



**Scott-Moncrieff**  
business advisers and accountants

# **Borders Health Board**

External Audit Annual Report to the Board and  
the Auditor General for Scotland  
2015/16

**June 2016**

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# Summary

## Annual accounts

### Unqualified opinions

The Board approved the annual accounts for 2015/16 on 23 June 2016 and the accounts were submitted, together with this report, to the Scottish Government and Auditor General by the deadline of 30 June 2016. We reported unqualified opinions on the financial statements, the regularity of transactions and on other prescribed matters within our independent auditor's report. We were also satisfied that there were no matters which we were required to report by exception.

The audit identified some financial, disclosure and presentational adjustments which were all reflected in the final financial statements. There were no unadjusted audit differences.

## Financial management & sustainability

### Key targets achieved

The Board met all of its key financial targets in the year, achieving a saving of £90,000 (0.04%) against its Revenue Resource Limit (RRL). The saving was consistent with the planned outturn agreed with the Scottish Government Health and Social Care Directorates (SGHSCD) through the 2015/16 Local Delivery Plan.

The Board achieved its overall savings target during the year, which was crucial to delivering a balanced outturn. However, there has been a significant reliance on non-recurring savings. Of the total £6.911 million efficiency savings made, £3.454 million are recurring savings against an overall recurring savings target of £5.120million. This is the equivalent of a 33% shortfall, which has implications for future years.

### Value for money

#### Waiting times-related targets in particular continue to be challenging

The Board has an established and appropriate performance management framework in place that is aligned with the Local Delivery Plan and corporate objectives. The Board, its committees and managers

- We have issued an unqualified audit opinion on:
  - the financial statements
  - regularity
  - other prescribed matters
- Effective arrangements in place for financial management and use of resources
- A very small surplus achieved on revenue and capital in 2015/16
- Overall efficiency savings target of £6.911million has been achieved, but with a higher than anticipated reliance on non-recurring savings and income
- Governance arrangements are sufficient and appropriate although there are ongoing challenges regarding the Health and Social Care Integration agenda
- Established performance management arrangements are in place, although achievement of some waiting times targets in particular continue to be an issue

have been kept well-informed of organisational performance. While NHS Borders has not been able to achieve all its strategic targets in 2015/16, wherever performance has been below target the Board has received narrative explanations including planned remedial actions. Achievement of some waiting times-related targets in particular continues to be challenging.

## Governance

Our work on corporate governance focussed on reviewing the Board's arrangements to ensure effective systems are in place for internal control, prevention and detection of fraud and irregularity and standards of conduct. Governance arrangements at NHS Borders are satisfactory and appropriate. The Board is making progress in health and social care integration with the Scottish Borders Council, however governance and operational arrangements are taking longer than expected to establish. This has been highlighted as a strategic risk in the Board's annual accounts. Work is ongoing at senior levels across the

integration organisations to identify and address issues and concerns.

## **Conclusion**

This report concludes our audit for 2015/16. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Director of Finance and we would like to thank all management and staff for their co-operation and assistance during our audit.

**Scott-Moncrieff**

**June 2016**

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# Introduction

# Introduction

1. This report is a summary of our findings from the 2015/16 audit of Borders Health Board, commonly known as NHS Borders. The audit covered the Board's arrangements for managing resources, performance management and governance, in addition to our audit of the financial statements. This report summaries our findings in each of these areas. The scope of our audit was set out in our External Audit Plan, which was presented to the Audit Committee on 14 December 2015. Summary information on the scope of the audit is included in Appendix 2 to this report.
2. The main elements of our audit work in 2015/16 have been:
  - an interim audit of the Board's key financial systems and governance arrangements;
  - an audit of the Board's 2015/16 annual report and accounts, including a review of the Governance Statement;
  - completion of a minimum dataset of information as requested by Audit Scotland; and
  - consideration of the local impact of the national performance report [Scotland's Public Sector Workforce](#).
3. Wherever possible we have made use of the work of other inspection bodies including the Board's internal audit service and Audit Scotland.
4. The weaknesses and risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
5. This report is addressed to both the Board and to the Auditor General for Scotland and will be published on Audit Scotland's website. [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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# Annual accounts

# Annual accounts

## Introduction

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

## Overall conclusion

### Unqualified audit opinions

7. The annual accounts for the year ended 31 March 2016 were approved by the Board on 23 June 2016. We have reported within our independent auditor's report:
- an unqualified opinion on the financial statements;
  - an unqualified opinion on regularity;
  - an unqualified opinion on other prescribed matters.

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

### Key areas of audit focus and significant findings

9. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the Board's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
10. We are required by auditing standards to report to the Board the main issues arising from our audit of the financial statements. We discharge these obligations throughout this report.
11. We set out below the risks highlighted in our audit plan together with a summary of how our audit approach responded to these risks and the conclusions arising from our work.

## Audit Risk 1: Financial position

In our External Audit Plan and in our Interim Audit Report we recognised that the Board, whilst forecasting a breakeven position at the year end, expected to rely on non-recurring income and savings in order to achieve this outturn position. We also recognised the risk that achievement of breakeven and efficiency savings targets might affect quality of service delivery.



12. We have reviewed the Board's financial performance, underlying financial position, savings, projections and reporting arrangements.
13. We found that the Board has generally good arrangements in place for managing its financial position and its use of resources in the context of an increasingly challenging funding environment. The £90,000 saving against the Revenue Resource Limit (RRL) in 2015/16 represents an underspend of just 0.04%.
14. Financial planning arrangements and performance through the year continues to be scrutinised by operational reporting arrangements and by the dedicated Financial Position and Oversight Group (FPOG). FPOG assists Board oversight, through a focused and specialist forum for scrutinising and challenging the NHS Borders financial position and related financial management.
15. The Board has relied on non-recurring savings to achieve the 2015/16 outturn. Of the total £6.911 million efficiency savings made, £3.454 million are recurring against an overall recurring



target of £5.120million. This is the equivalent of a 33% recurring shortfall, which has implications for future years. Coupled with certain performance pressures (achievement of some waiting times-related targets in particular continues to be challenging), NHS Borders has managed its finances well in 2015/16 but is facing increasing difficulty going forward.

## Audit Risk 2: Funding Allocations

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



16. We carried out appropriate audit testing to assess the Board's compliance with specific conditions of funding attached to certain SGHSCD allocations. This included reviewing allocations and considering how the Board has earned the related funding.
17. We did not identify any reportable issues in the Board's utilisation of allocated funding. All specified terms and conditions tested had been complied with.

## Audit Risks 3 & 4: Revenue recognition & management override

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



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

## Non-current assets

19. Our audit work over the non-current asset balance identified a number of issues in relation to accurate reconciliation of categories and totals between the Real Asset Management (RAM) system, the ledger and the financial statements. Key points identified were:
  - Variance of £0.143million between RAM and the financial statements;
  - The 'transfers' line within note 11 to the financial statements does not net to zero between asset gross replacement cost and accumulated depreciation, although overall transfers between asset categories is in balance;
  - A £4.3million adjustment was made between asset categories as a result of our audit work, to address the material aspects arising from our work.
20. In making the agreed necessary adjustments to address these issues, a residual unreconciled balance of £6k remains between the final accounts and the Board's trial balance. Whilst we are confident this difference is not material (indeed in absolute terms it is below reportable levels), it is important that management investigate this further to ensure that the underlying financial records fully reflect the financial statement entries going forward.

### Action point 1

## Other audit adjustments identified

21. There are no unadjusted differences arising from the audit. All adjustments identified were reflected within the final financial statements. The adjustments, taken individually and in aggregate, did not have any effect on the Board's

reported financial outturn against RRL for the year. The adjustments made during the audit

process primarily related to:

The reallocation of £4.301million income across account codes in line with SFR 30 confirmations.

Restatement of Information Technology asset Net Book Value of £252,000 following incorrect transfer of these assets to another asset category.

Adjustment of £237,000 to increase both payables and receivables with regard to changes in circumstances in relation to a payment made in settlement of a medical negligence claim.

Amendments to the cash flow statement including reconciliation of year end cash balance to the balance sheet (adjustment of £13,000), restatement of endowment fund cash flows and adjustment of the cash flow from disposal of Property, Plant and Equipment (PPE) from £58,000 to £507,000.

Adjustment of the 'cash and cash equivalents' balance from £332,000 to £270,000 to include two further bank account balances held by the Board.

Changes to disclosure at Note 17 to accurately reflect, in full, all in-year movements on the provision for participating in the CNORIS scheme.

Adjustment of general fund creditor to take account of the fact that a payment of £2.234million had not cleared the bank account prior to the year end.

Adjustment of the SFR 30.2 note for a credit note for £527,000.

Changes to disclosure at Note 33 to accurately disclose Endowment fund balances within the correct area of the accounts template.

Adjustment to show the reversal of impairment and loss of remeasurement of assets held for sale as two separate transactions within Note 3 to the accounts.

Adjustment of £143,000 of total asset NBV to reconcile the annual accounts to the asset register.

## Qualitative aspects of accounting practices and financial reporting

22. 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. Our findings are summarised below:

<b>The accounting policies used</b>	<ul style="list-style-type: none"> <li>The significant accounting policies, which are disclosed in the financial statements, are considered appropriate to the Board.</li> </ul>
<b>The timing of the transactions and the period in which they are recorded.</b>	<ul style="list-style-type: none"> <li>We did not identify any concerns over the timing of transactions or the period in which they were recognised. A particular event after the balance sheet date was considered specifically in relation to the impact on CNORIS legal claim provision and was recorded in the correct period.</li> </ul>
<b>The accounting estimates and judgements used</b>	<ul style="list-style-type: none"> <li>The accounting estimates and judgements used by management in preparing the financial statements are considered appropriate.</li> </ul>
<b>The potential effect on the financial statements of any uncertainties, including significant risks</b>	<ul style="list-style-type: none"> <li>We have not identified any uncertainties, including any significant risks, which should be included in the financial statements (beyond the existing disclosures made).</li> </ul>
<b>The extent to which the financial statements have been affected by unusual transactions</b>	<ul style="list-style-type: none"> <li>From the testing performed, we identified no significant unusual transactions in the period.</li> </ul>
<b>Apparent misstatements in the annual report or inconsistencies with the financial statements</b>	<ul style="list-style-type: none"> <li>We noted no such issues between the financial statements and management commentary.</li> </ul>
<b>Any significant financial statement disclosures to bring to your attention</b>	<ul style="list-style-type: none"> <li>There are no significant financial statement disclosures that we consider should be brought specifically to your attention.</li> </ul>
<b>Disagreement over any accounting treatment or financial statement disclosure</b>	<ul style="list-style-type: none"> <li>There was no material disagreement during the course of the audit over any accounting treatment or disclosure.</li> </ul>
<b>Difficulties encountered in the audit</b>	<ul style="list-style-type: none"> <li>Although we noted improvement from the previous year, the Board again had difficulty in providing draft accounts and back up of the quality expected. See below for further details.</li> </ul>

23. Whilst improvements were observed in both the timeliness and quality of working papers provided, there remains substantial scope for further development. We continued to identify erroneous accounting entries which we would not expect and working papers did not readily reconcile to the draft financial statements in some cases. Examples include bank accounts omitted from the draft year end accounts, cash flow balances not agreeing to the balance sheet,

issues in relation to standard provisions accounting, and ledger/sub-system reconciliations. In addition, whilst we have gained assurance that the VAT recoverable amount is not materially misstated, issues were encountered during the audit in obtaining sufficient appropriate audit evidence from the accounting system.

### Action point 2

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# Financial management & sustainability

# Financial management & sustainability

## Overall conclusion

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

24. Overall, 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. Key elements of these areas are discussed in more detail below.

### The Board's financial performance in 2015/16

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

25. The Board has to work within the resource limits and cash requirements set by the Scottish Government. As shown below, the Board met all of its key financial targets in 2015/16.

Financial Target	Limit £000	Actual £000	Variance £000	Target achieved?
Core revenue resource limit	210,241	210,151	90	Yes
Non-core revenue resource limit	3,968	3,968	-	Yes
Capital resource limit	2,375	2,369	6	Yes
Cash requirement	216,768	216,768	0	Yes

### A saving of £90,000 against total RRL

26. The Board achieved a saving against its RRL of £90,000. This surplus is in line with the break even position forecast in the 2015/16 Local Delivery Plan (LDP).

27. The Board also made a saving of £6,000 against its Capital Resource Limit (CRL) of £2.375million and achieved its Cash Requirement target.

- £2.4million returned to the Scottish Government due to slippage on capital projects. An agreement has been made that this funding will be reinstated in 2016/17; and
- Capital to revenue transfer of £1.125million agreed to support elements of the backlog maintenance and estates programme.

### Capital resource limit

28. The Board invested £2.369million into capital projects during the year. The CRL was revised down during the year from an initial allocation of £5.915million as reported in the Board's 2015/16 LDP. This was primarily due to the following factors:

### Cash Management

29. The Board operated within its cash requirement limit in 2015/16. We noted during the final audit that a £2million BACS payment was initiated on 31 March 2016 without sufficient cleared funds within the board's bank accounts. The payment was

initiated on the expectation of an imminent cash receipt from Scottish Government.

- 30. Although there are external controls to mitigate against an overdraft position being realised, NHS Borders should avoid making payments in excess of the available bank balance, regardless of the expected imminent nature of income.

**Action point 3**

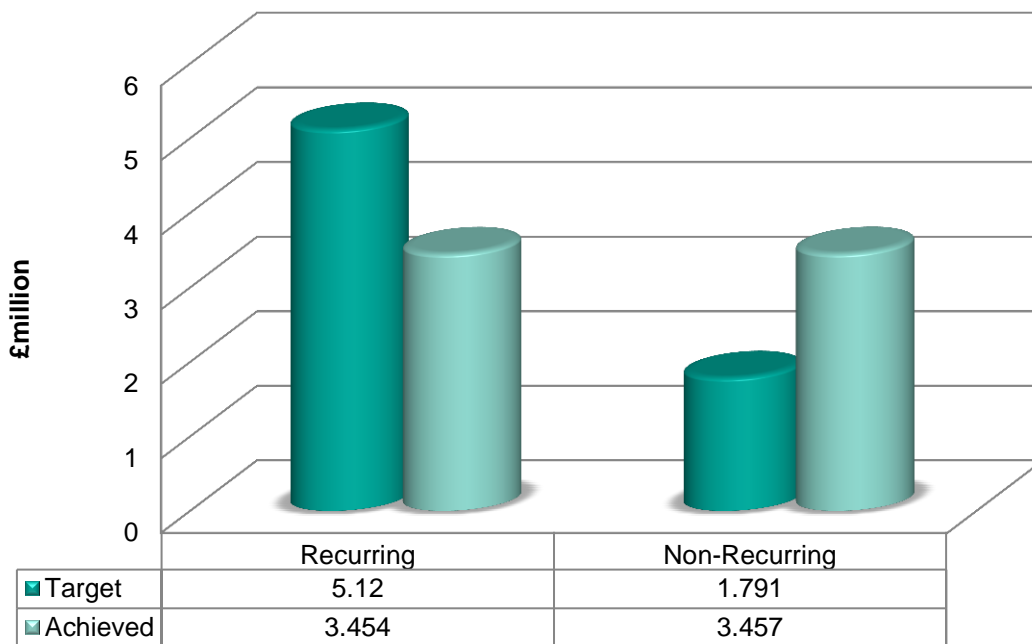
**Efficiency savings**

**The Board achieved its 2015/16 savings target but with additional reliance on non-recurring savings**

- 31. As part of the Board's 2015/16 financial plan, £6.911million of cash releasing efficiency savings

were required. Of this total, £5.12million were to be recurring savings. An efficiency programme was agreed in April 2015 to this effect.

- 32. The Board achieved its overall savings target during the year, which has been key to delivering a balanced outturn. However, there has been a significant reliance on non-recurring savings. Of the total £6.911 million efficiency savings made, £3.454 million are recurring against an overall recurring target of £5.120million. This represents a 33% recurring savings shortfall, with the balance of savings being non-recurring. This has implications for future years as non-recurring savings have to be made again every year until the underlying cost base is reduced on a recurring basis.



- 33. Over achievement against the recurring target in 2014/15 helped put the Board in a stronger financial position in 2015/16. 2015/16 was the first year in recent times that the Board failed to meet its efficiency targets on a recurring basis. The shortfall of £1.666million will be carried forward to increase what was already a very challenging recurring savings requirement in 2016/17.

**2016/17 projections and efficiencies**

- 34. The Board's Local Delivery Plan (LDP) forecasts a breakeven position for 2016/17 whilst also recognising that this will be particularly challenging to deliver for a number of reasons, including the carry forward of a recurring deficit. It is therefore imperative that recurring efficiency schemes are well planned, closely monitored and reported on regularly during 2016/17.

35. In 2016/17 NHS Borders will be required to deliver efficiency savings of £11.451million, of which £8.795million (77%) should be on a recurring basis. This is inclusive of the £1.666million carried forward from 2015/16. An efficiency savings programme was presented to the Board at its meeting in April 2016. This process was informed by various factors including a staff engagement exercise, review of national efficiency reports, local management discussions and a series of quality, productivity and efficiency sessions with senior NHS leaders.

36. At the time of our audit, the Board had identified proposals to achieve over 95% of the efficiency savings target for 2016/17. Of the proposed schemes, £6.7million (59%) is identified as high risk with the remaining £4.3million classified as medium or low risk. Project managers and sponsors are taking forward work in developing the schemes currently classified as high risk. They are being supported in this role by the Senior Finance Manager (Costing and Efficiency). Operational delivery and implementation of each scheme will be overseen by the Quality and Efficiency Board.

**Key assumptions and risks in the LDP financial plan**

37. The key, high-level financial assumptions used by the Board for 2016/17 are detailed below:

Income/expenditure	2016/17 uplift (%)
Revenue growth	1.7%
Pay Uplift (incl. NI costs)	3.9%
Non-pay inflation	1.5%
Drugs	7.29%

38. The assumptions are broadly consistent with the rates applied by the board in previous years and appear reasonable when compared to those we have experience of in the sector.

39. These assumptions underpin the overall financial plan which includes a number of high risk areas for successful delivery.

40. The Capital programme for 2016/17 forecasts spend of £7.057million, increasing to £8.719million in 2017/18. This represents an increase of 198% and 268% respectively on 2015/16 figures, as part of a planned and managed multi-year programme. It also assumes that all capital receipts will be retained by the Board. Despite this increase, NHS Borders has identified that the limited availability of capital to support efficiency savings projects poses a significant risk to delivery of the efficiency savings programme and (by extension) a breakeven position at the year end.

41. Additional high risk areas identified by the Board and impacting the 2016/17 revenue position are as follows:

- Increasing population and changing demographics which will not be reflected in funding for a number of years due to the recommendations of the NHS Scotland Resource Allocation Committee (NRAC).
- Ability to recruit and retain staff and the additional costs associated with the use of supplementary staff.
- Drug costs and volumes remain particularly volatile. Drugs represent significant spend and so this remains a significant area of risk.

42. Delivery of waiting times and A&E targets remains a challenge for the Board. No additional financial resources have been set aside for treatment of patients out of the Board area or through waiting list initiatives. Plans state that any such arrangements would require additional funding from the Scottish Government.

**Workforce Planning Follow Up**

43. In November 2013 the Auditor General for Scotland and the Accounts Commission published a report aiming to assess if public bodies are managing changes to their workforces effectively. The report made a number of recommendations to public

bodies to help ensure a sustainable, effective and efficient workforce, as summarised below.

44. The Scottish Government and the Convention of Scottish Local Authorities (COSLA) should work with public bodies to:

- provide strategic guidance on how bodies can redesign services and work better together to jointly plan and deliver services;
- improve strategic planning of public sector workforces to identify and plan for future skills needs, gaps and challenges across the public sector; and
- collect and share information on the mix of approaches that bodies use to manage workforces.

45. Where they have not already done so, councils, the NHS, the Scottish Government and central government bodies should:

- forecast expected staff numbers, skill needs and costs on a rolling three-year basis, using scenario planning where necessary;
- make better use of existing mechanisms, such as community planning partnerships, to identify opportunities to share resources, including workforces; and
- monitor the age of their staff, to prepare for peaks in departures resulting from people leaving when they reach retirement age.

46. As part of our 2015/16 audit we followed up on the Board's response to these issues in their workforce planning arrangements, to highlight any causes for concern or areas of good practice. This information was then submitted to Audit Scotland, who will assess the findings across the public sector in Scotland to identify any common issues. Areas of good practice identified at NHS Borders include the following:



47. The key area for potential improvement at NHS Borders relates to long term planning and succession planning. The Board currently prepares staff number and skills mix projections to help inform succession planning over the short and medium term. This however is not extended to

cover longer term considerations (i.e. 5-10 yrs.). This is not unusual in the NHS, but will be an increasingly important factor in long term success and sustainability.

**Action point 4**



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# Value for money

# Value for money

## Introduction

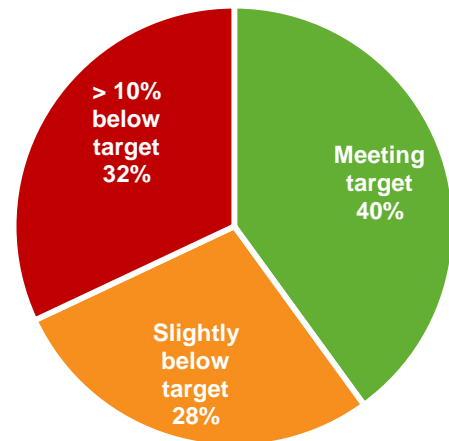
48. Value for money is concerned with the appropriate use of resources and ensuring continuous improvement of services delivered.

## Overall conclusions

### An established and appropriate performance management framework in place, but achievement of some waiting times-related targets continues to be challenging

49. The Board continues to have appropriate performance management arrangements in place which support scrutiny and challenge, and which help contribute to the achievement of value for money.
50. Performance is reported on a monthly basis through the Integrated Performance Report. This report has replaced the Clinical Executive Scorecard and the Key Performance Indicator Scorecard, with the aim of aligning reports on service performance with financial and workforce priorities. This bringing together of these aspects of performance is in line with good practice.
51. The Integrated Performance Report has been structured to show improvement across the range of priorities in the national 2020 Vision Route Map. Included within the report are a range of clinical, non-clinical and financial performance indicators as well as the range of LDP standards. An update on performance is provided to each meeting of the Board and the Strategy and Performance Committee, in addition to each monthly meeting of the Clinical Executive Team.

52. The Board reports on a range of LDP standards under the three domains of the 2020 Route Map (Health of Population, Value and Sustainability, and Quality). A RAG rating is given to each standard indicating current performance and trend information is provided month on month.



53. The graph above shows year end performance as reported to the Board in June 2016. This shows that 10 (40%) of the targets are meeting or exceeding their trajectories whilst 8 (32%) are significantly underperforming.
54. Narrative is provided for each HEAT standard along with graphical trend analysis covering the financial year.
55. The majority of those targets which are significantly under trajectory relate to waiting times. Summary details are given below:

HEAT target	Target	Current performance	Commentary
12 weeks for outpatients appointments	0	258	Progress has been made during 2015/16, with the majority of specialties now booking within 12 weeks. Significant challenges persist in ENT, Gastroenterology and Chronic Pain.
12 weeks for inpatients appointments	0	10	Progress has been made during 2015/16, with virtually all Specialties now booking within 12-weeks. Breaches stem from short-notice cancellations (an on-going risk).
4 week waiting target for diagnostics	0	165	Demand and capacity is being reviewed across all diagnostic specialties, with plans being developed to address anticipated activity shortfalls and to improve performance.
No CAMHS waits over 18 weeks	0	11	A CAMHS nurse and a Consultant Psychiatrist shortage (one of each post) are key to support the delivery of the target (vacant since mid-2015).
No Psychology Therapy waits over 18 weeks	0	10	Impacted by lost expertise in EMDR - a particular specialised therapy - coupled with the 12 month training lead time. A member of staff has recently commenced training in EMDR.
No delayed discharges over 2 weeks	0	4	Weekly delayed discharge meetings, including key external partners and senior managers. A comprehensive list of further actions is being developed and will be closely monitored during 2016/17.

56. Performance at the 2015/16 year end is generally in line with previous years. Whilst this does not suggest a decline, targets are still not being achieved although the numbers of patients impacted upon has reduced. No significant improvement in the percentage of targets achieved is being made and this seems at least partly reflective of the challenging financial environment, the cumulative effect of service and demographic pressures and the impact of day to day operational issues.
57. We are pleased to note that narrative provided with performance reports is sufficient to support robust scrutiny and challenge. Further actions to be taken in pursuit of improved performance are clearly set out with priority being given to areas of highest risk.
58. The Board should continue to closely monitor and scrutinise performance against these targets, in addition to ensuring that remedial action is taken where necessary.

**5**

# **Governance & transparency**

# Governance & transparency

## The Board's governance arrangements remain sufficient and appropriate

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

## Overall conclusion

60. The Board has appropriate governance arrangements in place. Our audit work has included reviewing corporate governance arrangements as they relate to:
- systems of internal control;
  - risk management;
  - internal audit;
  - the prevention and detection of fraud and irregularity; and
  - standards of conduct and the prevention and detection of bribery and corruption.

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

61. We are satisfied that the Governance Statement complies with the Scottish Ministers' guidance and that the content is not inconsistent with information gathered during the course of our normal audit work.
62. A number of control weaknesses are disclosed in the Governance Statement. These include issues related to mandatory staff and junior doctor training, health and safety management, aspects of health and social care integration and delayed discharges. The disclosures take cognisance of Internal Audit's annual report, which gave an overall conclusion rating of 'Generally satisfactory with some improvements required' given the highlighted and targeted higher risk areas for the Board to strengthen its internal control environment.

63. Our audit work did not identify any further issues that we considered required disclosure in the Governance Statement.

## Accounting and Internal Control systems

64. The Board has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses or governance issues in the Board's accounting and internal control systems during our final audit.

## Risk Management

65. A developed and integrated approach to risk management is a key feature of a robust system of internal control. NHS Borders has further developed and rolled out its risk management arrangements during 2015/16, including the implementation of all internal audit recommendations raised in 2014/15.
66. The risk management strategy, policies and supporting guidelines provide the overall risk management framework for NHS Borders. The Clinical Executive Operational Group received reports on the implementation of the risk management arrangements throughout 2015/16. Continuous improvement actions were agreed to take forward risk management across the organisation including the approval of a Risk Management Audit Protocol in June 2015. This document sets out guidelines for the bi-annual audit carried out by the Risk and Safety Management Team on agreed risks.
67. Over our time as the NHS Borders external auditors, we have noted improvements in relation to the structure and practices of risk management. Continued improvements will ensure the systems and processes become increasingly robust and embedded in ongoing operations.

## Internal Audit

68. An effective internal audit service is an important element of the Board's governance arrangements. The Board's internal audit service is provided by PricewaterhouseCoopers (PwC). During our audit

we take cognisance of the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the Board's audit resource.

69. In accordance with International Standard on Auditing (ISA) 610 – Considering the work of internal audit, “the external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment.” Following consideration of the NHS Borders arrangements and compliance with Public Sector Internal Audit Standards, we have been able to take appropriate cognisance of the work performed and conclusions reached by internal audit. We are grateful to the NHS Borders internal audit team for their assistance during the course of our audit work.

### Prevention and detection of fraud and irregularity

70. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate.
71. NHS Borders has a Countering Fraud Operational Group to take overall responsibility for the oversight and scrutiny of counter fraud arrangements. Group membership is taken from the Audit Committee and senior management representatives from key areas in the organisation (including procurement, estates, HR and Pharmacy). This has also been informed by a Fraud Risk Assessment exercise.

### National fraud initiative

72. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. We found the Board's arrangements for participation in the NFI were satisfactory, with no instances of fraud or error identified in the most recent NFI round.

### Standards of conduct

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

Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for complying with national and local codes of conduct. We have also considered the controls in place to ensure compliance with the regulatory guidance that is produced by the SGHSCD throughout the year.

### Health and social care integration

74. The Public Bodies (Joint Working) (Scotland) Bill was introduced to Parliament on 28 May 2013. The Bill's aim was to drive integration between health boards and local authorities as a means of improving outcomes for service users. The Board agreed with the Scottish Borders Council that integration will be undertaken through the 'body corporate' model. This has involved the delegation of some Board functions and resources to a separate corporate body governed by an integration joint board (IJB) and headed by a Chief Officer.
75. An extraordinary Audit Committee meeting was held on 1 February 2016 to consider issues with regard to Health and Social Care Integration and related assurances. This included compliance with SG guidance, progress made on financial and related workstreams, and audit and assurance of work plans and developments.
76. A draft Strategic Plan for the IJB was published in November 2015 and the resource allocation to the IJB for its delegated functions has now been agreed. NHS Borders will allocate resources of £110.7million to the IJB in 2016/17. This represents 46% of the Health Board's funding, to cover the functions as delegated and set out in the integration scheme. This amount has been established in line with the Health Board's spread of funding and expenditure and taking cognisance of national guidance. Consideration has also been given to the uplift applied to NHS Boards' funding from the Scottish Government and the efficiencies that are to be achieved.
77. An internal audit review was carried out specifically over the governance arrangements around the establishment of the IJB. No high risk recommendations were identified through this report and it was acknowledged that there was a high degree of commitment at senior level to set up the IJB correctly and in accordance with the Act. It

was highlighted though that there remains pockets of resistance to change. The report recommended that management assess and identify the barriers to change and implement actions to overcome these at all levels of the organisation. This is being taken forward by the Executive Management Team (EMT), a cross-organisational forum whereby senior leaders of the respective bodies identify, target, discuss and agree actions to tackle the current and emerging issues and “pressure points” in relation to the IJB.

**78.** As 2016/17 will be the first full year of operation it will be a learning period for both the Health Board

and the Council. The Board continues to have concerns over the new governance arrangements in operation as a result to the creation of the IJB and has included this as a significant risk disclosure within the Governance Statement.

**79.** We encourage the Board to closely monitor the operational impact of work and the governance of the IJB, and continue to work closely with colleagues from the Scottish Borders Council to deliver the integration agenda as intended by the Scottish Government.

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## Appendices



# Appendix 1: Management action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit.

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. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist.

Communication of the matters arising from the audit of the annual report and accounts 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.

## Action plan grading structure

To assist NHS Borders in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

<b>Grade 5</b>	Very high risk exposure – major concerns requiring Board attention
<b>Grade 4</b>	High risk exposure – material observations requiring senior management attention
<b>Grade 3</b>	Moderate risk exposure – significant observations requiring management attention
<b>Grade 2</b>	Limited risk exposure – minor observations requiring management attention
<b>Grade 1</b>	Efficiency / housekeeping point

Action plan point	Issue & Recommendation	Management Comments
1. Trial balance totals	<p><b>Observation</b> In making the agreed necessary adjustments to address non-current asset accounting and other reconciliation issues, a remaining unreconciled difference of £6k is reported.</p>	<p>Management will review the remaining unreconciled balance to ensure the underlying financial records fully reflect the annual accounts entries.</p> <p><b>Action owner:</b> Susan Swan Deputy Director of Finance</p> <p><b>Due Date:</b> In line with the production of the Mid- Year accounts 2016/17.</p>
Rating		
Grade 3	<p><b>Recommendation</b> Whilst we are confident the remaining reconciling difference of £6k is not material (indeed it is below reportable levels), it is important that management investigate this further to ensure that the underlying financial records accurately and completely reflect the financial statement entries going forward.</p>	
Paragraph ref		
20		

Action plan point	Issue & Recommendation	Management Comments
2. Progress of audit and quality of working papers	<p><b>Observation</b> The audit process in 2015/16 was improved in comparison to 2014/15. Financial statements working papers were produced when requested and some improvement in quality was observed.</p>	<p>Management will review the 2015/16 process and detailed comments received from the audit team to ensure further improvement is achieved in the production of working papers from the core finance system to support the 16/17 annual accounts process.</p> <p><b>Action Owner:</b> Susan Swan Deputy Director of Finance (Financial Accounting)</p> <p><b>Due date:</b> June 2017.</p>
Rating		
Grade 3	<p>However, there remains substantial scope for improvement. It was often difficult to reconcile workings to account balances and some relatively basic errors were identified in the draft financial statements which we would not expect to find.</p>	
Paragraph ref		
23	<p><b>Recommendation</b> Management should continue to improve the quality of working papers produced, ensuring that all workings are clearly shown and that final calculated totals reconcile to the draft financial statements.</p>	

Action plan point	Issue & Recommendation	Management Comments
<b>3. Good practice cash management</b>	<p><b>Observation</b> The Board operated within its cash requirement limit in 2015/16. However, a £2million BACS payment was initiated on 31 March 2016 without sufficient cleared funds within the board's bank accounts. The BACS was initiated on the expectation of an imminent cash receipt.</p> <p><b>Recommendation</b> Although there are external controls to mitigate against an overdraft position being realised, NHS Borders should avoid making payments in excess of the available bank balance, regardless of the expected imminent nature of income.</p>	<p>Accepted</p> <p><b>Action owner:</b> Susan Swan Deputy Director of Finance (Financial Accounting)</p> <p><b>Due date:</b> June 2016.</p>
<b>Rating</b>		
<b>Grade 3</b>		
<b>Paragraph ref</b>		
<b>30</b>		

Action plan point	Issue & Recommendation	Management Comments
<b>4. Longer term workforce and succession planning</b>	<p><b>Observation</b> NHS Borders currently prepares staff number and skills mix projections to help inform workforce and in particular succession planning over the short and medium term. This however is not extended to cover longer term considerations (i.e. 5-10 yrs.).</p> <p><b>Recommendation</b> Longer term consideration of workforce and succession planning should be pursued, as an increasingly important factor in long term success and sustainability.</p>	<p>Management will consider implementing longer term planning in workforce and succession planning.</p> <p><b>Action owner:</b> June Smyth Director of Workforce and Planning</p> <p><b>Due date:</b> June 2017.</p>
<b>Rating</b>		
<b>Grade 3</b>		
<b>Paragraph ref</b>		
<b>47</b>		

# Appendix 2: Scope of the audit

## An overview of the scope of our audit

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

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

The significant risks that had greatest effect on our audit, our response to those risks and our findings from the work performed are set out within section 2 of this report. The audit response to each of these risks was designed in the context of the financial statements as a whole, and consequently, we do not express an opinion on individual risks.

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

## Our application of materiality

The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. Different materiality levels will be applied to different elements of the annual report and accounts.

Our initial assessment of materiality for the annual report and accounts during our planning work was £3.7 million. On receipt of the draft 2015/16 accounts, we reassessed materiality but maintained the £3.7million threshold. Our assessment of materiality is set with reference to a range of benchmarks. In particular, the performance against RRL is one of the principal considerations for the users of the accounts when assessing the financial performance of the Board. We consider that our updated assessment has remained appropriate throughout the audit and that it is equally relevant to both the Board and Group.

## Performance materiality

We set a performance materiality for each area of work which was based on a risk assessment for the area and percentage application of overall materiality. The performance testing thresholds, as set at the planning stage of the audit, are set out in the table below:

Area risk assessment	Weighting	Performance materiality (£million)
High	40%	1.480
Medium	50%	1.850
Low	60%	2.220

## Reporting

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

- All material corrected misstatements;
- Uncorrected misstatements with a value in excess of £37,000, being our clearly trivial threshold; and
- Other misstatements below £37,000 that we believe warrant reporting on qualitative grounds.

We also report to the Audit Committee on significant disclosure matters that we identified when assessing the overall presentation of the annual report and accounts.

# Appendix 3: Respective responsibilities of the NHS Borders Board and the Auditor

## Responsibility for the preparation of the annual report and accounts

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 and directions made thereunder.

### In preparing the annual report and accounts, the Board has a responsibility to:

Observe the financial statements direction issued by Scottish ministers, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a constant basis;

Make judgements and estimates that are reasonable and prudent;

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.

### The Board is also responsible for:

Keeping proper accounting records that are up to date; and

Taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditor responsibilities

### We audit the annual report and accounts 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 2015/16 FReM;

They have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by Scottish Ministers;

Expenditure and income in the financial statements was incurred or applied in accordance with any applicable enactments and guidance issued by Scottish Ministers;

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 of the information and explanations we require for our audit; or

The Governance Statement does not comply with guidance from the Scottish Ministers; or

There has been a failure to achieve a prescribed financial objective.

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 also providing a view (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 NHS Borders' 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 NHS Borders' 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;
- its financial position.

## Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Auditing Practices Board's (APB) Ethical Standard 1: Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff and the Board or senior management that may reasonably be thought to bear on our objectivity and independence.





**Scott-Moncrieff**  
business advisers and accountants