



The State Hospitals Board for Scotland

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

June 2015



Scott-Moncrieff
business advisers and accountants



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Executive summary

Financial statements

The State Hospitals Board for Scotland's financial statements were approved by the Board on 25 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 met all of its key financial targets in 2014/15, reporting an under spend of £90,000 (0.2%) against its revenue resource limit and a break even position against its capital resource limit. In order to achieve a balanced outturn position, the Board was required to identify £1.081 million in efficiency savings. Overall, the Board achieved savings of £1.103 million in the year. This represents an over achievement of its savings target by £22,000.

The Local Delivery Plan (2015-2018) sets out the financial plan for the three year period commencing 2015/16. The Board has forecast a breakeven position over each of the next three years although this is dependent on the realisation of further planned savings. For 2015/16, the Board has identified it will need to make £1.341 million of savings, apportioned 42%:58% between recurring and non-recurring respectively. The Board is aware of the high proportion of non-recurring savings and is implementing several initiatives to address this (for example a review of the workforce plan is scheduled for 2015/16).

The Board has developed a performance management framework and receives reports on organisational performance and finance at every meeting. Finance and performance reports are based around the local delivery plan and its associated targets and measures.

Governance

In our opinion, the Board's corporate governance arrangements as they relate to the prevention and detection of fraud and irregularity, standards of conduct and the prevention and detection of bribery and corruption are adequate and appropriate. We have raised a small number of recommendations to further strengthen corporate governance.

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 Finance and Performance Management Director 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 the State Hospitals Board for 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. 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 members of the Board and to the Auditor General for Scotland and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Financial statements

Introduction

6. The 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 1.
7. In this section we summarise the issues arising from our audit of the 2014/15 financial statements.

Overall conclusion

An unqualified audit opinion on the financial statements

8. The annual accounts for the year ended 31 March 2015 are due to be approved by the Board on 25 June 2015. Our independent auditor's report will include:
 - 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. Arrangements are in place to enable the annual accounts to be submitted to the Scottish Government and the Auditor General for Scotland prior to the 30 June 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 accounts 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>Financial position</p> <p>During 2014/15, the Board was reporting an over spend against budget. A balanced budget was set for 2014/15 and the Board continued to forecast a breakeven position at the year-end.</p> <p>For the first month of 2014/15, the Board reported that overtime costs were higher than the previous year and sickness levels remained the highest in the Scottish NHS sector. Action was taken at the time to address the financial position. This included the temporary closure of one of the twelve wards within the Hospital and a reduction in night shift staffing.</p> <p>Although the Board experienced some benefit from these actions, these were offset by an increase in demand for clinical support. Furthermore, at the time of our audit plan, the Hospital became aware of a contingent liability that could materialise in the current financial year.</p>	<p>The Board met all of its key financial targets in 2014/15, reporting an under spend of £90,000 against its revenue resource limit and a breakeven position against its capital resource limit.</p> <p>During our audit we considered the Board's financial position, savings, related budgets and projections to ensure that they are soundly based.</p> <p>We have concluded that the Board has robust arrangements in place for managing its financial position and its use of resources in the context of an increasingly challenging funding environment. Our findings are reported more fully in the 'use of resources and performance' section of this report.</p> <p>The contingent liability, referred to in our risk assessment, was in respect of a legal action which the Board was successful in defending. Through third party confirmation we obtained reasonable assurance that no further disclosure is required by the Board.</p>
<p>Revenue recognition</p> <p>Under auditing standards, 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>While we did not suspect incidences of material fraud and error, we evaluated each type of revenue transaction and documented our conclusions.</p> <p>We have reviewed the controls in place over revenue accounting and found them to be sufficient. We have evaluated key revenue transactions and streams, and carried out testing to confirm that the Board's revenue recognition policy is appropriate and has been applied reasonably.</p>
<p>Management override</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 auditing standards.</p>	<p>While we did not suspect any incidences of management override leading to financial reporting issues, we reviewed the accounting records for significant transactions outside the normal course of business and obtained evidence to ensure that these were valid and accounted for correctly.</p> <p>Based on our audit work to detect potential material misstatement via a range of controls, we have not identified any indications of such management override during the year.</p>

Other matters identified during our audit

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

Contingent liability – Employer’s liability

14. The Board has disclosed a contingent liability in its financial statements in respect of a particular factor within Agenda for Change. Work undertaken to date by management has identified four posts which may be affected. A further 17 posts are being evaluated by a consistency checking panel. We have reviewed the Board’s accounting treatment of this issue and are satisfied this was accounted for in line with the requirements detailed in the 2014-15 NHS Board Accounts Manual.

Redundancy costs

15. The Board has recognised redundancy costs for one of its employees. This employee had a fixed-term contract which terminated on 31 March 2015. No settlement agreement has yet been signed by the employee. The individual also has an ongoing contract with another health board.

16. To date, the Board has paid out approximately £7,400 which was based on the employee’s length of service. The calculation however is currently being legally challenged by the employee on the basis of their continuing work with the NHS in Scotland. As a result, the Board has accrued a further amount within its financial statements. As the outcome of the legal challenge is uncertain, an audit adjustment has been made to reclassify the accrued costs as a provision.

Asset decommissioning obligations

17. During the year the Board demolished a temporary car park which was set up as part of the hospital redevelopment. The demolition was carried out in order to restore the land to its original state (agricultural land). Initial planning permission received by the Board allowing it to proceed with the set-up of the temporary car park included an explicit requirement to restore the land to its original condition once there was no further need for the car park. The NHS Capital Accounting Manual requires such costs to be capitalised as part of the initial costs of the asset. At the same time, a corresponding provision for the restoration costs (asset decommissioning obligation) should also be created. Asset decommissioning costs were not capitalised when the car park was initially constructed. Similarly, no provision for restoring land was created by the Board. As the restoration costs (£54,000) are not considered to be material to the Board, no prior year adjustment is required. However, going forward the Board should ensure the appropriate accounting treatment is adopted for any asset decommissioning obligations.

Action Point 1

CCTV impairment

18. The Board reported an impairment in its financial statements in relation to security CCTV cameras (£359,000) following specific additional annually managed expenditure (AME) funding being offered by the Scottish Government. The CCTV cameras are a component of an asset ‘*fence and associated attachments*’. The CCTV cameras were previously disclosed on the Board’s asset register as a separate asset but were added as a component to the ‘*fence and associate attachment*’ asset in September 2011.

19. The ‘*fence and associated attachment*’ asset was revalued in November 2011 and an impairment of approximately £2.5 million was recognised at that time. The valuation report from 2011 does not attach specific values to the fence and other components of the asset such as the CCTV cameras.

20. The Board approached an external valuer during 2014/15 to ascertain the current value of the CCTV cameras (not the 'overall fence and associated attachment' asset). The valuer valued the CCTV cameras at £164,000. In order to reflect this value in the financial statements, the Board compared this to the value for the CCTV cameras as at the point of transfer (September 2011). As a result an impairment of £359,000 was disclosed in the financial statements. As the previous valuation report did not specifically allocate a value against the various components of the asset, we do not consider it appropriate to impair only the CCTV cameras. It is not possible to determine the net book value of the CCTV cameras as held in the Board's fixed asset register. Consequently an audit adjustment has been proposed to reverse the impairment. Through discussion with the Finance and Performance Management Director the decision was taken not to adjust for this in the financial statements on the basis that it is not material to the Board's financial statements.
21. In addition, we noted that the CCTV cameras have a useful life of 15 years, in line with the useful life of the fence. It is likely however, due to high rates of technological obsolescence, that this useful life for the CCTV cameras is unrealistic. The Board should reconsider the classification of the 'fence and associated attachments' in its asset register, along with the useful lives of the components.

Action Point 2

CNORIS 2 provision

22. 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 £73,000. This amount has been fully matched with additional Annually Managed Expenditure (AME) funding from the Scottish Government Health and Social Care Directorate (SGHSCD). We are satisfied that the Board had incorporated this guidance in the financial statements and all relevant accounting entries have been made.

NHS Superannuation Scheme

23. The State Hospitals Board for Scotland 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 of 2.6% of employer's pension contributions for fifteen years from 1 April 2015. The next actuarial valuation will be undertaken as at 31 March 2016.
24. 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 financial statements. 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.

Our application of materiality

25. 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 Board members and senior management emoluments may be much greater than that for non-current assets.
26. Our initial assessment of materiality for the financial statements was £520,000. We revised our assessment, following receipt of the draft annual accounts, to £530,000 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 accounts when assessing the financial performance of the Board.
27. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We then perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are 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%	£238,500
Medium	55%	£291,500
Low	75%	£397,500

28. We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £5,300, 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

29. 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 (RRL). We identified some minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.
30. We identified five differences during our audit work that have not been adjusted for in the financial statements. These five differences are not considered to be material to the financial statements, either individually or in aggregate. Through discussion with the Finance and Performance Management Director the decision was taken not to adjust the financial statements. These unadjusted items are included in the representation letter and shown in the table below.

Audit differences

No	Narrative	DR £'000	CR £'000
1	Expenditure – 2014/15 movement on accrual	9	
	General Fund – prior year restatement on accrual	33	
	Accruals		42
	<i>Being the recognition of national insurance and pension contributions in the accumulated paid absences accrual</i>		
2	Fixed Assets (accumulated depreciation)	359	
	Expenditure (Other non-clinical costs)		359
	<i>Being reversal of CCTV camera impairment recognised during the year (note this was fully funded by the Scottish Government and therefore does not impact on the outturn position).</i>		
3	Accruals	56	
	Provisions		56
	<i>Being reclassification of accrued redundancy costs</i>		
4	Debtor	13	
	Creditor		13
	<i>Being removing patients fund debtor</i>		
5	Provisions	13	
	Other income		13
	<i>Being recognition of amounts to be reimbursed in respect of the Board's provisions</i>		
	Impact on overall revenue resource limit (saving)		4

Board representations

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

An overview of the scope of our audit

32. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee in January 2015. 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.

33. 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.
34. 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

35. 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.
36. We are pleased to report that we did not identify any instances of concern with regard to the regularity of transactions or events.

Qualitative aspects of accounting practices and financial reporting

37. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. The following observations have been made:

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 or the period in which they were recognised.
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 areas of estimates and judgements have been: property valuations, asset depreciation rates and valuation of provisions. Where appropriate, the Board has utilised the work of independent experts or industry practice to support the estimates made.

Qualitative aspect considered	Audit conclusion
The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the financial statements.	All material areas of uncertainty have been appropriately considered in the preparation of 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 our testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the directors' report or material inconsistencies with the financial statements.	There has been no misstatement or material inconsistency between the financial statements and the directors' report and strategic 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, other than those mentioned in this report. All disclosures made are required by relevant legislation and applicable accounting standards.
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 in the audit.

Follow up of prior year audit recommendations

38. As part of our audit we have followed up the recommendations we raised in 2013/14. An update was provided in our interim management report to the Board.

Total number of recommendations raised in 2013/14	Complete
3	2

39. The Board has yet to approve procedures in place for early departure schemes. We first raised this recommendation in 2012/13. The Board is currently drafting a Voluntary Severance and Compromise Agreement Policy which is due to be finalised and approved by December 2015.

Use of resources and performance

40. This section of the report sets out the main findings from our review of how the Board manages its key resources in terms of financial performance. Overall, 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.

The Board's financial performance in 2014/15

The Board met its key financial targets in the year

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

Performance against key financial targets

Financial Target	Target £'000	Actual £'000	Underspend £'000	Target achieved
Revenue Resource Limit - Core	32,257	32,187	70	
Revenue Resource Limit – Non core	3,228	3,208	20	
Revenue Resource Limit	35,485	35,395	90	Yes
Capital Resource Limit	198	198	-	Yes
Cash Requirement¹	33,000	32,308	692	Yes

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

42. The Board reported a £90,000 (0.2%) under-spend against its revenue resource limit (RRL). At the outset the Board forecast a breakeven position for the year. The outturn includes a carry forward of £2,000 achieved in 2013/14. This was received as a non-recurring revenue allocation during 2014/15.
43. During the year, however, the Board reported over spends against budget. For the first month of 2014/15, the Board reported that overtime costs were higher than the previous year and sickness levels remained the highest in the Scottish NHS. Action was taken at the time to address the financial position. This included the temporary closure of one of the twelve wards within the Hospital and a reduction in night shift staffing. Although the Board experienced some benefit from these actions, these were offset by an increase in demand for clinical support and continuing high level of sickness throughout the year.
44. The most prominent over spends were reported within the General Manager directorate. This is the Board's largest directorate in terms of staffing and budget allocation. At the year-end, an over spend of £713,000 was reported against this directorate. This was offset against under spends reported by other directorates, including the corporate function, which reported an under spend of £623,000. Within this function, the Board had contingency reserves of approximately £664,000 which were not utilised fully in the year and could be offset against the over spends reported within the General Manager directorate.

¹ The cash requirement advised by the SGHSCD is rounded to the nearest million to allow some flexibility in the Board's final cash position.

Function	Annual Budget £'000	Actual £'000	Variance £'000
Corporate functions	8,792	8,169	623
General manager	22,554	23,267	(713)
Medical	1,657	1,553	104
Nursing non-ward	1,084	978	106
Security	1,400	1,431	(30)
Total	35,487	35,398	90

(Source: Finance Report as at 31 March 2015)

45. As in the previous year, a significant overspend was reported in respect of ward nursing costs. Ward nursing costs were approximately £1.163 million over budget in 2014/15 (£1.136 million in 2013/14). Within this, nursing overtime costs continue to be a significant cost pressure for the Board. Due to the nature of service provided by the Board, nursing shifts are affected by sickness or holiday absences. In periods of high sickness absence there is an increase in nursing overtime. Although the Board reported a reduction in sickness absence from 6.19% in 2013/14 to 5.97% in 2014/15, this is still nearly 1% above the target of 5% set for the Board and a further 1% above the national target of 4%. The Board is currently working to address the level of sickness absence through a number of initiatives.
46. The Board's internal auditors carried out an analysis of the sickness absence data from April 2010 over the four-year period. Findings of this exercise were communicated to the Board, Audit Committee, Staff Governance Committee, and Partnership Forum. Following this review, the Board is planning to conduct interviews with 40 members of staff.
47. In order to achieve a balanced outturn position, the Board was required to identify £1.081 million in efficiency savings. The Board delivered £1.103 million in savings in 2014/15 exceeding its savings target by £22,000. £876,000 of these savings (80%) are non-recurring and are mainly attributable to vacancy management.

Source of savings	Recurring (R) or Non recurring (NR)	Target as per LDP £'000	Actual savings £'000	Variance under/(over) achieved £'000
Workforce – Pay Non Recurring	NR	487	614	(127)
Workforce – Pay Recurring	R	172	65	107
Non Pay Non Recurring (part hand back)	NR	86	190	(104)
Non Pay Recurring	R	256	161	95
Workforce – Pay Non Recurring (part hand back)	NR	80	72	8
Savings as at 31 March 2015		1,081	1,103	(22)

(Source: Finance report as at 31 March 2015)

48. Audit Scotland's *NHS in Scotland 2013/14* report highlighted that many boards are still relying on a high percentage of non-recurring savings. In 2012/13 and 2013/14 the Board had the highest ratio of non-recurring savings to recurring of all the special health boards.²
49. During the year the Board's internal auditors carried out a review of 'performance management'. The objective of this review was to assess the processes in place for the management and control of performance including adequate consideration of efficiency savings and commercial consultancy income. Overall, internal audit concluded that the Board has 'effective processes and controls in respect of performance management'. The review highlighted a high ratio of non-recurring to recurring savings reported by the Board and risks associated with this. As at 31 March 2015 the Board savings were apportioned 80:20 between non-recurring and recurring. The Board will be addressing this issue during 2015/16. In particular, it is expected that the workforce review planned to be undertaken during 2015/16 will identify opportunities to achieve a number of recurring savings. We will monitor how the Board responds to this issue during 2015/16.

Capital resource limit

50. The Board's initial capital resource allocation was £314,000. However, given the low rate of spend, the Board's allocation was revised to £198,000. The unused capital allocation (£116,000) was handed back to the SGHSCD. The next significant capital project for the Board will be the planned security refurbishment in 2016/17 (estimated £5 million).

Future financial plans

51. The Board has submitted a Local Delivery Plan (LDP) to the SGHSCD which outlines its financial plans to 2017/18. The Board is forecasting a breakeven position over each of the next three years although this is dependent on the realisation of its savings plan. The Board expects its core RRL to remain broadly consistent in the short term, as shown below.

Anticipated movements in core RRL	2015/16	2016/17	2017/18
Core RRL (£million)	32.257	32.928	33.343
Increase / (decrease) on prior year (%)	0%	2%	1%

(Source: *The State Hospital Board for Scotland Local Delivery Plan 2015/16 – 2017/18*)

Savings plans are in place

52. Although the core RRL is expected to remain broadly consistent over the next three years, the Board is still expected to make efficiency savings of between 4% and 5% of its core RRL in each year of the plan. The LDP notes that the Board has identified all of the savings required over the next three years. The table below highlights the split between recurring and non-recurring savings.

² http://www.audit-scotland.gov.uk/utilities/search_report.php?id=2688

Savings by type	2015/16	2016/17	2017/18
Recurring (R), £million	0.562	0.862	0.862
Non-recurring (NR), £million	0.779	0.779	0.779
TOTAL, £million	1.341	1.641	1.641
Ratio,% R:NR	42:58	53:47	53:47

(Source: The State Hospitals Board for Scotland Local Delivery Plan 2015/16 – 2017/18)

53. Historically, the Board has been able to achieve the savings that are required to achieve a breakeven position and it remains confident that, based on the funding assumptions within the LDP, it will continue to do so.
54. The LDP highlights a number of key assumptions and risks to the delivery of the plan, as outlined below.

Key assumptions and risks in the 2015-2018 LDP	Risk rating	Potential impact
Security – future years	High	£5 million
Legal challenges	Medium	£0.1 million
Savings plans not realised	Medium	£0.25 million
Security incidents (including damage to property)	Low	£0.2 million
Furniture replacement / Property upkeep	Medium	£0.1 million
Sustainability	Low	£0.05 million
National Insurance 2016/17	High	£0.5 million

(Source: The State Hospitals Board for Scotland Local Delivery Plan 2015/16 – 2017/18)

Cost pressures

55. The Board makes a range of financial assumptions when producing its LDP. The principal assumptions made are broadly consistent over the three year period. They are that:
- available resources will rise by 1% year on year;
 - pay will rise by 2.83% in 2016/17 and 2.8% in the following two years; and
 - general costs will rise by 2% year on year.
56. These assumptions are broadly in line with the rates applied by the Board in previous years and those we have experience of in the sector.
57. The achievement of future financial targets will depend on continuing tight control of expenditure, delivery of a challenging savings plan and may also require some difficult decisions to be taken in areas such as workforce planning. This will be a key area which the Board will have to monitor very closely.

Financial capacity in public bodies

58. The Auditor General for Scotland and the Accounts Commission are interested in the impact that 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.
59. A summary of our findings are highlighted below;

Theme	Audit Findings
<p>Financial Capacity</p>	<p>The finance function at the Board is overseen by the Finance and Performance Management Director. Through his position within the organisation and his attendance at Board, senior management team (SMT) and Audit Committee meetings, the Finance and Performance Management Director has sufficient status to ensure financial performance is managed effectively at both a strategic and operational level. The Finance and Performance Management Director has responsibility for finance, procurement, e-Health, risk and clinical effectiveness and performance management. He is supported in this role by a team of nine staff members (this has reduced by two since 2011/12). The Finance and Performance Management Director is the only professionally qualified accountant within the team. Staffing levels within the finance function have been reviewed as part of the preparation of workforce plans within the organisation and have been deemed sufficient.</p> <p>There is however currently no succession plan in place for the finance function. It was noted during the review that succession issues exist as more than half of the finance function are over the age of 50.</p> <p>Management has offered training opportunities to staff, but due to the size of the team, they have encountered difficulties in securing time or willingness of staff to participate. We would encourage the Board to consider these succession issues as part of its wider workforce review scheduled for 2015/16.</p> <p style="text-align: right;"><i>Action plan point 3</i></p>

Theme	Audit Findings
<p>Financial strategy and sustainability</p>	<p>There is currently limited information within the LDP and performance reports on how the planned spending will contribute to the Board's intended outcomes. The Board should look to address this issue in future reports and within the next annual LDP through implementation of a formal mechanism for monitoring and reporting on how spending decisions are contributing to outcomes.</p> <p style="text-align: right;"><i>Action plan point 4</i></p> <p>On an annual basis, the Board updates its financial plan for the following three year period. The plan contains a high level statement of planned revenue and expenditure, including efficiency savings to be achieved. The plan is supplemented by a detailed annual budget which is incorporated into the monthly management accounts. The management accounts detail planned revenue and expenditure by cost code for each directorate.</p>
<p>Budget monitoring and control</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, scheme of delegation and standing financial instructions provide an established framework for officers to follow. Budget updates are produced on a monthly basis as part of the preparation of the management accounts. Finance reports are provided to a variety of audiences at the Board to provide a sufficient level of challenge over financial performance.</p>

Performance management framework

- 60. The Board has developed a performance management framework and receives reports on organisational performance and finance at every meeting. Performance reports are based on the Board's local delivery plan (LDP) and its associated targets and measures.
- 61. The Local Delivery Plan (LDP) sets out the Board's performance expectations against the targets which are aligned with the ministerial objectives of; Health improvement for people in Scotland; Efficiency/governance improvements; Access more quickly to service; and Treatment appropriate for patient (HEAT). The Board identified 14 key performance indicators in 2014/15. Progress against key performance indicators has been reported by the Board in its Annual Report and Accounts for the year ended 31 March 2015.
- 62. The Board also receives regular and detailed performance and financial information which facilitates scrutiny and challenge. Key risk factors which may impact on achievement of financial and non-financial outcomes are identified and discussed.
- 63. In April 2014, management carried out a self-assessment against Audit Scotland's best value toolkit on performance management. The toolkit is structured around three areas; action and improvement orientated, performance culture and effective processes that deliver improvement and suggests basic practice, better practice and advanced practice for each of these. A summary of management's assessment is shown in the table below:

Area	Management assessment
Action and improvement orientated	
What is the impact of performance management	Better practice
Performance culture	
To what extent is there a culture of performance management across the organisation	Better practice
To what extent is the organisation aware of its relative performance	Basic practice
Effective processes that deliver improvements	
To what extent is performance management integrated with organisational activities	Basic practice
How effective are performance measures	Better practice

64. We noted that the findings from this assessment have yet to be presented or discussed with the senior management team, Audit Committee or Board (refer to paragraph 66 with regard to the Board's application of the Audit Scotland toolkits). We would encourage management to present these findings to the senior management team and audit committee. Where appropriate, actions should be identified and progress against these reported regularly to the audit committee.

Refer to Action plan point 5 below

Best value

65. The Board fully embraces the principles of best value and has integrated these principles into the management of the Board. To demonstrate compliance with these principles, the Board decided to self-assess itself against Audit Scotland's best value toolkits. It was originally intended that all 18 toolkits would be used over a five year period. However progress has been slow. Between 2009 and 2013, seven toolkits were completed. A further five toolkits have been completed since April 2014. These include:

- Performance management
- Efficiency
- Public performance reporting
- Governance and accountability
- Vision and strategic direction

66. As part of our 2014/15 audit we reviewed the processes the Board has adopted to self-assess itself against these toolkits. Our review concluded that these processes are not operating as effectively as they could be:

- The toolkits were designed principally as audit tools and were not expressly produced for self-assessment purposes. The toolkits are generic for the public sector and therefore in many areas they do not relate accurately to the scope and structure of the business of the State Hospital. At the outset, management will consider the relevance of a particular toolkit to the organisation. Management has found, on occasion, that as the toolkit is not specific to the organisation, the self-assessment is not as valuable as it perhaps could have been. We would encourage the Board to consider other options to enable it to demonstrate compliance with best value principles; this may

be in the form of an overarching framework (encompassing the main themes of best value) or the application of a quality management/performance improvement framework.

- In respect of the toolkits applied this year, we noted that the findings have not been presented to the senior management team, audit committee or Board. We would expect management to present a summary of the findings, along with identified actions for improvement to, as a minimum, the Audit Committee, which has delegated responsibility for assessing the Board's compliance with best value principles. The actions for improvement should be presented in an action plan which sets out the responsible officer and timescale for completion. This will enable board members to monitor progress in implementing those actions.
- The toolkits categorise arrangements as 'does not meet basic requirements', 'basic', 'better' or 'advanced practice'. In carrying out the self-assessments, management may take the decision that 'basic' or 'better' practice is quite acceptable and appropriate. No improvement actions will be identified as a result of this. These decisions should also be reflected in any report presented to the Audit Committee.

Action plan point 5

Governance

67. 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.
68. We have found that the Board has appropriate governance arrangements in place. Our work has involved reviewing the Board's arrangements for:
- 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

Senior staff changes

69. In 2013/14, the Chief Executive took up a new role as NHS Director, Health and Justice, on secondment from the State Hospital. An interim Chief Executive was appointed. A permanent successor was appointed and took up post in March 2015.

Board self-assessment

70. In 2014, the Board carried out a self-assessment of its own effectiveness. As a result of this exercise, some of the non-executive Board members have attended other NHS Scotland board meetings to identify good practice. The non-executive Board members have reported back to the Board their findings.

McGoldrick report

71. During 2012/13, the Chair of the Board received three letters, each raising a number of concerns over the governance of the Board. In response to these concerns, the Chair commissioned the internal auditors to carry out three specific reviews, as well as an independent investigation by an external advisor, Professor Jim McGoldrick, which considered the outcome of the internal audit reviews as well as the other allegations made.
72. A redacted version of the McGoldrick report was published in December 2013 (the full report was issued in September 2013). The report contained six recommendations which were intended to strengthen the Board's governance arrangements. Since that time, work has been carried out to address the recommendations made. A report updating progress on each specific recommendation was presented to a private session of the June 2014 Board meeting. In February 2015, the Board received a report outlining action taken to date to address the recommendations and proposing that all further action be '*mainstreamed and addressed by the Board through its committee structure and processes*'. The Board endorsed this recommendation.
73. We understand that any further action to be taken will be included within the personal objectives/actions of the Chief Executive. The achievement of these actions will be assessed through the Board's appraisal process.

74. In our 2013/14 annual report to the Board we recommended that a formal action plan be developed, with responsible individuals and timescales to address the recommendations. While we understand no such formal action plan was developed, a narrative was provided to the Board on work taken to address the recommendations. As part of the objective setting exercise, we would encourage the Chair and Chief Executive to agree and record the specific actions to be taken with reference to the McGoldrick report (these should be specific, measurable and time based).

Action plan point 6

Systems of internal control

75. In line with International Standards on Auditing, 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 deficiencies in the operation or design of internal financial controls over the Board's key financial systems. We found the internal financial controls to be well designed and operating effectively.
76. The governance statement included within the Board's 2014/15 annual accounts discloses no material internal control weaknesses. However, one high risk recommendation is highlighted in relation to patients' external purchases. This recommendation was dealt with by the Board within one month of the audit report being issued. Our external audit work did not identify any further issues that we consider required disclosure in the Governance Statement.
77. The Governance Statement is signed by the Accountable Officer. Arrangements were put in place so that the interim Chief Executive provided the new Chief Executive with an assurance statement on the system of internal control that had been in place during 2014/15.

Internal audit

78. An effective internal audit service is an important element of the Board's governance arrangements. The Board's internal audit service is provided by KPMG. In accordance with International Standards on Auditing we have considered the function provided by KPMG and have concluded that the service is fit for purpose. To avoid duplication of effort and to ensure an efficient audit process, we have taken cognisance of internal audit work where appropriate and we are grateful to the KPMG internal audit team for their assistance during the course of our audit work.

Risk management

79. Public sector bodies in Scotland currently face increasing demand for quality services, but also have to face the challenge of tighter financial budgets. Effective risk management encourages effective decision making and better use of resources.
80. The Board has yet to fully embed risk management across the organisation:
- The Board's 'Risk Management Strategy 2009-2012' and 'Risk Register Guidance' underpin the Board's risk management framework, including all relevant roles and responsibilities. During our audit we noted that the Board's Risk Management Strategy has not been reviewed since 2009, having fallen due for review in 2012, and does not reflect current arrangements. For example, in 2014, the governance arrangements for risk management were reviewed and the Risk and Governance Committee disbanded. The responsibility for evaluating the Board's risk management policies and procedures now lies with the Audit Committee. The Board's Audit, Clinical and Staff Governance Committee are collectively responsible for the corporate risk register.

- The terms of reference for the Audit Committee were updated in April 2015 and now include the responsibility for the oversight of the risk management arrangements. However, from the disbandment of the Risk and Governance Committee in 2014 until April 2015 when the Audit Committee's terms of reference was updated, it is not evident which committee had taken responsibility for this.
- Although the risk team have made efforts to progress the risk function as a whole, there has been limited progress made with regard to the development of departmental risk registers. Going forward, the Board intend to implement the DATIX risk management module. At this time, the risk management policy and the associated guidance will be reviewed.

81. The Board holds periodic workshops to review and update the corporate risk register. The most recent workshop was carried out in June 2015. During our 2015/16 audit we will consider and review the outcome from this workshop and the associated impact it has had on the Board's risk management arrangements.

Prevention and detection of fraud and irregularity

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

National Fraud Initiative

83. 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.

84. We have concluded that the Board's arrangements for the 2014/15 NFI exercise have been satisfactory. The required data was submitted on time. The Board received 115 data matches, of which 16 were recommended for investigation. The Board investigated the matches shortly after they were released and by the end of March 2015 all matches had been investigated. The Board identified one error however it had no financial impact on the organisation. The investigation of data matches is led by the Head of Financial Accounts 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

85. We have reviewed the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local codes of conduct. We also considered controls over register of interests. We are pleased to report that our audit identified no significant issues of concern in relation to standards of conduct and the prevention and detection of bribery and corruption. We did however note the following in our 2014/15 interim management report to the Board:

86. In 2012/13 we noted that a number of the Board's policies and procedures were overdue for review. April 2014 was set as the target for no policies to be past their review date. Although significant progress

has been made by management to document and review all of the Board's policies and procedures, as at February 2015, 38 of the Board's 140 policies remained overdue for review. The majority of these (31) were due for review prior to the start of 2014/15. The Board has implemented a system which alerts the responsible policy owner prior to a policy becoming due for renewal. However, although policy owners are now made aware when a policy is due for review, there have been on-going delays in reviews taking place. The Audit Committee receives an update at each meeting on the progress being made to review all policies.

- 87.** All policies which have been updated since 2012/13 have been set a review date within one to five years. We did not identify any policies for which those subsequent renewal dates have now passed.

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 accounts 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 accounts 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.

We confirm that we will comply 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 together with the officers responsible for implementing the recommendations and the implementation dates.

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.

Action Plan Point	Issue Identified	Risk and Recommendation	Management Response
1 (para. 17)	<p>Asset decommissioning obligations</p> <p>During the year the Board demolished a temporary car park which was set up as part of the hospital redevelopment. Asset decommissioning costs were not capitalised and a provision for restoring the land was not created when the temporary car park was initially constructed.</p> <p>Grade 3</p>	<p>The Board was not compliant with the Capital Accounting Manual in relation to the accounting for asset decommissioning costs.</p> <p>Going forward the Board should ensure appropriate accounting treatment is adopted for any asset decommissioning obligations.</p>	<p>There are no future decommissioning obligations to which we are currently committed, but this will be applied to any relevant future decommissioning obligations which may arise.</p> <p>Responsible officer: Finance and Performance Management Director</p> <p>Implementation date: N/A</p>
2 (para 21)	<p>Fixed Assets</p> <p>CCTV cameras currently form part of the 'Fence and associated attachment asset'. However, these assets are likely to have different useful lives.</p> <p>Grade 3</p>	<p>The Board should consider whether the fence and CCTV cameras form part of the same asset. The Board should also review the useful life associated with each asset/component.</p>	<p>The equipment assets within the fence and associated attachments will be extracted in 2015/16 and set up as individual equipment assets with their relevant useful lives.</p> <p>Responsible officer: Head of Financial Accounts</p> <p>Implementation Date: June 2016</p>
3 (para 59)	<p>Succession Plan</p> <p>There are no succession plans in place for the finance function.</p> <p>Succession issues exist for the finance function as more than half the team are over the age of 50.</p> <p>Grade 2</p>	<p>This presents a certain level of risk to continuity of the finance function.</p> <p>We would encourage the Board to consider these succession issues as part of its wider workforce review scheduled for 2015/16.</p>	<p>Succession planning is being addressed across a number of areas of the State Hospital workforce, and the finance function will be included within the overall workforce plan review.</p> <p>Responsible officer: Human Resources Director</p> <p>Implementation date: 2015/16</p>

Action Plan Point	Issue Identified	Risk and Recommendation	Management Response
4 (para 59)	<p>Financial strategy and sustainability</p> <p>There is currently limited information within the LDP and performance reports on how the planned spending will contribute to the Board's intended outcomes.</p> <p>Grade 2</p>	<p>The Board should look to address this issue in future reports and within the next annual LDP through implementation of a formal mechanism for monitoring and reporting on how spending decisions are contributing to outcomes.</p>	<p>Noted – future reports will include this recommendation.</p> <p>Responsible officer: Finance and Performance Management Director</p> <p>Implementation date: June 2016</p>
5 (para 66)	<p>Best value</p> <p>As part of our 2014/15 audit we reviewed the processes the Board has adopted to self-assess itself against these toolkits. Our review concluded that these processes are not operating as effectively as they could be.</p> <p>Grade 2</p>	<p>We would encourage the Board to consider other options, instead of the Audit Scotland best value toolkits, to enable it to demonstrate compliance with best value principles.</p> <p>Management should present a summary of the findings from its self-assessment against a toolkit, along with identified actions for improvement to, as a minimum, the Audit Committee which has delegated responsibility for assessing the Board's compliance with best value principles. The actions for improvement should be presented in an action plan which sets out the responsible officer and timescale for completion.</p> <p>The findings should highlight where management has decided that 'basic' or 'better' practice is quite acceptable and appropriate.</p>	<p>The majority of kits are now completed – other options will not be addressed until the final set of toolkits are completed in 2015/16.</p> <p>Agreed and noted – a summary of actions will be presented to the Audit Committee from the next meeting of September 2015.</p> <p>Responsible officer: Finance and Performance Management Director</p> <p>Implementation date: June 2016</p>

Action Plan Point	Issue Identified	Risk and Recommendation	Management Response
<p>6 (para 74)</p>	<p>McGoldrick report</p> <p>In our 2013/14 annual report to the Board we recommended that a formal action plan be developed, with responsible individuals and timescales to address the recommendations. We understand no such action plan was developed. Instead, narrative was provided to the Board on work taken to address the recommendations.</p> <p>Grade 2</p>	<p>As part of the objective setting exercise, we would encourage the Chair and Chief Executive to agree and record the specific actions to be taken with reference to the McGoldrick report (these should be specific, measurable and time based).</p>	<p>In accordance with the State Hospital's appraisal processes the Chair will record the specific actions and objectives of the Chief Executive, and will receive reports on the progress against these objectives.</p> <p>Responsible officer: Chair Implementation date: June 2016</p>

Appendix 3: Follow up of 2013/14 recommendations

As part of our audit we have followed up the recommendation raised in our 2012/13 Annual Report. Implementation of this recommendation was still outstanding at the time of our 2013/14 audit.

Issue Identified	Risk and Recommendation	Update
<p>The Board does not currently have a policy in place for early departure schemes.</p> <p>The Board uses compromise agreements to protect the organisation from future legal claims in respect of the termination of employment, severance payment (where applicable) and any potential breaches in confidentiality.</p>	<p>There is a risk that the Board has not complied with the Scottish Public Finance Manual and is not currently following best practice guidelines.</p> <p>The Board should develop a policy for early departures and ensure this is approved by the Board and the Scottish Government and circulated to all staff.</p> <p>We would encourage the Board to review these principles and ensure that they are being complied with.</p> <p>Grade 4</p>	<p>Outstanding</p> <p>The Board still has no approved procedures in place for early departure schemes. The Board is currently drafting a Voluntary Severance and Compromise Agreement Policy which is due to be finalised and approved by December 2015.</p>

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