



Scott-Moncrieff
business advisers and accountants

NHS Health Scotland

Annual report on the 2015/16 audit
to the Board and the Auditor General for
Scotland

June 2016

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Executive summary

Annual accounts

NHS Health Scotland's annual report and accounts for the year ended 31 March 2016 were approved by the Board on 22 June 2016.

Our audit opinions are unqualified and there are no matters on which we are required to report to you by exception.

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.

Financial management

The Board has adequate and effective arrangements in place for managing its financial position and its use of resources.

We have evaluated the Board's key financial systems and internal financial controls to determine whether these are adequate to prevent material misstatements in the annual accounts. We have not identified any significant deficiencies in the operation or design of the key financial systems. Arrangements for the prevention and detection of fraud and irregularity are adequate and appropriate.

Financial sustainability

The Board has submitted a Local Delivery Plan (LDP) to the Scottish Government Health and Social Care Directorates (SGHSCD) covering the financial years 2016/17 to 2020/21. The Board forecasts a break even position in each of the next five years. The core revenue resource limit available to the Board has been confirmed to increase by 1% to £18.217million in 2016/17 and projected to continue to increase by 1% year-on-year thereafter.

The Board is continuing with a functional realignment exercise, which is expected to conclude in 2016/17.

The Board completed the transfer of its procurement function to the Scottish Ambulance Service (SAS) early in the financial year. Work is ongoing to refine the arrangements, with the expectation that from 2016/17 the Board will have access to the full procurement team within SAS.

The Board continues to develop working arrangements with Healthcare Improvement Scotland (HIS) for a

- All key financial targets were met in 2015/16.
- The revenue resource limit was underspent by £226,000.
- The capital resource limit was underspent by £47,000.
- A breakeven position is forecast over each of the next five years.
- Of the 20 corporate priorities set by the Board, it has achieved 18 (90%). The remaining 2 are partially complete.

shared finance function. A decision has been taken not to fully integrate these functions, but to share staff members and develop consistent working practices.

Governance and transparency

In our opinion, the Board's corporate governance arrangements, as they relate to standards of conduct and the prevention and detection of bribery and corruption, are sufficient and appropriate.

Value for money

The Board has appropriate performance management arrangements in place which support the achievement of value for money.

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

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.

Scott-Moncrieff
June 2016

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Introduction

Introduction

1. This report summarises the findings from our 2015/16 audit of NHS Health Scotland ('the Board').
2. The scope of our audit was set out in our External Audit Plan, which was presented to the Audit Committee in February 2016.
3. The main elements of our work in 2015/16 have been:
 - an audit of the Board's annual report and accounts;
 - a review of governance arrangements, internal controls and financial systems; and
 - completion of targeted follow up work in relation to Audit Scotland's national performance report "*Scotland's Public Sector Workforce*".
4. The Board is responsible for preparing annual accounts 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 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.
5. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. Each recommendation is given a grading to help the Board assess the significance and prioritise the actions required.
6. This report is addressed to both the Board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
7. We would like to thank all members of the Board's management and staff who have been involved in our work for their co-operation and assistance during our audit work.

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Annual accounts

Annual accounts

8. The Board's annual accounts 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 annual accounts are outlined in Appendix 2.
9. In this section we summarise the issues arising from our audit of the 2015/16 annual accounts.

Overall Conclusion

An unqualified audit opinion on the annual accounts

10. The annual accounts for the year ended 31 March 2016 were approved by the Board on 22 June 2016. We reported, within our Independent Auditor's Report:
 - an unqualified opinion on the annual accounts;
 - an unqualified audit opinion on regularity; and
 - an unqualified audit opinion on other prescribed matters.
11. We are also satisfied that there are no matters on which we are required to report by exception.

Good administrative processes were in place

12. 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.
13. The annual accounts were submitted to the Scottish Government and the Auditor General for Scotland by the 30 June 2016 deadline.

Our assessment of risks of material misstatement

14. 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 annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described in exhibit 1 below.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.1 Financial position

NHS Health Scotland has a history of underspending against its Revenue Resource Limit (RRL). The Board underspent by £204,000 against its RRL in 2014/15, which is within the Board's target tolerance of £250,000.

To date, in 2015/16, the Board is experiencing an underspend against budget and is forecasting a year-end underspend in line with its target tolerance.

There is a risk that in order to align with its tolerance target or achieve breakeven position, the Board materially misstates income and expenditure in the annual accounts.

Excerpt from the 2015/16 External Audit Plan


15. The Board has met all of its key financial targets in 2015/16, reporting an underspend of £226,000 against its RRL and a saving of £47,000 against its Capital Resource Limit (CRL).
16. During our audit we considered the Board's financial position, related budgets and projections to ensure that they were soundly based. Overall, we have found that the Board has effective arrangements in place for financial management. Our findings are reported more fully in the 'financial management' section of this report.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.2 Revenue recognition

Under international 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.


Excerpt from the 2015/16 External Audit Plan

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- 17. We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we evaluated the Board's key revenue streams and reviewed the controls in place over revenue accounting by the Board. We also carried out testing to confirm that the Board's revenue recognition policy is appropriate and has been applied consistently throughout the year.

1.3 Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240.

Excerpt from the 2015/16 External Audit Plan

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- 18. We have not identified any indications of management override in the year. We have reviewed the Board's accounting records and obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed journal entries processed in the period and around the year end.

Our application of materiality

- 19. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.
- 20. Our initial assessment of materiality for the annual accounts was £300,000 and it remained at this level throughout our audit. Our assessment of materiality equates to approximately 1.5% of the Board's RRL. A key target for the Board is achieving a breakeven position against its RRL. We consider the RRL to be one of the principal considerations for users of the accounts when assessing the financial performance of the Board.
- 21. We set a performance materiality for each area of work based on a risk assessment for the area and percentage application of overall materiality. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means 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	40%	£120,000
Medium	50%	£150,000
Low	70%	£210,000

22. We agreed with the Audit Committee that we would report all audit differences in excess of 1% of the overall materiality figure (i.e. £3,000), 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 annual report and accounts.

Audit differences

23. We are pleased to report that there were no material adjustments to the draft annual accounts that have had an impact on the outturn against the RRL. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.

Board representations

24. We have requested that a signed representation letter be presented to us at the date of signing the annual accounts.

An overview of the scope of our audit

25. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee in February 2016. 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 External Audit Plan is subject to review during the course of the audit to take account of developments that arise.

26. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then

designed to mitigate these risks.

27. Our standard audit approach is based on performing 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, which is explained earlier in this report.

Regularity

28. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

Other matters identified during our audit

NHS Care Scheme

29. In April 2015, members of the existing NHS Superannuation Scheme were transferred to the new NHS CARE Pension Scheme, subject to age-related exemptions. The CARE Pension Scheme is a defined benefit pension scheme that guarantees a certain level of benefit at retirement based on pensionable pay in each year of membership.

30. Within NHS Health Scotland, four senior members of staff transferred to the new scheme. The disclosure of pensionable earnings within the annual accounts for these individuals includes benefits earned in respect of both the old and new schemes. From audit work performed we have gained assurance that appropriate disclosure has been made within NHS Health Scotland's annual accounts.

Manual Adjustments

31. All manual adjustments made to the Board's general ledger are processed via journals. Journals should be completed with sufficient information to confirm the adjustment is appropriate and suitable supporting documentation retained on file. Segregation of duties should be established between those individuals preparing, authorising and processing the journals to provide an independent check over the journal's content.

32. During our audit, we identified that there was a lack of segregation of duties in the processing of journals, with one individual sometimes responsible for preparing, authorising and processing the journal. There is a risk that inappropriate or unauthorised adjustments could be made to the Board's financial records. The Board should address this risk by ensuring that another staff member is responsible for authorising journals.

Action plan point 1

Follow up of prior year recommendations

33. As part of our audit we followed up the recommendations we have raised in previous years. The table below indicates that three recommendations are yet to be fully implemented. Further details on these recommendations are included in the action plan at Appendix 1.

Report	Total number raised	Number yet to be implemented
2013/14 Interim report	6	1
2014/15 Interim Report	3	1
2014/15 Annual Report	3	1

Qualitative aspects of accounting practices and financial reporting

34. 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 annual accounts. The following table summarises our findings:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The significant accounting policies, which are disclosed in the annual accounts, are considered appropriate to the Board.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transaction 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 preparing the annual accounts were considered appropriate. The principal areas of estimates and judgements have been: asset depreciation rates and the valuation of provisions. Where appropriate, the Board utilised the work of independent experts or industry practice to support the estimates made.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risks or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the annual accounts.	The annual report contains no material misstatements or inconsistencies with the annual accounts.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	While some disclosure and presentational adjustments were made through the audit process, there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

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Financial management

Financial management

35. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is the Board's responsibility to ensure that its financial affairs are conducted in a proper manner.

Overall conclusion

36. We concluded 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 key financial systems, financial performance and financial reporting.

The Board's financial performance in 2015/16

37. The Board has to work within the resource limits set by the SGHSCD. As shown in the table below, the Board met its key financial targets in 2015/16.

Exhibit 2: Performance against key financial targets

Financial target	Target £'000	Actual £'000	Underspend £'000	Target achieved
Revenue Resource Limit – Core	19,656	19,430	226	
Revenue Resource Limit – Non core	269	269	-	
Revenue Resource Limit	19,925	19,699	226	Yes
Capital Resource Limit	100	53	47	Yes

Source: Annual Report and Accounts for the year ended 31 March 2016

38. The Board reported a £226,000 (1%) underspend against its RRL. The outturn includes a carry forward of £204,000 from 2014/15, which was received as a non-recurring revenue allocation during the year. The underspend will be carried forward to 2016/17, as agreed with the SGHSCD.

39. The Board spent £19.430million against an in year allocation of £19.452million. This is in line with its financial policy of spending its annual allocation and managing within the flexibility of around 1% on brought-forward and carry-forward surpluses.

40. To achieve a balanced outturn position the Board was required to deliver £1.050million in efficiency savings. The Board does not separately monitor and report efficiency savings. Instead, the Board sets a balanced budget which takes in to account the savings that it is required to make in the year. The achievement of these savings is reported within

the Board's outturn position.

41. The Board's performance against target is closely monitored by the Audit Committee and the Board. The 2015/16 underspend against RRL (£226,000) comprises four elements; £124,000 underspend on staff costs, £85,000 underspend on project costs, £2,000 additional income being generated and £15,000 surplus budget. This pattern of underspends is comparable with 2014/15, when the Board's underspend was also largely driven by lower than expected staff costs. In 2015/16, these lower costs were greater than the norm as a consequence of delays in completion of the functional alignment exercise (paragraph 56).

Capital Resource Limit (CRL)

42. The Board has achieved a saving of £47,000 against its CRL in 2015/16

43. At the outset, the Board was allocated a CRL of £250,000. Planned revisions to floor usage in

Meridian Court were, however, largely delayed until 2016/17, and the CRL was revised to £100,000.

44. The CRL was allocated to two capital projects; £30,000 for the Board's IT replacement programme and £70,000 for property costs in respect of Meridian Court. Both projects were delivered under budget. In both instances, the majority of costs incurred were classified as revenue rather than capital. The classification of spend was reviewed as part of our audit and deemed appropriate. In addition, further delays were incurred in respect of the Meridian Court project resulting in additional reallocations of capital expenditure to 2016/17.

Systems of internal control

45. We have evaluated the Board's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach included audit testing of the key internal financial controls to confirm that they were operating as intended. We undertake detailed controls testing every three years, or more frequently where the key controls have changed.
46. As reported more fully in our external audit interim report, we did not identify any significant deficiencies in the operation or design of internal financial controls over the Board's key financial systems. Reliance has been placed on these controls during our 2015/16 audit.

Internal audit

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

Fraud and irregularity

48. In accordance with the Code of Audit Practice, we reviewed the Board's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Board's arrangements to be adequate and appropriate.

National Fraud Initiative

49. 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 overseen by the Cabinet Office for the UK as a whole to identify fraud and error. These exercises are undertaken every two years as part of the statutory audit of the participating bodies.
50. The most recent NFI exercise commenced in October 2014. As part of our 2015/16 audit we monitored the Board's participation in NFI. We submitted an assessment of the Board's participation in the exercise to Audit Scotland on 29 February 2016. Overall we concluded that the Board has actively participated in the NFI exercise. The Board has completed its review of all data matches; with no cases of fraud identified.

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Financial sustainability

Financial sustainability

51. Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered.

Future financial plans

52. The Board has submitted a LDP to the SGHSCD covering the financial years 2016/17 to 2020/21. The Board is forecasting a break even position in each of the next five years. The core RRL available to the Board has been confirmed to increase by 1% to £18.217million in 2016/17 and is projected to continue to increase by 1% year-on-year thereafter.

Key assumptions and cost pressures

53. The Board makes a range of assumptions when producing its LDP. The principal assumptions made are:
- available resources (not inclusive of any savings required) will rise by 1% year-on-year;
 - base pay costs will rise by 1% year-on-year;
 - a decrease in overheads of £225,000 in 2016/17 and £300,000 per annum thereafter due to a reduction in floor usage at Meridian Court;
 - reduction of 50% in costs incurred by the Healthy Working Lives directorate as part of the functional realignment;
 - a decrease in funding available for projects due to ongoing pay commitments to maintain current whole time equivalent; and
 - a 5% recycled saving on baseline and a 10% cash releasing saving on non-core funding year on year.
54. The assumptions noted are broadly in line with the average rates applied by comparable bodies in the sector and appear to be reasonable and consistent with our understanding of the Board's financial position.
55. There is however limited information on available funding beyond 2016/17. As such, we would encourage the Board to undertake

scenario planning as part of their long-term financial strategies. This involves making assumptions about different levels of future income, expenditure and activity and outlining options based on each scenario. This helps to identify potential solutions to difficulties arising from variations in levels of future funding. It also provides an opportunity to outline ways to maintain service levels. Without planning like this, there is a risk that the Board continue taking a short-term approach to cost reduction at the expense of better alternatives over the longer term.

Action plan point 2

Functional alignment

56. In December 2013, the Board made a decision to review its organisational structure. The decision was triggered when a 'working and in principle decision' had been reached not to replace the Director of Resource Management who retired in Autumn 2014 and was made for the following reasons;
- To bring structure and function fully into line with *A Fairer Healthier Scotland*, the Board's Corporate Plan;
 - To ensure better alignment of functions within the Board's directorates;
 - To absorb the impact of the departure of the Director of Resource Management; and
 - To keep staff resource as efficient as possible.
57. A Change Advisory Group (CAG) was appointed as a sub-group of the Partnership Forum with a purpose to maintain an overview of the alignment process. The CAG is chaired by the Director of Strategy and has representatives from management, staff and HR. This group has met weekly since January 2014.
58. Phase 1 of the review was completed in April 2014. This phase agreed the overall reallocation of functions across directorates. Phase 2 of the review, to work in detail with each affected team or group of teams to determine optimal team structures and ways of working, has been ongoing since April 2014. The CAG reports to the Partnership Forum on a

regular basis. Updates are also provided to the Board.

59. The realignment of the Strategy Directorate was completed in 2015/16. The exercise will conclude in 2016/17 in the remaining directorates (Health Equity, Health & Work, CEO and Public Health Science).

Shared services

60. The Board completed the transfer of its procurement function to SAS early in the financial year, with those staff members providing central support to the Board. Work is ongoing to refine the arrangements, with the expectation that from 2016/17 the Board will have access to the full procurement team within SAS.
61. The Board continues to develop working arrangements with HIS for a shared finance function. A decision has been taken not to fully integrate these functions, but to share staff

members and develop consistent working practices.

Workforce planning

62. In November 2013, the Accounts Commission and Auditor General for Scotland published a report on Scotland's public sector workforce. The report highlighted a number of key messages on workforce changes across Scotland and made a number of recommendations to the Scottish Government, central government bodies, the NHS, COSLA and local authorities.
63. As part of our 2015/16 audits, Audit Scotland asked us to undertake a follow up review to help understand the extent to which public bodies are implementing the recommendations and help identify common and emerging issues.
64. A summary of our findings are highlighted below:

Exhibit 3: Summary of findings from targeted follow up

Theme	Audit findings
Planning	<p>NHS Health Scotland develops an annual Workforce Plan that covers organisation-wide objectives and workforce projections for the period. The plan is developed using the 'Six Steps Methodology to Integrated Workforce Planning' published by the Scottish Government.</p> <p>However, our review identified that the Board does not have any formal succession plans in place. Instead, the Board relies on the resilience of its organisational structure to ensure short-term managerial gaps will be managed effectively until a suitable replacement is recruited. We identified this issue during a prior year audit and to-date this recommendation remains outstanding (see Appendix 1).</p>
Service Planning	<p>The Board has identified four key objectives to drive forward its functional realignment exercise (see para.56). A formal review of the success of the exercise and achievement of the objectives will be undertaken after a 'bedding-in' period. In the interim, the Board has undertaken engagement and consultation with staff throughout the process. These meetings include discussion on proposed changes to inform final decisions taken, to keep staff informed of the process and to assess the ongoing impact of the changes on the workforce.</p>

Exhibit 3: Summary of findings from targeted follow up

Theme	Audit findings
<p>Partnership Working</p>	<p>The Board currently has shared working arrangements in place with HIS and SAS.</p> <p>Two members of the finance team are shared with HIS. This arrangement has been ongoing since late 2014 and allows the boards to share working practices and achieve efficiencies.</p> <p>A further two members of staff formally transferred to SAS as part of tri-board agreement to share procurement services. This arrangement became operational on 1 April 2015 and a full service is expected to be delivered during 2016/17.</p>
<p>Challenge and Scrutiny</p>	<p>Progress against the Workforce Plan is monitored on a regular basis by the Partnership Forum, with performance information also included in quarterly corporate performance reports presented to the Board.</p> <p>Annually, the plan is assessed for its effectiveness by the Partnership Forum, including a review of performance and the continued relevance of the stated aims within the plan. This assessment informs the development of the next year's plan.</p>
<p>Reporting</p>	<p>The Workforce Plan details the costs and savings achieved from workforce planning activities. These are monitored through performance reports presented to the Board.</p> <p>The Board uses the staff survey to measure staff wellbeing. Separate action plans are put in place for each directorate/team to address the three key issues identified from the survey. Progress against the action plans are reported to the Partnership Forum quarterly.</p>

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Governance & transparency

Governance and transparency

65. Governance and transparency is concerned with the adequacy of governance, leadership and decision making, and transparent reporting of financial and performance information. 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.

Governance arrangements

66. During our audit we reviewed the Board's overall governance arrangements, including those relating to standards of conduct, the prevention and detection of bribery and corruption, and risk management. Based on our review, we concluded that overall governance arrangements are adequate and appropriate.

Board changes during the year

67. A new Chair was appointed to the Board in December 2015. The Chair was subject to a detailed induction programme during December to ensure he was provided with sufficient knowledge of the Board's operations to perform his role effectively.

68. In addition, four new non-executive members have been appointed to the Board, with two joining in February 2016, one in April 2016 and one joining in June 2016. All members have been assigned to appropriate Committees.

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

69. In our opinion, the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption remain adequate and appropriate.

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

71. Effective risk management is an important feature of a robust system of internal control. Risk management arrangements at NHS Health Scotland continue to be developed and embedded across the organisation. The Board has overall responsibility for management of all organisational risks. This responsibility has been delegated to the Audit Committee, which meets on a quarterly basis to discuss and evaluate the progress made against significant identified risks as well as the procedures in place for the identification and management of risks. The Board receives an annual report on the organisational risk arrangements which provides it with the assurance that risk is appropriately managed.

72. The Board is currently undertaking an improvement project in relation to its risk management arrangements. The project has been supported by the Board's internal auditor and a review of the arrangements within similar organisations has been carried out.

73. During our interim audit we obtained an update on how the Board's risk management arrangements are developing. As part of this update we identified two recommendations that aim to support the Board in this area. These recommendations were detailed in our external audit interim report.

Risk management

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Value for money

Value for money

74. Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to consideration of the Board's reported performance and to what extent this demonstrates continuous improvement.

Overall conclusion

75. We found that the Board has appropriate performance management arrangements in place which support the achievement of value for money.

Performance management framework

76. The Board has an established performance management framework. The Board receives reports on performance against the corporate plan, A Fairer Healthier Scotland, at each meeting. The financial and non-financial information available to the Board facilitates an effective level of scrutiny and challenge.
77. 2015/16 is the fourth year of the Board's Corporate Plan and the Board reports that it remains on track to deliver its five year strategy. The Board's performance targets are adapted from the Scottish Government's Health, Efficiency, Access and Treatment (HEAT) targets and standards. The most recent performance report available (quarter 4, reported May 2016) shows that the Board achieved progress on all 20 of its corporate priorities. Only two of the 20 priorities were deemed to be only partially complete for 2015/16 and of significant risk to the Board; both have been affected by the delays in the new launch of the corporate website due to concerns around the ability to achieve sufficient quality of content and important engagement with stakeholders. This issue is still being considered by the appointed project team.
78. The full annual impact report is expected to be reported to the Board in June 2016.

Best value and continuous improvement

79. In 2014/15 the Board adopted a new approach towards the measurement of continuous improvement and delivery of best value. The Board has adopted the EFQM (European

Foundation for Quality Management) Excellence Model. This model operates as a framework designed to identify the Board's areas of strength and weakness to allow identification of potential improvements.

80. The EFQM Excellence Model includes nine areas within which assessment is undertaken. These include leadership, strategy, customer results, etc. The model includes examples of best practice within each area and the results that should be achieved by implementing these practices. The Board has utilised this criteria to perform internal self-assessments of its performance.
81. From these self-assessments, the Board has identified improvement actions. The implementation of these actions has been assigned to designated 'Improvement Champions' within the organisation. Implementation is reviewed on a quarterly basis by the Embedding Excellence Team, with overall oversight of progress assigned to the Audit Committee.
82. The EFQM Excellence Model is designed to replace prior methods of assessing the Board's performance against best value criteria. An exercise has been undertaken by Internal Audit to map out how each requirement within each theme of best value will be reviewed under the EFQM Excellence Model, including the provision of the measures that are designed to demonstrate each requirement. The Board are therefore able to demonstrate that best value is being achieved.
83. The latest assessment was performed in March 2016 by a team of external assessors appointed by Quality Scotland. The results of the assessment are due to be provided to the Audit Committee in June 2016. Management will use these results to identify the improvement areas to prioritise going forward in 2016/17. Progress reports will continue to be provided to the Audit Committee quarterly.

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Appendices

Appendix 1: Action plan

Our action plan details the control weaknesses that we have identified during the course of our audit. It also details three further control weaknesses identified in previous audit visits which we consider remain outstanding. The action plan details the officer responsible for implementing the recommendation and an implementation date. The Board should assess the recommendations for wider implications before approving the action plan.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work, and may not be all that exist. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements. Communication in this report of matters arising from the audit of the annual 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 the Board in assessing the significance of the issues raised and prioritise the action required to address them, the recommendations have been rated.

The grading structure for our recommendations is as follows:

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

Action plan point	Issue & Recommendation	Management Comments
1	<p>Manual adjustments - journals</p> <p>All manual adjustments made to the Board's general ledger are processed via journals. During our audit, we identified that there was a lack of segregation of duties in the processing of journals, with one individual on occasion responsible for preparing, authorising and processing the journal. There is a risk that inappropriate or unauthorised adjustments could be made to the Board's financial records.</p> <p>Segregation of duties should be established between those individuals preparing, authorising and updating the journals to provide an independent check over the journal's content.</p>	<p>Journals will be classified into certain types for authorisation of some of these as indicated. Other journals will be filed and subject to an overall review.</p> <p>Responsible Officer:</p> <p>Head of Finance and Procurement</p> <p>Completion Date:</p> <p>31 July 2016</p>
Rating		
Grade 3		
Paragraph ref		
32		

Action plan point	Issue & Recommendation	Management Comments
2	<p>Scenario planning</p> <p>On a national level, there is limited information on available funding beyond 2015/16. As such, we would encourage the Board to undertake scenario planning as part of their long-term financial strategies. This involves making assumptions about different levels of future income, expenditure and activity and outlining options based on each scenario. This helps to identify potential solutions to difficulties arising from variations in levels of future funding. It also provides an opportunity to outline ways to maintain service levels. Without planning like this, there is a risk that the Board continue taking a short-term approach to cost reduction at the expense of better alternatives over the longer term.</p>	<p>We work closely with the Scottish Government in terms of future funding so that we can scenario plan as part of our longer term financial strategies. Service levels and savings plans will be considered against each scenario in order to establish their viability.</p> <p>Responsible Officer:</p> <p>Chief Executive</p> <p>Completion Date:</p> <p>31 December 2016</p>
Rating		
Grade 4		
Paragraph ref		
55		

Outstanding issue from our previous audits

Source	Issue & Recommendation	Management Comments	June 2016 update
2013/14 Interim Report	<p>Bank reconciliations</p> <p>Bank reconciliations have been carried out during the year. We have not however been able to evidence that they were reviewed by a second person as specified by the Board's Financial Operating Procedures.</p> <p>Bank reconciliations should be subject to review in line with the Board's Financial Operating Procedures.</p>	<p>2013/14 response</p> <p>This recommendation has been implemented – bank reconciliations are now prepared and reviewed by different Board officers.</p> <p>Responsible officer: Not applicable</p> <p>Implementation date: Not applicable</p> <p>2014/15 response</p> <p>Sample testing found that this control was not being carried out consistently during 2014/15.</p> <p>Management comment:</p> <p>The bank reconciliations prepared each month will be reviewed by the Executive Finance & Procurement Manager with effect from 31 January 2015 bank recs.</p> <p>Responsible Officer:</p> <p>Executive Finance & Procurement Manager</p> <p>Deadline:</p> <p>31 January 2015</p> <p>April 2016 update:</p> <p>Testing during our interim audit identified that not all bank reconciliations selected had been reviewed by a second staff member.</p> <p>Management comments:</p> <p>All bank outstanding reconciliations have been reviewed on 14 April 16</p> <p>Responsible officer:</p> <p>Head of Finance & Procurement</p> <p>Implementation date:</p> <p>Implemented</p>	<p>We confirmed during our audit that all bank reconciliations have been reviewed by the Head of Finance & Procurement. However we noted that the reconciliations were reviewed on 13 and 14 April 2016. We have kept this recommendation 'live' until we are able to verify a change in practice.</p> <p>Management comments</p> <p>The reason for the delay in signing off reconciliations was due to an unusually high period of approved leave in the February to April period. Reconciliations since this period are all up to date and none are outstanding</p> <p>Responsible officer:</p> <p>Head of Finance & Procurement</p> <p>Implementation date:</p> <p>N/A – already implemented</p>
Rating			

Source	Issue & Recommendation	Management Comments	June 2016 update
2014/15 Interim Report	<p>Related parties</p> <p>We noted during our review of the register of interests template which Board members complete that these do not explicitly require disclosure of financial or non-financial interests with close members of families.</p> <p>There is a risk that Board members are not reminded of, or aware of, the disclosure requirements and as such these disclosures are excluded from the financial statements. We would encourage the Board to update its register of interest form to request such information.</p>	<p>2014/15 response</p> <p>This matter is under review with the recently appointed (1 April 2015) Executive & Governance Lead. It is proposed that this matter is brought to the Board's attention at the Board Seminar on 17 April 2015.</p> <p>Responsible officer: Executive and Governance Lead</p> <p>Implementation date: April 2015</p> <p>April 2016 update:</p> <p>Board members have been reminded of the disclosure requirements via email. However, the register of interest form has not been updated to provide ongoing guidance to members.</p> <p>Management comments:</p> <p>The register of interest form will be updated to provide ongoing guidance to members</p> <p>Responsible officer: Executive and Governance Lead</p> <p>Implementation date: 30 April 2016</p>	<p>We have reviewed the Register of Interests as at 31 March 2016. The forms have not been updated to include explicit guidance on disclosure relating to financial and non-financial interests of families.</p> <p>Management comments</p> <p>This was completed on 30 April 2015</p> <p>The form itself was updated with the following text "Members are asked to declare any financial or other interests for themselves and any related parties, which are regarded as relevant and material to the Board's business." Additional guidance was also given in the email.</p> <p>Responsible officer: Executive and Governance Lead</p> <p>Implementation date: Implemented</p>
Rating			
Grade 3			

Source	Issue & Recommendation	Management Comments	June 2016 update
2014/15 Annual Report	<p>Succession planning</p> <p>The Board does not currently have a formal succession plan in place for Finance staff</p>	<p>Formal succession plans in any organisation are difficult as posts will need to be reviewed and appropriately advertised when vacancies occur or when restructures are needed. Resilience to ensure short-term vacancies can be covered will be considered.</p>	<p>Management comments</p> <p>The realignment process is expected to be completed by 30 June but will be subject to internal panel review in July so as a result the process will not be complete until 31 July.</p>
Rating	<p>There are therefore risks to continuity of the finance service in light of staff turnover.</p>		
Grade 3	<p>We are aware that the Executive Finance and Procurement Manager is looking to improve this area in 2015/16 within the Board's updated Financial Plan and the setting of individual objectives through the Key Skills Framework (KSF) programme.</p>	<p>Responsible officer: Executive Finance & Procurement Manager</p> <p>Implementation date: November 2015 (revised to February 2016 at the Audit Committee on 3 February 2016).</p>	<p>Responsible officer: Head of Finance & Procurement</p> <p>Implementation date: 31 July 2016</p>
		<p>April 2016 update:</p> <p>The Finance strategic realignment process has been extended to 30 June 2016 during which the above points will be addressed.</p>	
		<p>Responsible officer: Head of Finance & Procurement</p> <p>Implementation date: 30 June 2016</p>	

Appendix 2: Respective responsibilities of the Board and the Auditor

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 annual report and accounts, the Board and the Chief Executive, as Accountable Officer are required to::

- apply on a consistent basis the accounting policies and standards approved for the NHSScotland by Scottish Minister;
- making judgements and estimates on a reasonable basis;
- stating whether applicable accounting standards as set out in the Financial Reporting Manual have not been followed where the effect of the departure is material; and
- preparing the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate.

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 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 the Scottish Ministers of the state of the board's affairs as at 31 March 2016 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 the Scottish Ministers;
- expenditure and income in the annual accounts was incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the Remuneration and Staff Report to be audited has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the annual accounts are prepared is consistent with the annual accounts.

We are also required to report if, in our opinion:

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

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 annual accounts 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'.

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 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; and
- financial position.

Independence

ISA 260 requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

Scott-Moncrieff has facilitated seminars to senior management at the Board on "risk appetite". This was provided by independent staff with no involvement in the audit of the financial statements.

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.



Scott-Moncrieff
business advisers and accountants