

# NHS Health Scotland

Annual report on the 2014/15  
audit to the Board and the  
Auditor General for Scotland

June 2015



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business advisers and accountants

# NHS Health Scotland

## Annual report on the 2014/15 audit to the Board and the Auditor General for Scotland

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# Executive summary

## Financial statements

NHS Health Scotland's financial statements were approved by the Board on 23 June 2015. Our audit of the financial statements is complete and our independent auditor's report includes an unqualified opinion.

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 were submitted to the Scottish Government and the Auditor General for Scotland by the 30 June 2015 deadline.

## Use of resources and performance

The Board has met all of its key financial targets in 2014/15, reporting an under spend of £204,000 against its revenue resource limit and a saving of £48,000 against its capital resource limit. Although the Board has a history of under spending against its revenue resource limit, the reported level of under spend, since 2010/11, has decreased year on year.

In 2013/14 the Board, as part of its estates strategy, consolidated from a five sites to two; one in Glasgow and one in Edinburgh. The Board's previous Edinburgh site, Woodburn House, was transferred to NHS Lothian during 2014/15. We have reviewed the accounting treatment and disclosures in relation to the transfer and concluded that they were in accordance with the NHS Scotland Accounts Manual and Capital Accounts Manual.

The Local Delivery Plan (2015-2018) sets out the financial plan for the three year period commencing 2015/16. The Board expects to break even in each of the next three years. The core revenue resource available to the Board is expected to decrease by 3.4% in 2014/15 with further decreases of 2.6% and 1% projected for the subsequent two years.

The Board is currently undertaking a functional alignment exercise. Several changes to the Board's directorates were implemented during 2014/15. From 1 April 2015, the Board's procurement function transferred to the Scottish Ambulance Service (SAS). A tri-board procurement service is now in place with SAS and Healthcare Improvement Scotland. The exercise is expected to conclude during 2015/16. This will include a decision on whether to have a joint finance service with Healthcare Improvement Scotland.

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. 2014/15 was the third year of the Board's five-year corporate plan and the Board reports that it remains on track to deliver it.

In 2014/15 the Board adopted the European Foundation for Quality Management (EFQM) Excellence Model to measure its continuous improvement and to demonstrate the delivery of best value. Using this model, the Board performed an internal self-assessment covering the last two financial years and identified areas for improvement. The Board's progress against these areas for improvement will be monitored by the Audit Committee. The next assessment is scheduled for March 2016 and will be carried out by external assessors.

## 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 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 agreed with the Executive Finance and Performance Manager and we would like to thank all management and staff for their co-operation and assistance during our audit.

**Scott-Moncrieff**  
**June 2015**

# Introduction

1. This report summarises the findings from our 2014/15 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 2014/15 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](http://www.audit-scotland.gov.uk).

# Financial statements

## Introduction

6. NHS Health Scotland'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 1.
7. In this section we summarise the issues arising from our audit of the Board's 2014/15 financial statements

## Overall conclusion

### An unqualified audit opinion

8. The financial statements for the year ended 31 March 2015 were approved by the Board on 23 June 2015. 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.
9. 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

10. 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.
11. The annual accounts were submitted to the Scottish Government and the Auditor General for Scotland by the 30 June 2015 deadline.

## Our assessment of risks of material misstatement

12. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual financial statements or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described below.

Risk	How the scope of our audit responded to the risk
<p><b>Financial position</b></p> <p>NHS Health Scotland has a history of under spending against its RRL. Although the Board underspent by £210,000 against its RRL in 2013/14 this is an improvement on prior years' performance.</p> <p>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.</p> <p>To date, in 2014/15, the Board is experiencing an under spend against budget. A balanced budget has been set for 2014/15 and we understand that the Board are committed to achieving this.</p>	<p>The Board has met all of its key financial targets in 2014/15, reporting an under spend of £204,000 against its revenue resource limit and a saving of £48,000 against its capital resource limit.</p> <p>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.</p>
<p><b>Estates strategy</b></p> <p>The Board has consolidated from a five site model to one base in Glasgow and one base in Edinburgh. During 2014/15, the Board's previous Edinburgh base, Woodburn House, has transferred to NHS Lothian.</p> <p>There is a risk that the associated costs/transactions are not accounted for correctly in the financial statements.</p>	<p>In 2014/15 the Board transferred its only owned property, Woodburn House, to NHS Lothian. The property was transferred with effect from 1 April 2014 at a value of £1.166 million.</p> <p>We have reviewed the Board's accounting treatment of the transfer and are satisfied this was accounted for in line with the requirements detailed in the NHS Scotland Capital Accounting Manual 2014/15.</p>
<p><b>Revenue recognition</b></p> <p>Under International Standard on Auditing (UK &amp; 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.</p>	<p>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.</p>

Risk	How the scope of our audit responded to the risk
<p><b>Management override</b></p> <p>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 &amp; Ireland) 240, “The auditor’s responsibilities relating to fraud in an audit of financial statements”.</p>	<p>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.</p>

## Other matters identified during our audit

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

### CNORIS 2 provision

14. In April 2015, the Scottish Government provided each NHS board with guidance on recognising an additional provision in relation to its participation in CNORIS (Clinical Negligence and Other Risks Indemnity Scheme). This required a prior year adjustment. The Board’s total provision for its participation in CNORIS as at 31 March 2015 was £42,000. This amount has been fully matched with additional Annually Managed Expenditure (AME) funding from the Scottish Government Health and Social Care Directorate (SGHSCD). The Board had not incorporated this guidance in the draft financial statements however all relevant accounting entries have now been made.

### NHS Superannuation Scheme

15. The Board participates in the NHS Superannuation Scheme for Scotland. This is a defined benefit scheme, where contributions are credited to the Exchequer and are deemed to be invested in a portfolio of Government securities. The Board is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis and therefore accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the statement of comprehensive net expenditure represents the Board’s contributions payable to the scheme in respect of the year. The most recent actuarial valuation was for the year ended 31 March 2012 which identified a shortfall of £1.4 billion in the national fund which will be repaid by a supplementary rate from 1 April 2015. The next actuarial valuation will be undertaken as at 31 March 2016.

16. We reviewed the national developments in relation to the valuation of the NHS Superannuation Scheme for Scotland. We considered the extent to which these impacted on the Board and were appropriately reflected within the annual accounts. Based on our audit work, we are satisfied that the Board has



correctly accounted for pension costs and made the correct disclosures in accordance with the Scottish Public Pensions Agency (SPPA) guidance.

### Voluntary Redundancy Policy

17. During the year the Board agreed seven exit packages for its staff at a total cost of £284,000. Six of these departures were agreed under the terms of the Board's Voluntary Redundancy Policy (the policy). In February 2013 it was agreed that the Board would approve the policy once it had been fully endorsed by the Remuneration Committee and the Partnership Forum. Although there is evidence that the policy was reviewed and discussed by the Partnership Forum and Remuneration Committee, there is no record that the policy was formally approved by the Board. We note however that the policy is consistent with the terms and conditions of the Voluntary Redundancy scheme implemented in 2012 which was formally approved by the Board and is consistent with Section 16 of the Agenda for Change.
18. The policy was subsequently endorsed by the Remuneration Committee in March 2015. However the Board should ensure that the policy is formally approved in line with the Board's Standing Orders either by the Board or by the Remuneration Committee on behalf of the Board.

*Action plan point 1*

## Our application of materiality

19. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements. For example, the expected degree of accuracy of senior staff and Board members' emoluments may be much greater than that for non-current assets.
20. Our initial assessment of materiality for the financial statements was £302,000. We revised our assessment, following receipt of the draft annual accounts, to £310,000 and it remained at this level throughout our audit. Our assessment of materiality equates to approximately 1.5% of the Board's Revenue Resource Limit (RRL). A key target for the Board is achieving a breakeven position against its Revenue Resource Limit. We consider the RRL to be one of the principal considerations for the users of the financial statements when assessing the financial performance of the Board.
21. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We then performed audit procedures on all transactions and balances that exceeded our performance materiality. This meant that we were performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Weighting	Performance materiality
High	45%	£139,500
Medium	55%	£170,500
Low	70%	£217,000

22. We agreed with the Audit Committee that we would report to the Board all audit differences in excess of £3,100, as well as differences below that threshold that, in our view, warranted reporting on qualitative

grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## Audit differences

23. We are pleased to report that there were no material adjustments to the draft financial statements that have had an impact on the outturn against the Revenue Resource Limit. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of financial statements.
24. We identified one audit difference during our fieldwork that the financial statements have not been adjusted for. This is not considered to be material to the financial statements. Through discussion with the Executive Finance and Performance Manager the decision was taken not to adjust the financial statements. This audit difference is included in the representation letter and shown in the table below:

No	Narrative	DR £	CR £
1.	General Fund	10,464	
	Expenditure – Staff Costs		10,464
	<i>Being adjustment to agency staff costs to remove expenditure incurred in 2013/14</i>		
	<b>Net potential impact on core resource outturn</b>	-	<b>10,464</b>
	<b>Net potential impact on non-core resource outturn</b>	-	-

## An overview of the scope of our audit

25. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee in October 2014. The 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.
26. 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.
27. Our standard audit approach is based on performing control tests on the significant accounting systems, 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, which is explained above.

## Regularity

28. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the financial statements. Our audit procedures included the following:
- Reviewing minutes of relevant meetings;
  - Enquiring of senior management and the Board's solicitors the position in relation to litigation, claims and assessments; and
  - Performing detailed testing of transactions and balances.
29. We are pleased to report that we did not identify any instances of concern with regard to the regularity of transactions or events.

## Follow up of previous audit recommendations

30. As part of our audit we followed up on the recommendations we raised in 2013/14. One recommendation raised has yet to be fully implemented. An update is provided at Appendix 3 to this report.

Total number of recommendations raised in 2013/14	Complete
6	5

## Board representations

31. We have requested a signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements. This includes the Board's confirmation that the audit difference referred to above (paragraph 24) is not considered material to the financial statements.

## Qualitative aspects of accounting practices and financial reporting

32. 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 table summarises our findings.

Qualitative aspect considered	Audit conclusion
The appropriateness of 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 significant transactions where we had concerns over the timing of the transaction or the period in which they were recognised.

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting estimates and judgements used.	The accounting estimates and judgements used by management in the preparation of the financial statements are considered appropriate. The principal area of estimate and judgement was in relation to asset depreciation rates. Where appropriate, the Board have utilised the work of independent experts or industry practice to support the estimates made.
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.	We have not identified any uncertainties, including any significant risk or required disclosures that should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the financial statements.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the strategic report and directors' report or material inconsistencies with the financial statements.	There has been no misstatement or material inconsistency with the financial statements included in the Strategic report and Directors' report
Any significant financial statement disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
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 no significant difficulties encountered during the audit.

# Use of resources and performance

33. 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 2014/15

### The Board met its key financial targets for the year

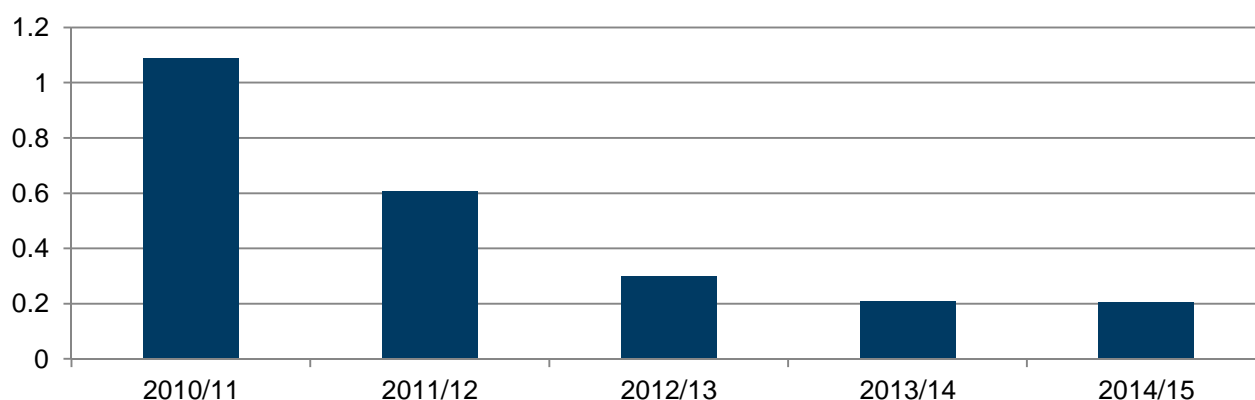
34. The Board is required to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD). As set out below, the Board has met all of its key financial targets in 2014/15.

	Target (£'000)	Actual (£'000)	Saving (£'000)	Target achieved?
Core revenue resource limit	20,368	20,164	204	
Non-core revenue resource limit	262	262	-	
<b>Revenue resource limit</b>	<b>20,630</b>	<b>20,426</b>	<b>204</b>	<b>Yes</b>
<b>Capital resource limit</b>	<b>(816)</b>	<b>(864)</b>	<b>48</b>	<b>Yes</b>
<b>Cash requirement</b>	<b>21,000</b>	<b>20,535</b>	<b>465</b>	<b>Yes</b>

(Source: Annual Accounts for the year ended 31 March 2015)

35. The Board reported a £204,000 (1%) under-spend against its revenue resource limit (RRL). The outturn includes a carry forward of £210,000 from 2013/14, which was received as a non-recurring revenue allocation during the year. The under spend will be carried forward to 2015/16, as agreed with the SGHSCD.
36. During the year the Board made a transfer of £100,000 from revenue to capital to finance its expenditure on acquisition of the PlayAtHome software
37. To achieve a balanced outturn position the Board was required to deliver £1.009 million in 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. The achievement of these savings is reported within the Board's outturn position.
38. The Board has a history of under spending against its RRL, however the reported level of under-spend, since 2010/11, has decreased.

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



39. The 2014/15 under spend against RRL (£204,000) comprises three elements; £79,000 under spend on staff costs, £120,000 under spend on project costs, and £3,000 additional income being generated. The pattern of under spends is largely comparable each year, with the exception of 2013/14 when the Board's underspend was largely driven by lower than expected staff costs. During the year the Board's performance against the targets is closely monitored by the Audit Committee and the Board.

## Capital Resource Limit (CRL)

**The Board has achieved a saving of £48,000 against its CRL in 2014/15**

40. The Board was allocated an initial capital resource of £650,000 at the outset of the year. However it was subsequently revised to £250,000. The allocation was further reduced by £1.166 million as a result of the transfer of Woodburn House to NHS Lothian as this sum was treated as a capital receipt. These adjustments together with the £100,000 transfer from revenue provided a revised CRL target of (£816,000).
41. The Board's two capital projects, PlayAtHome and an IT virtualisation project delivered in line with budget; there was a small under spend of £4,000 on IT virtualisation project. The Board also received a refund from HMRC (£44,000) in relation to VAT incurred on the leasehold improvements carried out during 2013/14.

## Future financial plans

42. The Board has submitted a Local Delivery Plan (LDP) to the SGHSCD covering the financial years 2015/16 to 2017/18. 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 £19.652 million (a reduction of 3.4%) in 2015/16 with further decreases of 2.6% and 1% 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 2015-2018 LDP

Key assumption / risk	Risk rating	Potential financial impact
Planned workforce savings are set at 40% of the £1.050m savings target each year. The Board has undertaken a functional alignment exercise in 2014/15 and has reduced its workforce to manage within its 2015/16 budget. Further workforce reductions in 2016/7 and 2017/18 will be difficult to achieve.	Medium risk	£0.420 million
Business improvements in two sites can be progressed further with a reduction in the floor usage of Meridian Court at some point in 2016/17	High risk	£0.152 million
There is a risk that non-core funding will not be achieved to the levels in the local delivery plan which are seen as achievable in the first instance.	Medium risk	£1.354 million

(Source: NHS Health Scotland 2015/16 Local Delivery Plan)

## Cost pressures

43. 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 increase by 2% year on year; and
  - an increase in pay costs by 1.4% year on year due to increase in employer pension contributions from 13.5% to 14.9%.
44. The incremental drift cost assumptions are slightly higher than those we have noted in comparable boards for the 2014/15 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 2014/15 and appear to be reasonable and consistent with our understanding of the Board's financial position. .

## Functional alignment

45. In December 2013 the Board made a decision to undertake an exercise to undertake a review of organisational structure. The decision was triggered when a 'working and in principle decision' had been reached not to replace the Director of Resource Management who retired in Autumn 2014 (see para 62 below) and was made for the following reasons;
- To bring structure and function fully into line with *A Fairer Healthier Scotland*, the Board's corporate plan;

- To ensure better alignment of functions within the Board's directorates;
  - To absorb the impact of the departure of the Director of Resource Management (see para 62 below); and
  - To keep staff resource as efficient as possible.
46. A Change Advisory Group (CAG) was appointed as a sub group of the Partnership Forum with a purpose to maintain an overview of the alignment process. The CAG is chaired by the Director of Strategy and has representatives from management, staff and HR. This group has been meeting weekly since January 2014.
47. Phase 1 of the review was completed in April 2014. This phase agreed the overall reallocation of functions across directorates. Phase 2 of the review, to work in detail with each affected team or group of teams to determine optimal team structures and ways of working, has been ongoing since April 2014. The CAG reports to the Partnership Forum on a regular basis. Updates to the Board have also been provided through a variety of routes over the last year.
48. As a result of this exercise the following changes were progressed during 2014/15:
- The IT and the Business Improvement Programme has joined the Delivery Directorate (previously within the Resource Management Directorate).
  - The Information Governance and Risk Management programme (covering risk, information governance and health and safety) as well as Estates and Facilities joined the Equality, People and Performance Directorate.
49. The following changes will be progressed during 2015/16:
- NHS Health Scotland and Healthcare Improvement Scotland will be considering options for a possible joint finance service. A pilot involving a joint approach to accounts payable is expected to commence shortly to identify common working in this area.
  - Procurement has now moved to a tri-board procurement service arrangement managed by Scottish Ambulance Service (SAS), and including NHS Health Scotland and Healthcare Improvement Scotland. The Board's relevant procurement staff were transferred to SAS under Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) with an effective start date of 1 April 2015. The financial year 2015/16 will be a transitional year with a full service expected from 2016/17.
50. The alignment exercise is expected to conclude during 2015/16. We will monitor the Board's progress in completing this exercise during 2015/16.

## Financial capacity in public bodies

51. The Auditor General for Scotland and the Accounts Commission are interested in the impact reductions in staff numbers are having on back-office functions and specifically finance. As part of the 2014/15 audit we have collected baseline information on the finance department at the Board. This information will be submitted to Audit Scotland who will be assessing the findings across a number of public sector organisations, to identify any common or emerging issues.
52. A summary of our findings are highlighted below;



Theme	Audit Findings
<p><b>Financial Capacity</b></p>	<p>The Executive Finance and Procurement Manager (EPFM) exercises effective financial management over the organisation through his position as director of finance and attendance at meetings, including the Corporate Management Team (CMT), Audit Committee and the Board. While the EPFM has assumed the role of director of finance, he is not a member of the Board. He is supported in this role by five dedicated finance team members, two of which are professionally qualified and one is undertaking professional exams at present.</p> <p>As noted in paragraph 49 the Board is considering options for a possible joint finance service with Healthcare Improvement Scotland.</p> <p>We did however note the following:</p> <ul style="list-style-type: none"> <li>• The Board does not currently have a formal succession plan in place for finance staff; there are therefore risks to continuity of the finance service in the event of staff turnover. The Executive Finance and Procurement Manager is looking to improve this position in 2015/16 within the Board's updated Financial Plan and the setting of individual objectives through the Key Skills Framework (KSF) programme.</li> <li>• There is no set training programme in place aimed at improving financial professionalism within the Board.</li> </ul> <p style="text-align: right;"><b><i>Action plan points 2-3</i></b></p>
<p><b>Financial strategy and sustainability</b></p>	<p>The Board reviews a rolling three-year financial plan on an annual basis as part of preparation of the Local Delivery Plan. The Plan details the high level revenue and expenditure for the Board for the next three years, including projected efficiency saving targets. The Plan details the main risks to delivery of projected costs, with specific focus on workforce planning as staff costs represent 60% of overall expenditure for the Board.</p> <p>The Plan is supported by an annual budget, which provides details of projected expenditure and commitments by cost code for each directorate. Commitments for projects to be undertaken are drawn from the Business Planning Tool system operated by the Board.</p>

Theme	Audit Findings
<p><b>Budget monitoring and control</b></p>	<p>The Board has effective controls in place to ensure that spend against its revenue budget is appropriately monitored and controlled throughout the year. The Board's standing orders, standing financial instructions and financial procedures provide an established framework for officers to follow. Budget monitoring reports are presented to the CMT, Audit Committee and the Board. These include explanations of significant variances between the actual and budgeted position for the year-to-date. The overall movement in the budget is monitored on a weekly basis by the Board directors, with requests for in-year variations to budget subject to a formal review process by the directors prior to approval. The Board receives reports on progress against the Workforce Plan and how individual projects are progressing against the Business Plan and budget. These arrangements allow for effective oversight to be provided over the financial position of the Board.</p>

## Performance management

- 53. 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.
- 54. 2014/15 is the third 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 2015) shows that the Board achieved progress on all 23 of the team work plans. Only two of the 23 work plans had a variation of greater than 15% from the budget. The full annual impact report is expected to be reported to the Board in June 2015.

## Best value and continuous improvement

- 55. In 2014/15 the Board adopted a new approach towards the measurement of continuous improvement and delivery of best value. The Board has adopted the EFQM (European Foundation for Quality Management) Excellence Model. This model operates as a framework designed to identify the Board's areas of strength and weakness to allow identification of potential improvements.
- 56. The EFQM Excellence Model includes nine areas within which assessment is undertaken. These include leadership, strategy, customer results, etc. The model includes examples of best practice within each area and the results that should be achieved by implementing these practices. The Board has utilised this criteria to perform internal self-assessments of the Board's performance, covering the last two financial years.
- 57. From these self-assessments, the Board has identified improvement actions. The implementation of these actions has been assigned to designated 'Improvement Champions' within the organisation.

Implementation will be reviewed on a quarterly basis by the Embedding Excellence Team, with overall oversight of progress assigned to the Audit Committee.

- 58.** The EFQM Excellence Model is designed to replace prior methods of assessing the Board's performance against best value criteria. An exercise has been undertaken by Internal Audit to map out how each requirement within each theme of best value will be reviewed under the EFQM Excellence Model, including the provision of the measures that are designed to demonstrate each requirement. The Board are therefore able to continue to demonstrate that best value is being achieved
- 59.** The next assessment is scheduled for March 2016 and will be undertaken by external assessors. The team will be put together by Quality Scotland (who operate the EFQM Excellence Model) and will comprise of a range of trained EFQM assessors who are implementing the model within their own organisations, both public and private.

# Governance

60. 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.
61. 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;
  - the prevention and detection of fraud and irregularity; and
  - standards of conduct and the prevention and detection of bribery and corruption.

## Governance arrangements

62. Following the retirement of the Director of Resource Management, in October 2014, oversight of the majority of functions of the resource management directorate were delegated to the Executive Finance & Procurement Manager (EFPM). The following areas however were reassigned to alternative post holders:
- Management and control of computer systems and facilities – to Director of Delivery;
  - Risk Management – to Director of Equality, People & Performance;
  - Health and safety arrangements – to Director of Equality, People & Performance; and
  - Data protection/ Freedom of information arrangements – to Director of Equality, People & Performance.
63. While the EFPM has assumed the role of director of finance and attends audit committee meetings and Board meetings by invitation, no formal board appointment is expected to be made. We understand there is nothing within the relevant Regulations which precludes the Board from taking this action.

## Systems of internal control

64. 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.
65. The governance statement included within the Board's 2014/15 annual accounts discloses no 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

66. 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

67. Effective risk management is an important feature of a robust system of internal control. Risk management arrangements at NHS Health Scotland continue to develop and be embedded across the organisation. The Board has overall responsibility for management of all organisational risks. This responsibility has been delegated to the Audit Committee, which meets on a quarterly basis to discuss and evaluate the progress made against significant identified risks as well as the procedures in place for the identification and management of risks. The Board receives an annual report on the organisational risk arrangements which provides it with the assurance that risk is appropriately managed.
68. A 'Management of Risk Policy' and a 'Protocol for the Management of Risk' have been approved by the Board in November 2014. These documents outline the risk management framework at the Board, including all relevant roles and responsibilities. The corporate risk register (CRR) is used to monitor and manage strategic risks and incorporates significant risks identified at an operational level
69. To help the Board describe its risk appetite it commissioned Scott-Moncrieff to facilitate two risk workshops (in 2013 and 2014). The first workshop involved the Board and corporate management team. The second workshop involved the Senior Leadership Group (SLG). A further workshop on risk appetite was provided to the members of Partnership Forum in May 2015. 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. Subsequently the risk protocol has been amended to reflect the higher risk appetite and during the year the Board has been actively encouraging staff to work within the revised risk appetites.

## Prevention and detection of fraud and irregularity

70. 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. Work is however ongoing with regard to the Board's fraud risk assessment. An update on progress is provided at Appendix 3.

### National Fraud Initiative

71. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies and external auditors 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.

72. We have concluded that the Board’s arrangements for the 2014/15 NFI exercise have been adequate. The required data was submitted on time. The Board received 120 data matches in total, of which 18 were recommended for investigation. The Board concluded investigation of all the matches with no errors or instances of fraud identified. This is in line with the outcomes of the 2012/13 NFI investigation.

NFI exercise	Total matches identified	Recommended matches	Errors/ fraud identified
2012/13	314	51	None
2014/15	120	18	None

(Sources: NFI website and External Audit Annual Report 2012/13 to the Board and the Auditor General for Scotland)

73. The investigation of data matches is led by the Reporting Accountant 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

74. 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. 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: Respective responsibilities of the Board and the Auditor

## Responsibility for the preparation of the financial statements

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder.

In preparing the financial statements, Board members and the Chief Executive, as Accountable Officer are required to:

- observe the financial statements direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards as set out in the Financial Reporting Manual (FReM) have been followed and disclose and explain any material departures; and
- prepare the financial statements on a going concern basis.

Board members are also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditor responsibilities

We audit the financial statements and give an opinion on whether:

- they give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by 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;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 FReM;
- they have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by Scottish Minister;
- expenditure and income in the financial statements was incurred or applied in accordance with any applicable enactments and guidance issued by Scottish Minister;
- 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 Scottish Ministers; and
- 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 are also required to report 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 Scottish Ministers; or
- there has been a failure to achieve a prescribed financial objective.

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as propriety, performance and the use of resources in accordance with the principles of Best Value and 'value for money'.

Our main responsibilities under the Code of Audit Practice, in respect of best value, use of resources, performance and corporate governance can be summarised follows:

#### Best value, use of resources and performance

- To review the Board's arrangements for managing its performance and for securing economy, efficiency and effectiveness in its use of resources .

#### Corporate governance

- To review and report on the Board's corporate governance arrangements as they relate to:
  - its review of its systems of internal control, including its reporting arrangements
  - the prevention and detection of fraud and irregularity
  - standards of conduct and prevention and detection of corruption
  - the Board's financial position

## Independence

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.

Scott-Moncrieff facilitated seminars for the Board on "risk appetite" which were 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.



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.

## Appendix 2: 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.	<b>Voluntary Redundancy Policy</b> <b>(paragraph 18)</b>	<p>In February 2013 it was agreed that the Board will approve the policy once it had been fully endorsed by the Remuneration Committee and the Partnership Forum.</p> <p>Although there is evidence that the policy was reviewed and discussed by the Partnership Forum and Remuneration Committee, there is no record that the policy was formally approved by the Board.</p>	<p>The Board should ensure that the policy is formally approved in line with the Board's Standing Orders either by the Board or by the Remuneration Committee on behalf of the Board.</p> <p><b>Grade 3</b></p>	<p>Recommendation accepted. A decision will be reached with the Board Chair whether to present the Policy (latest version as revised April 2015) to the Board or Remuneration Committee for formal approval. This will be actioned at the next meeting of the Board/Committee.</p> <p><b>Responsible officer:</b> Director of Strategy</p> <p><b>Implementation date:</b> November 2015</p>
2.	<b>Succession planning</b> <b>(paragraph 52)</b>	<p>The Board does not currently have a formal succession plan in place for Finance staff.</p>	<p>There are therefore risks to continuity of the finance service in light of staff turnover.</p> <p>We are aware that the Executive Finance and Procurement Manager is looking to improve this area in 2015/16 within the Board's updated Financial Plan and the setting of individual objectives through the Key Skills Framework (KSF) programme</p> <p><b>Grade 3</b></p>	<p>Formal succession plans in any organisation are difficult as posts will need to be reviewed and appropriately advertised when vacancies occur or when restructures are needed. Resilience to ensure short-term vacancies can be covered will be considered.</p> <p><b>Responsible officer:</b> Executive Finance &amp; Procurement Manager</p> <p><b>Implementation date:</b> November 2015</p>

No	Title	Issue identified	Risk and recommendation	Management comments
3.	<b>Training programme</b> <b>(paragraph 52)</b>	There is no set training programme in place aimed at improving financial professionalism within the Board.	<p>There is a risk that the financial knowledge of the Board's staff is not maintained at an appropriate level.</p> <p>The Board should implement a training programme aimed to improve and maintain financial professionalism within the Board.</p> <p><b>Grade 2</b></p>	<p>A training program to maintain financial professionalism will be considered along with the Finance Department review under the Strategic realignment review in the summer/autumn of 2015.</p> <p>A review of the financial awareness and procedures needed for non-finance staff (budget holders) will also be undertaken in the summer/autumn working with relevant members of the Strategy Directorate on the Business Planning Tool to ensure our procedures are aligned.</p> <p><b>Responsible officer:</b> Executive Finance &amp; Procurement Manager</p> <p><b>Implementation date:</b> November 2015</p>

## Appendix 3: Outstanding recommendations from 2013/14

Issue identified	Recommendation	Management comments	June 2015 update
<p><b>Fraud risk assessment</b> The NHS Scotland Strategy to Combat Financial Crime, updated in May 2013, states that all health boards must undertake a fraud risk assessment, using the Counter Fraud Services (CFS) methodology. This should be carried out within 12 – 24 months from publication (May 2013). The Board has not yet carried out and documented a fraud risk assessment. We understand that management are keen to work with CFS on this assessment.</p>	<p>The Board cannot evidence that it has considered what aspects of its operations are most susceptible to fraud. Arrangements should be put in place to develop a fraud risk assessment for the Board. <b>Grade 3</b></p>	<p>This recommendation is accepted – discussions are ongoing with Counter Fraud Services to agree an appropriate fraud risk assessment for the Board. <b>Responsible officer:</b> Head of Finance &amp; Procurement (Fraud Liaison Officer) <b>Implementation date:</b> 30 June 2014</p>	<p><b>Partially Complete</b> The fraud risk assessment is currently underway and is subject to discussion with CFS. <b>Management comment:</b> The deadline to NHS Boards has been extended to 31 March 2016. We have undertaken a fraud risk assessment on the 2013/14 as we had full year accounts. The results will be updated for 2014/15 and presented to the audit committee in August 2015. <b>Responsible Officer:</b> Executive Finance &amp; Procurement Manager <b>Deadline:</b> 31 May 2016</p>



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