



# Borders Health Board

## External Audit Annual Report to the Board & the Auditor General for Scotland 2014/15

July 2015



**Scott-Moncrieff**  
business advisers and accountants

# Borders Health Board

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# Executive summary

## Financial Statements

The Board approved the annual accounts for 2014/15 on 25 June 2015 and the accounts were submitted to the Scottish Government and Auditor General by the deadline of 30 June 2015. We reported, within our independent auditor's report, unqualified opinions on the financial statements, the regularity of transactions and on other prescribed matters. We were also satisfied that there were no matters which we were required to report by exception.

The audit identified some disclosure and presentational adjustments that were reflected in the final financial statements with the exception of one unadjusted difference. The adjustments, taken individually and in aggregate, did not have any effect on the Board's reported financial outturn for the year.

## Use of Resources

The Board met all of its key financial targets in the year, achieving a saving of £76,000 (0.04%) against its Revenue Resource Limit. The saving was consistent with the planned outturn agreed with SGHSCD through the 2014/15 Local Delivery Plan.

The Board has achieved its overall savings target for the year, making efficiency savings of £5.404million. The Local Delivery Plan forecasts a breakeven position in each of the next three years. Given the Board's good track record of achieving its efficiency savings targets we consider that it remains in a strong position to manage its finances going forward.

## Performance

The Board has an effective performance management framework in place that is aligned with the Local Delivery Plan and corporate objectives. This has enabled the Board to remain well-informed of organisational performance. While it has not been able to meet all of its HEAT targets in 2014/15, wherever performance has been below target the Board has received narrative explanations including planned remedial actions.

## 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. The draft integration scheme has been submitted for approval by Scottish Ministers and work is underway to develop the strategic plan. Assurance over the process has been provided by the internal audit function of the Scottish Borders Council and a summary of progress to date has been included within the Board's Governance Statement.

## Conclusion

This report concludes our audit for 2014/15. 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 2015**

# Introduction

1. Our 2014/15 audit work at Borders Health Board, commonly known as NHS Borders, covered the Board's arrangements for managing resources, performance management and governance, in addition to our audit of 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. Summary information on the scope is included in Appendix 2 to this report.
2. The main elements of our audit work in 2014/15 have been:
  - Audit of the financial statements, including a review of the Governance Statement;
  - Review of governance arrangements, internal controls and financial systems;
  - Review of the Board's best value self-assessment of its community engagement;
  - Review of the Board's participation in the National Fraud Initiative; and
  - Collation of information on the Board's financial capacity and the use of temporary staff.
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 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](http://www.audit-scotland.gov.uk).

# Financial statements

## Introduction

6. The Board's annual financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the Board and the auditor in relation to the financial statements are outlined in Appendix 3.

## Overall conclusion

### An unqualified audit opinion

7. The annual accounts for the year ended 31 March 2015 were approved by the Board on 25 June 2015. We have reported within our independent auditor's report:
  - an unqualified opinion on the financial statements;
  - an unqualified audit opinion on regularity;
  - 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.

## Key areas of audit focus and significant findings

9. 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.
10. We are required by auditing standards 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 to the Audit Committee on 16 June 2015.

### Audit Risk 1 - Financial position

In our External Audit Plan we recognised that there was a risk that delivery of the Board's efficiency savings plans and related financial pressures was to the detriment of services and / or its ongoing financial health.

11. We have reviewed the Board's financial position, savings, related budgets and projections to ensure that they are soundly based.
12. We found that the Board has good arrangements in place for managing its financial position and its use of resources in the context of an increasingly challenging funding environment. The £76,000 surplus against the Board's Revenue Resource Limit (RRL) in 2014/15 represents an underspend of just 0.04%. Financial planning arrangements and performance through the year continues to be scrutinised by operational reporting arrangements and in addition by a dedicated Oversight Group, which is a sub-committee of the Audit Committee.

## Audit Risk 2 - Funding allocations

In our External Audit Plan we recognised the risk related to the accounting treatment for particular strands of Scottish Government funding. In particular, there were risks in relation to ring-fenced allocations and those received from SGHSCD late in the financial year.

13. We carried out appropriate audit testing to assess the Board's compliance with specific conditions of funding attached to certain Scottish Government Health and Social Care Directorates (SGHSCD) allocations, including reviewing allocations and considering how the Board has earned the related funding.
14. We did not identify any reportable issues in the Board's utilisation of allocated funding. All specified terms and conditions tested had been complied with.

## Audit risks 3 & 4 - Revenue recognition & management override

Auditing standards require us to presume that there is a risk of fraud in relation to revenue recognition. Management override is also a presumed risk under auditing standards. Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

15. We have evaluated each type of revenue transaction and carried out testing to confirm that the Board's revenue recognition policy is appropriate and has been applied correctly. Additionally, following specific audit testing we identified no indication of management override.

## Unadjusted difference and Board representations

16. We identified one unadjusted difference from the audit. The Board has accrued £0.785 million for payments expected to be made in respect of leave enhancement for certain categories of staff. Based on our review of available evidence, we are comfortable with this value but believe the accounting entry would be more accurately recorded as a provision rather than as an accrual, as we believe there are significant uncertainties regarding the timing and amounts of any potential payments. There would be no impact on the Board's outturn against RRL.
17. This difference is not considered to be material to the financial statements and, through discussions with the Director of Finance, the decision was taken not to adjust the annual accounts. Given its immaterial nature, this has no impact on our audit opinion.
18. This unadjusted difference was included within a signed representation letter, presented to us at the date of signing the financial statements.
19. The audit identified some additional disclosure and presentational adjustments which were reflected within the final financial statements. The adjustments, taken individually and in aggregate, did not have any effect on the Board's reported financial outturn for the year. The adjustments primarily related to:

The presentation of the new provision in respect of the CNORIS risk indemnity scheme

Restatement of the VAT recoverable amount

Reversal of a transfer between the Revaluation Reserve and General Fund in respect of Huntlyburn House

Amendments to the cash flow statement

Reclassification of payables balances

## Qualitative aspects of accounting practices and financial reporting

20. We have considered 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. Our findings are summarised below.

### The accounting policies used

- The significant accounting policies, which are disclosed in the financial statements, are considered appropriate to the Board.

### The timing of the transactions and the period in which they are recorded.

- We did not identify any concerns over the timing of transactions or the period in which they were recognised.

### The accounting estimates and judgements used

- The accounting estimates and judgements used by management in preparing the financial statements are considered appropriate.

### The potential effect on the financial statements of any uncertainties, including significant risks

- We have not identified any uncertainties, including any significant risks, which should be included in the financial statements (beyond the existing disclosures made).

### The extent to which the financial statements have been affected by unusual transactions

- From the testing performed, we identified no significant unusual transactions in the period.

### Apparent misstatements in the annual report or inconsistencies with the financial statements

- We noted no such issues between the financial statements and management commentary.

### Any significant financial statement disclosures to bring to your attention

- There are no significant financial statement disclosures that we consider should be brought specifically to your attention.

### Disagreement over any accounting treatment or financial statement disclosure

- There was no material disagreement during the course of the audit over any accounting treatment or disclosure.

### Difficulties encountered in the audit

- There were some initial difficulties in obtaining audit working papers of the detail and quality expected. See below for further details. There were no other significant difficulties encountered.



## Quality and availability of working papers

21. There were significant changes in the finance team during the year, particularly amongst those most directly involved in the preparation of the accounts and the audit process. This resulted in difficulties ascertaining how account balances had been generated and obtaining adequate supporting documentation as audit evidence. In addition, a number of erroneous accounting entries were identified. The erroneous entries did not have a financial impact and on discussion with the Board, they were corrected.
22. Changes in personnel can be expected year on year. However, the Board should ensure that knowledge is retained as far as possible, to facilitate a smooth transition and help ensure as efficient an audit process as possible.

*Action Plan Point 1*

# Use of resources

## Overall conclusion

The Board has effective arrangements in place for financial management and the use of resources

23. Overall, we found that the Board has effective arrangements in place for financial management and the use of resources. Our conclusion is based on a review of the Board's financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets. Each of these elements is discussed in more detail below.

## The Board's financial performance in 2014/15

The Board met its key financial targets in the year

24. The Board has to work within the resource limits and cash requirements set by the SGHSCD. As shown below, the Board met all of its key financial targets in 2014/15.

Financial Target	Target £'000	Actual £'000	Underspend £'000	Target Achieved?
Core revenue resource limit	204,102	204,031	71	Yes
Non-core revenue resource limit	4,573	4,568	5	Yes
Capital resource limit	1,581	1,573	8	Yes
Cash requirement	213,000	212,300	700	Yes

### A saving of £76,000 against total RRL

25. The Board achieved a saving against its RRL of £76,000. This surplus is in line with the break even position forecast in the 2014/15 Local Delivery Plan (LDP).

26. The Board also made a saving of £8,000 against its Capital Resource Limit (CRL) of £1.581million and achieved its Cash Requirement target.

### Capital Resource Limit

27. The Board received an initial capital resource allocation of £4million in 2014/15. This reduced to £1.581million by the year end, principally due to anticipated capital receipts (£0.595million), re-profiling of specific project spend (£0.750million) and capital to revenue transfers in February 2015 and March 2015 (£1.005million). The Board invested its full core capital allocation in assets during the year. The spread of main spend is shown below (including resources from capital receipts):

Medical equipment  
£0.554million

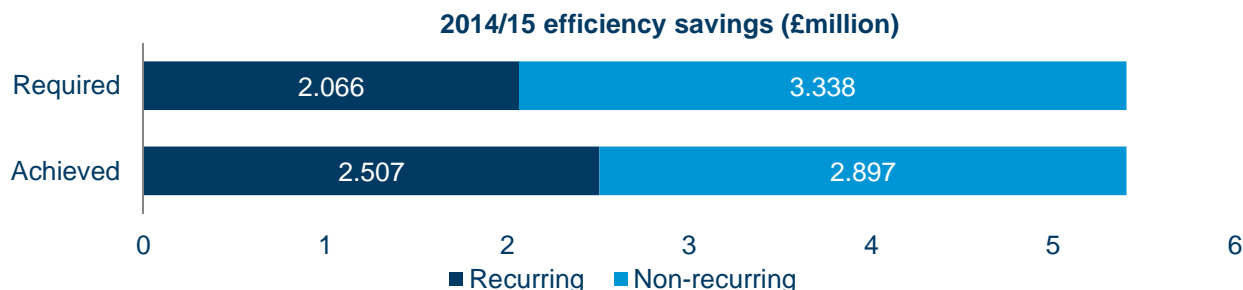
Plant and machinery  
£0.777million

IM&T projects  
£0.245million

# Efficiency Savings

## The Board achieved its savings target for the year

28. In line with all territorial health boards, NHS Borders was tasked with making efficiency savings totalling 3% of its baseline RRL in 2014/15. This equated to £5.404million, split between £2.066million recurring savings and £3.338million of non-recurring savings.



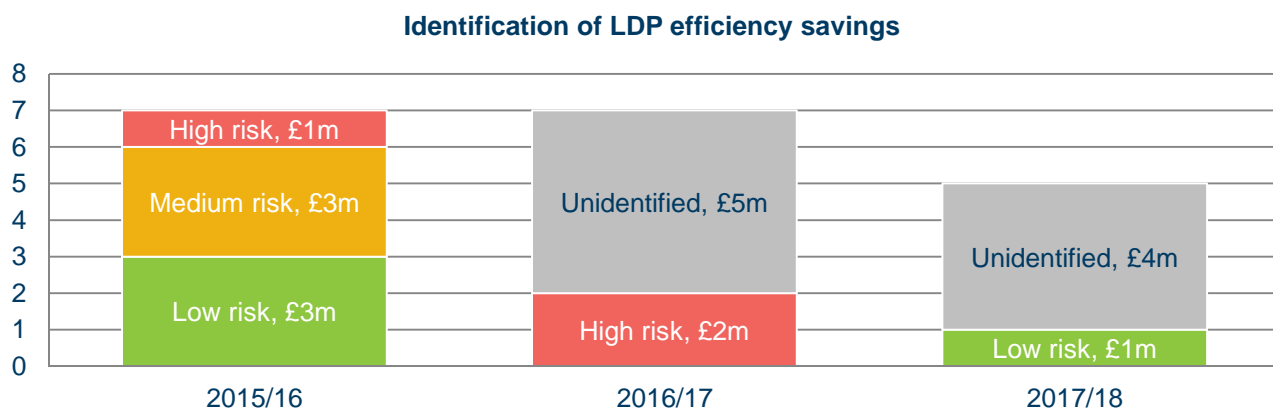
29. The Board achieved its overall savings target for the year, making total efficiency savings of £5.404million. 86% of the total savings made (£4.625million) were cash releasing and 14% (£0.779million) were due to non-cash releasing productivity gains. Overachievement against the recurring savings target (by 21%) puts the Board in a strong position going forward. The ever-increasing challenge will be to continue to deliver 3% efficiency savings year on year, in the face of increasing pay and prescribing costs and demand. This is discussed in more detail below.

## Financial plans, funding and cost pressures

30. The Board has submitted an LDP to the SGHSCD outlining financial plans to 2017/18. The LDP forecasts a breakeven position against RRL for each of the next three financial years. The Board expects core RRL to rise by 1.8% in 2015 and 1.6% thereafter.

### The Board has identified all efficiency savings required to deliver the 2015/16 LDP

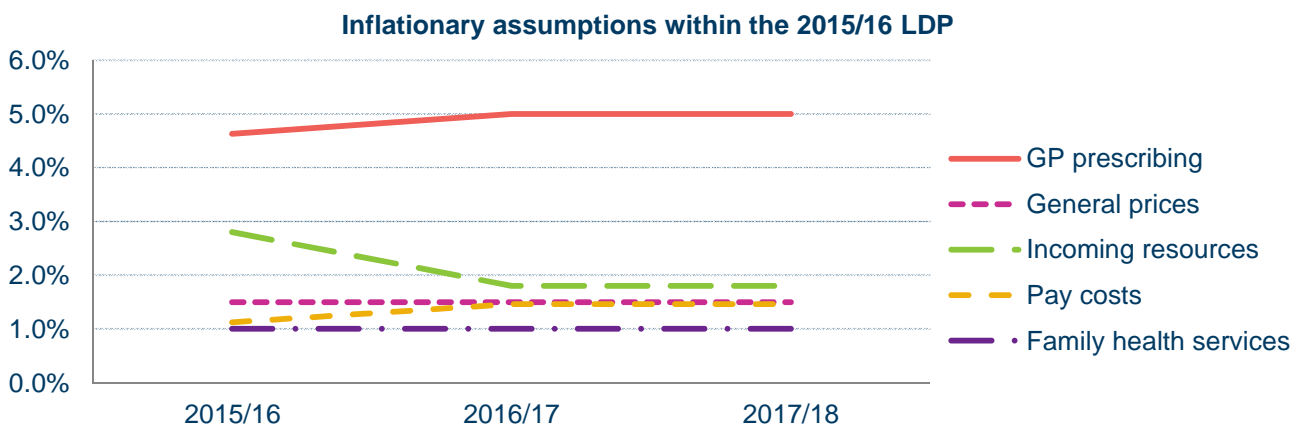
31. Although small increases in the core RRL are anticipated over the three year LDP, the Board is still expected to make efficiency savings of around 3% in each year of the plan. The Board has identified an efficiency plan to the level required to deliver its savings target in 2015/16. To date, the Board has still to identify 75% of the savings required for both 2016/17 and 2017/18.



32. The Board has a good track record of achieving its efficiency savings targets and the proportion of unidentified savings to 2017/18 is in line with projections made in previous years. In order to ensure that this record continues, the Board now needs to identify how the required savings will be made in the remaining two years of the LDP.

**The Board continues to face significant cost pressures, but is projecting a breakeven position for the next 3 years**

33. The Board makes a range of assumptions in its LDP. These include estimates of increases in prescribing costs, general prices, incoming resources, pay costs, and family health services costs. The financial assumptions made by the Board are generally in line with the rates applied by comparable bodies that we are aware of and appear to be reasonable and consistent with our understanding of the Board’s financial position.



34. NHS Borders has assessed each of the main drivers which influence expenditure in order to forecast additional expenditure in 2015/16. A total of £11.561 million has been incorporated within the financial plans for 2015/16. The two main areas of cost pressure are prescribing cost growth (£3.509 million) and pay increases (£2.378 million, including employer’s superannuation costs). Other areas include the estimated impact of patient activity on contracts with external providers (£2.216 million), spending on national initiatives (£1.357 million, including integration) and further service development (£0.681 million). The LDP also identifies a range of assumptions and risks which underpin the financial projections and related plans.

35. 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, in order to promptly identify any areas in which assumptions may need to be changed.

# Performance

## Overall conclusion

### NHS Borders has an effective performance management framework

36. An effective performance management system is vital to ensure the delivery of safe, effective, sustainable, person-centred care. The Board's performance management framework is aligned with its LDP and corporate objectives. During 2014/15, performance was reported to the Board regularly covering a range of metrics including finance, waiting times, patient safety, Health, Efficiency, Access and Treatment (HEAT) targets and the progress against the corporate plan.

## Scottish Government targets and standards

37. The Board of NHS Borders remains well-informed on current progress towards its LDP and its HEAT targets. At each meeting the Board receives performance reports showing progress towards achievement of the range of national targets set through the LDP process. In addition, a Managing Our Performance (MOP) report is reviewed by the Board at both the mid-point and the end of each financial year. The MOP reports include an assessment of performance in relation to the HEAT targets, contributions to the Single Outcome Agreement and Corporate Objectives.

38. The LDP is the annual delivery contract between the Board and Scottish Government. In 2014/15, the end of year MOP report included information and a RAG rating on 35 HEAT targets. Of these, 37% were rated as red (off target by more than 11%), 17% were rated as Amber (off target by 10% or less) and the remaining 46% were rated as green (meeting or exceeding target). Examples of targets and associated ratings are set out below.

Red	<ul style="list-style-type: none"><li>•Smoking cessation</li><li>•Sickness absence</li><li>•12 weeks for outpatients</li><li>•No psychological therapy waits over 18 weeks</li></ul>
Amber	<ul style="list-style-type: none"><li>•New patient DNA rate</li><li>•4 hour waiting target for A&amp;E</li><li>•Emergency occupied bed days for the over 75's</li><li>•Diagnosis of dementia</li></ul>
Green	<ul style="list-style-type: none"><li>•Pre operative stay</li><li>•Cancer treatment times</li><li>•Admission to the Stroke Unit within 1 day of admission</li><li>•No delayed discharges over two weeks</li></ul>

39. Clearly, the Board has not been able to meet all of the LDP targets in 2014/15. However, wherever performance has been below target the Board has received narrative explanations including remedial

action. Plans are in place and work continues to address those areas requiring particular attention and improvement.

## Best value assessment of Community Engagement

- 40. NHS Boards currently face increasing demand for quality services, but also have to face the challenge of tighter financial budgets. Community engagement helps inform the approach to balancing these aspects. Effective community engagement encourages effective decision making and better use of resources.
- 41. During 2014/15, the Board carried out a self-assessment of its community engagement arrangements using the Audit Scotland best value toolkit. The toolkit is an audit diagnostic, which helps establish the extent to which arrangements are designed to achieve, and are actually delivering, best value. The toolkit takes the form of structured key questions, with a matrix of possible levels of performance between basic, better or advanced practice.
- 42. We reviewed the self-assessment prepared by management and validated the responses to supporting evidence. We used our experience and knowledge gained from across the public sector to help management identify areas where improvement may be made. The findings of the review were included in a separate report but are summarised in the table below.

Key question	Validated self-assessment
How well does the organisation demonstrate a commitment to engaging with communities?	Better practice
How well does the organisation understand the needs and aspirations of communities?	Better practice
How well are communities involved in decision-making?	Better practice
Do the organisation's plans reflect a commitment to community engagement and that progress is monitored and there is sufficient challenge and scrutiny of this progress?	Basic/Better practice
What has community engagement achieved?	Better practice

- 43. Overall, management has self-assessed the Board as mainly achieving 'better' practice against the toolkit, with some aspects being 'basic' and some 'advanced' practice. From our review of evidence provided, we have validated this overall assessment and consider it to be reasonable and fair. NHS Borders can demonstrate adherence to community engagement best value principles in all areas, albeit to varying levels.

# Governance

44. The *Good Governance Standard for Public Services* describes the function of governance as “ensuring that an organisation fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in an effective, efficient and ethical manner.”

## Overall conclusion

45. 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.

### The Governance Statement complies with the Scottish Ministers’ guidance

46. 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.

47. No significant control weaknesses or issues are disclosed in the Governance Statement. This assessment is supported by Internal Audit’s annual report, which concluded that the Board continues to have adequate and effective internal controls in place and that the Accountable Officer has implemented a governance framework in line with required guidance, sufficient to discharge the responsibilities of the role. Our audit work did not identify any further issues that we considered required disclosure in the Governance Statement.

## Accounting and internal control systems

48. As reported in our interim management report, the Board has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses in the Board’s accounting and internal control systems during our final audit.

## Risk Management

49. A developed and integrated approach to risk management is a key feature of a robust system of internal control. NHS Borders has continuously improved its risk management arrangements during 2014/15, including in response to previous audit findings and recommendations.

50. The Healthcare Governance Steering Group (HCGSG) works under and reports to the NHS Board on the management of risk. The risk management strategy, policies and supporting guidelines provides the overall risk management framework for NHS Borders. The HCGSG received reports on the implementation of the risk management arrangements throughout 2014/15. Continuous improvement actions have been agreed to take forward risk management across the organisation.

## Internal Audit

51. An effective internal audit service is an important element of the Board's governance arrangements. The Board's internal audit service is provided by PricewaterhouseCoopers (PwC). 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.
52. 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." Following 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

53. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate.
54. During the year the Board formed the Countering Fraud Operational Group to take overall responsibility for the oversight and scrutiny of counter fraud arrangements. Group membership is taken from the Audit Committee and senior management representatives from key areas in the organisation (including procurement, estates, HR and Pharmacy). Regular updates will still be presented to the Audit Committee concerning the work of the group.

### National Fraud Initiative

55. 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. The NFI produces 'matches' by using data matching to compare a range of information held on bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.



56. The Board's arrangements for the 2014 NFI exercise have been satisfactory. The required data was submitted on time and the Board received 1,087 data matches in total, of which 157 were recommended for investigation. The Board takes the approach of investigating all matches, not only those which are recommended, on a risk-based priority basis. Investigations began in good time after matches were released and, by the end of June 2015, 95% of matches had been investigated and 1029 had been closed, with no frauds or error being found. The investigation of data matches is led by the Deputy Director of Finance (as the Fraud Liaison Officer) and the results of the investigations will be reported as part of the regular fraud updates to the Audit Committee.



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

- 57.** In our opinion the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. 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.

## Health and social care integration

- 58.** The Public Bodies (Joint Working) (Scotland) Bill was introduced to Parliament on 28 May 2013. The Bill's aim was to drive integration between health boards and local authorities as a means of improving outcomes for service users. The Board has agreed with the Scottish Borders Council that integration will be undertaken through the 'body corporate' model. This will involve the delegation of some Board functions and resources to a separate corporate body governed by an integrated joint board (IJB) and headed by a Chief Officer.
- 59.** During 2014/15 the membership of the IJB was agreed, work programmes were set and a Chief Officer was appointed. Preparatory work, including the submission of an integration scheme for approval to the Scottish Government, also took place in 2014/15, and will continue in 2015/16. The IJB will prepare a strategic plan during 2015/16.
- 60.** Assurance over the integration process has been provided by the Internal Audit service of the Scottish Borders Council. Details of this and a summary of the progress made during 2014/15 was included in the Board's Governance Statement.

# Appendix 1 – 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	<b>Knowledge management</b> (Paragraph 21)	<p>During the audit we experienced difficulties ascertaining how account balances had been generated and obtaining adequate supporting documentation as audit evidence.</p> <p>In addition, disappointingly a number of incorrect erroneous accounting entries were identified. The erroneous did not have a financial impact and on discussion with the Board, they were corrected.</p>	<p>Changes in personnel can be expected year on year. However, the Board should ensure that knowledge is up to date and is retained as far as possible, to facilitate a smooth transition and help ensure as efficient an audit process as possible.</p> <p><b>Grade 2</b></p>	<p>Recommendation accepted. The Director of Finance and the Deputy Director of Finance (Financial Accounting) will facilitate lessons learned sessions with departmental staff involved in the production of the annual accounts to address the issues raised and, in general, to strengthen the production of the accounts in future years.</p> <p><b>Responsible officer:</b> Deputy Director of Finance (Financial Accounting)</p> <p><b>Implementation date:</b> Ongoing during 2015/16, completing prior to and evidenced in the production of the Boards 2015/16 Annual Accounts and the 2015/16 External Audit process.</p>

# Appendix 2 – Scope of the audit

## An overview of the scope of the audit

The External Audit Plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks. No additional significant risks were identified after the planning stage during our audit work this year.

The significant risks that had the greatest effect on our audit, our response to those risks and our findings from the work performed are set out within the *Key areas of audit focus and significant findings* section of this report. The audit response to each significant risk was designed in the context of the financial statements as a whole and, consequently, where we set out findings we do not express any opinion on these individual risks.

Our standard audit approach is based on performing a review of the significant accounting systems in place, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality.

## Overall materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement.

Our initial assessment of materiality for the financial statements, as presented in the external audit plan, was £3.6million. Based on the draft financial statements our assessment of materiality was updated to £3.7million. Our updated assessment of materiality equates to approximately 1.8% of the Board's Revenue Resource Limit (RRL). The performance against RRL is one of the principal considerations for the users of the accounts when assessing the financial performance of the Board. We consider that our updated assessment has remained appropriate throughout the audit and that it is equally relevant to both the Board and Group.

## Performance materiality

At the planning stage we set a performance (testing) materiality for each area of work that was based on a risk assessment for the area. We performed audit procedures on all transactions, or groups of transactions, and balances that exceeded our performance materiality. This means that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement.

We set performance materiality as a percentage of overall materiality. Our final assessment of performance materiality was lower than that reported in our external audit plan.

### Calculation of performance materiality (£million)

Area risk assessment	Performance materiality at planning stage	Performance materiality at final audit
High	1.8	1.48
Medium	2.34	1.85
Low	3.06	2.22

We have reported all misstatements identified through our audit that fell into one of the following categories:

- Material corrected misstatements;
- Uncorrected misstatements with a value in excess of 1% of overall materiality; and
- Other misstatements below 1% of overall materiality that we believe warrant reporting on qualitative grounds.

# Appendix 3 – Board and auditor responsibilities

## Board responsibilities

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:

- observing the accounts direction issued by the Scottish Ministers including the relevant accounting and disclosure requirements and applying suitable accounting policies on a consistent basis;
- making judgements and estimates on a reasonable basis;
- stating whether applicable accounting standards as set out in the government Financial Reporting Manual have been followed and disclosing and explaining any material departures; and
- preparing the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate.

The Board is 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 it to ensure that the accounts comply with the National Health Service (Scotland) Act 1978 and the requirements of the Scottish Ministers. It is also responsible for implementing appropriate internal control systems, safeguarding the assets of the Board and hence taking reasonable steps for the prevention of fraud and other irregularities.

## Our responsibilities

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 2015 and of its net operating cost for the year then ended;
- whether the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Government Financial Reporting Manual (FRM);
- 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 Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

We also report to you by exception if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers; or
- there has been a failure to achieve a prescribed financial objective.

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