/14.
34. For 2013/14 the Board received an uplift in funding of approximately 1% which was offset by the requirement to deliver 5% efficiency savings. The Board does not separately monitor and report efficiency savings. Instead, the Board sets a balanced budget which takes in to account the savings that it is required to make in the year. For 2013/14 the Board were tasked with achieving savings of £1.009 million (4.5% of RRL). The achievement of these savings is reported within the Board's outcome position.
35. The Board has a history of under spending against its RRL, however the reported level of under-spend continues to decrease year on year.

Figure 1: Historical under spends against RRL (£m)



36. The 2013/14 under spend against RRL (£0.210 million) comprises three elements; £0.156 million underspend on staff costs, £49,000 underspend on project costs, and £5,000 additional income being generated. This is contrary to previous years, where the Board's underspend was largely driven by lower than expected project costs.
37. The Finance Team monitors staff costs and project expenditure at a cost centre level. The number of cost centres in place broadly correlates to the number of planned projects for the year. We performed a high-level analysis of the number of cost centres being monitored in each of the previous three years to ascertain if there were any trends between the under spends reported and the amount of active cost centres being monitored. We noted the following:
- During 2011/12, the number of non-pay and non-support cost centres was 235 (that year's underspend position was £0.600 million).
 - In 2012/13 the number of comparable cost centres had fallen by 12% to 207 cost centres (underspend of £0.298 million).
 - In 2013/14 the number of comparable cost centres had fallen by a further 32% to 141 (underspend of £0.210 million).
38. There is a trend over the last three years of both the number of cost centres in place and the outturn under spend reducing. This is consistent with the ethos underpinning the Board's Corporate Strategy 2012-17, *A Fairer Healthier Scotland*, where the Board took the conscious decision to reduce the number of projects undertaken each year, with each project individually having a greater impact.
39. The Board has an internal policy that 95% of budgets must be fully committed by 31 January each year, and 99% of budgets must be either spent or fully committed by 31 March each year. The Board achieved these targets during 2013/14. As at 31 January 2014 the Board had committed 97% of its budget and as at 31 March 2014 the Board had spent or committed 99% of its budget.
40. As part of our discussions with budget holders, we discussed the budget setting and monitoring processes. The budget holders we met with were supportive of the budget setting processes, commenting that it provided them with sufficient autonomy to set realistic budgets.
41. The Board has a process in place whereby budget holders can 'bid' for additional funding or 'surrender' surplus funding they no longer require. This is to ensure any underspends are transferred to directorates where the resources are required. During meetings with a sample of four budget holders we discussed this process and the budget holders were unanimously supportive of it.

42. The finance team issues a monthly budget statement to each budget holder. Budget holders also have access to near-live budgetary data via the business planning tool. However, two of the budget holders we met with informed us that they also maintained their own financial records, recording all purchase orders and invoices on manual spread sheets. This is an inefficient use of time and resources and there is a risk that the information being held locally does not agree with that being held corporately. This could result in decisions being made on inaccurate or incomplete information. The Board should ensure that all budget holders are provided with sufficient information, support and training to ensure that the maintenance of local records is not required.

Action plan point 1

Voluntary severance scheme

43. During 2013/14, several staff departures were agreed and a voluntary redundancy scheme was also offered to staff. The total cost of the 20 exit packages incurred by the Board was £0.716 million, which had not been initially budgeted for. The Board met these costs as result of underspends in other budget areas. As part of our audit, we reviewed a sample of the payments made to individuals under the scheme and concluded that the payments made had been calculated and approved in line with Scottish Public Finance Manual (SPFM) guidelines. However, compromise and settlement agreements entered into by the Board included confidentiality clauses. Since 2012 the Board has included a standard confidentiality clause within compromise and settlement agreements. The clause includes an undertaking from both parties not to disclose the contents of the exit package. The clause does not however extend to a requirement on the exiting party to make 'no derogatory statements' regarding the former employer.
44. The SPFM states that in considering terms for severance, early retirement or redundancy packages any undertakings about confidentiality should leave transactions open to proper public scrutiny. There is a risk that the use of confidentiality clauses restricts the proper public scrutiny of exit packages offered by the Board. The Board should ensure that, in future, any exit packages agreed are structured to allow proper public scrutiny.

Action plan point 2

Capital Resource Limit (CRL)

The Board has achieved a saving of £30,000 against its CRL in 2013/14

45. The Board was given an initial capital allocation of £0.650 million at the outset of the year. This was subsequently increased to £1.010 million, with substantially all of the total allocation relating to the fit out costs for the Board's new Edinburgh office at Gyle Square. The Board has invested the full £1.010 million allocation in the year, however a small loss on disposal recognised on IT assets has resulted in a saving of £30,000 against the Capital Resource Limit (CRL). This position has been agreed with SGHSCD.

Future financial plans

46. As requested, the Board has submitted a Local Delivery Plan (LDP) to the SGHSCD covering the financial years 2014/15 to 2016/17. The detailed financial plan for 2014/15 has been approved by SGHSCD. The Board forecasts a break even position in each of the next three years. The core RRL available to the Board is forecast to decrease to £20.338 million (a reduction of 4.4%) in 2014/15 with

further decreases of 4.6% and 4.8% projected for the subsequent two years. The LDP highlights number of key assumptions and risks on the delivery of the plan, as outlined below.

Key assumptions and risks in the 2014-2017 LDP

Key assumption / risk	Risk rating	Potential financial impact
Planned workforce savings are achieved at 5% annually - as a result of failing to meet the efficiency savings and measures required of us and our partners, we cannot deliver the agreed outcomes we have set for <i>A Fairer Healthier Scotland</i> .	Medium risk	£0.583 million
Business improvement and agile working across the 2 sites is successful - as a result of not introducing more efficient working practices and technologies, there is a risk of missing opportunities for greater efficiency.	Low risk	£0.250 million
There is a risk that non-core funding anticipated is not received - decisions are awaited from various Scottish Government departments.	Low risk	£0.200 million
As a result of inadequate financial performance management, there is a risk that we fail to meet our financial and efficiency savings targets.	Low risk	£0.150 million

(Source: NHS Health Scotland 2014/15 Local Delivery Plan)

Cost pressures

47. The Board makes a range of assumptions when producing its LDP. The principal assumptions made are:
- available resources (not inclusive of any savings required) will rise by 1% year on year;
 - base pay costs will rise by 1% year on year
 - incremental drift on pay costs will be 3.8% in 2014/15, 2.4% in 2015/16 and 1.4% in 2016/17; and
 - other costs will rise by 2% year on year.
48. The incremental drift cost assumptions are slightly higher than those we have noted in comparable Boards for the 2013/14 financial year. However, they do not appear to be unreasonable given the cost pressures recognised by the Board this year. The incremental drift assumption has been based on detailed workings derived from the Board's full payroll costs. The other assumptions noted are broadly in line with the average rates applied by comparable bodies in the sector in 2013/14 and appear to be reasonable and consistent with our understanding of the Board's financial position.

Performance Management

49. The Board has an established performance management framework. The Board receives reports on performance against the corporate plan, *A Fairer Healthier Scotland*, at every meeting. The financial and non-financial information available to the Board facilitates an effective level of scrutiny and challenge.

50. 2013/14 was the second year of the Board's corporate plan and the Board reports that it remains on track to deliver its five year strategy. The Board's performance targets are adapted from the Scottish Government's Health, Efficiency, Access and Treatment (HEAT) targets and standards. The most recent performance report available (quarter 4, reported May 2014) shows that seventeen of the original twenty five team work plans have been progressed in line with the original plan. The remaining eight team work plans have been progressed under a revised plan. Two of the twenty five work plans reported a minor underspend. The full annual impact report is expected to be reported to the Board in June 2014.

51. The Board maintains a best value framework that records the arrangements it has in place to deliver against each of the seven best value themes. The framework identifies the lead for each aspect of best value work along with measures/expected outcomes, timescales, and evidence/outcomes.

Governance

52. 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 and the Board, NHS Health Scotland 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.

Governance arrangements

53. During 2013/14 the Employee Director left the organisation and a new Employee Director was inducted to the Board. One non-executive member came to the end of her term of appointment on 31 March 2014. There have been no further significant changes to the governance arrangements. We have found that the Board has appropriate governance arrangements in place. We reported our conclusions on the Board's governance arrangements through our interim audit report. Our work involved reviewing the Board's arrangements for:

- systems of internal control;
- risk management;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and the prevention and detection of bribery and corruption.

Systems of internal control

54. In line with International Standards on Auditing (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. We found the internal financial controls to be generally well designed and operating effectively.
55. The governance statement included within the Board's 2013/14 annual accounts does not disclose any material internal control weaknesses. This is consistent with the opinion given in the internal audit annual report which stated that "*The Board has adequate and effective internal controls in place*". Our audit work has not identified any issues which we consider require to be disclosed in the governance statement.

Internal audit

56. An effective internal audit service is an important element of the Board's governance arrangements. The Board's internal audit service is provided by Fife, Tayside and Forth Valley Audit and Management Services (FTF). In accordance with ISAs we have considered the function provided by FTF and have concluded that we are able to place reliance upon their work. This assessment has been informed by the work of Audit Scotland (the lead external auditor for boards that are part of the FTF consortium). To avoid duplication of effort and to ensure an efficient audit process, we have made use of internal audit work where appropriate and we are grateful to the FTF internal audit team for their assistance during the course of our audit work.

Risk management

57. Internal audit reviewed the Board's risk management arrangements during the year. They evaluated and reported on the Board's risk maturity and considered whether the risk management processes are effectively embedded at a directorate level. Internal audit concluded that the Board's risk management arrangements were adequate. Seven recommendations were raised following the review however all were graded as low to medium risk with no significant deficiencies in control being identified.
58. To help the Board describe its risk appetite it commissioned Scott-Moncrieff to facilitate two risk workshops. The first workshop involved the Board and corporate management team. The second workshop involved the Senior Leadership Group (SLG). The workshops identified that for every category of risk, the Board's risk appetite was higher than both the Board's and the SLG's perceived current levels of risk taking. As a result of the workshops, the Board was advised to revise its risk management arrangements in light of the agreed risk appetites.

Prevention and detection of fraud and irregularity

59. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. During the year we have found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

National Fraud Initiative

60. 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 participation in the NFI exercise. In our interim audit we reported that the Board's approach to the most recent NFI exercise (2012/13) was satisfactory with little or no scope for improvement. The Board did not report any outcomes from the 2012/13 NFI exercise.

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

61. In our opinion the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are in line with our expectations. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and 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 SGHSCD throughout the year.

Appendix 1 - action plan

Our action plan details the control weakness that we have identified during the course of our audit. The action plan details the officers responsible for implementing the recommendation and the implementation date.

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. Our communication of these matters does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Grading

The grading structure for our recommendations is as follows:

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

No	Title	Issue identified	Risk and recommendation	Management comments
1.	Budget management (paragraph 42)	The Finance Team issues a monthly budget statement to each budget holder. Budget holders also have access to near-live budgetary data via the business planning tool. However, two of the budget holders we met with informed us that they also maintained their own financial records, recording all purchase orders and invoices on manual spread sheets.	<p>This is an inefficient use of time and resources and there is a risk that the information being held locally does not agree with that being held corporately. This could result in decisions being made on inaccurate or incomplete information.</p> <p>The Board should ensure that all budget holders are provided with sufficient information, support and training to ensure that the maintenance of local records is not required.</p> <p>Grade 2</p>	<p>This recommendation is accepted.</p> <p>Actions will be taken to determine the extent to which budget holders are maintaining individual financial records, then to work with these budget holders in order to eliminate any perceived need for, and use of, such records.</p> <p>Responsible officer: Director of Resource Management / Management Accountant</p> <p>Implementation date: 30 September 2014</p>

No	Title	Issue identified	Risk and recommendation	Management comments
2.	Voluntary severance scheme (paragraph 44)	<p>During 2013/14, several staff departures were agreed and a voluntary redundancy scheme was also offered to staff. The total cost of the exit packages incurred by the Board was £0.716 million.</p> <p>The SPFM states that in considering terms for severance, early retirement or redundancy packages any undertakings about confidentiality should leave transactions open to proper public scrutiny. However, compromise and settlement agreements entered into by the Board included confidentiality clauses.</p>	<p>There is a risk that the use of confidentiality clauses restricts the proper public scrutiny of exit packages offered by the Board.</p> <p>The Board should ensure that, in future, any exit packages agreed are structured to allow proper public scrutiny.</p> <p>Grade 4</p>	<p>This recommendation is accepted.</p> <p>The Board is aware of new guidance from the Scottish Government which came into effect from 1 April 2014. Any exit packages agreed since that date will be structured appropriately and in compliance with the new guidance.</p> <p>Responsible officer: Director of Equality, People & Performance.</p> <p>Implementation date: 1 April 2014, ie implemented and now in place.</p>

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