

Government and Public Sector Assurance

June 2007

# NHS Health Scotland

## Annual Report to Members



# Contents

<b>Section</b>	<b>Page</b>
1. Executive Summary.....	1
2. Introduction.....	3
3. Independent Auditors' Report and Key Financial Targets.....	5
4. Financial Performance 2006/07 .....	6
5. Forecast Financial Position for 2007/08.....	10
6. The Audit Process and Accounting Issues.....	13
7. Systems of Internal Control .....	15
8. Governance Arrangements .....	17
9. Prevention and Detection of Fraud and Irregularities.....	21
10. Other Business Matters .....	23
Appendix 1: Action Plan .....	27
Appendix 2: Responsibilities of External Audit and NHS Health Scotland and its Management.....	28
Appendix 3: Audit Opinion.....	31
Appendix 4: Other Formal Reports Submitted During the 2006/07 Audit Process .....	34

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Audit Scotland  
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29 June 2007

Our ref: LP/EW

Ladies and Gentlemen

**Annual Report to Board Members 2006/07**

We have completed our audit of NHS Health Scotland and its financial statements for the year ended 31 March 2007.

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2006/07 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

PricewaterhouseCoopers LLP

# 1. Executive Summary

## Our Audit Opinion

- 1.01 Our audit opinion concerns both the true and fair statement of NHS Health Scotland's financial results for the year ended 31 March 2007 (2006/07) and the regularity of its income and expenditure in the year.
- 1.02 We are pleased to report that our opinion on the true and fair view on the financial statements is unqualified.
- 1.03 Our regularity opinion on income and expenditure is also unqualified.
- 1.04 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report 2006/07 is unqualified. Our audit opinion does not extend to any other part of the Directors' Report.

## Financial Targets and Performance

- 1.05 NHS Health Scotland's performance against its three financial targets was as follows:

Financial Targets	Achievement
Net resource limit should not exceed the Revenue Resource Limit ("RRL")	Revenue spend was £22.084 million against its RRL of £22.595 million, resulting in a surplus of £511,000.
Capital Resource Limit ("CRL")	Total capital spend was £31,000 against a CRL of £50,000, resulting in an underspend of £19,000.
Cash Requirement Target	The cash spend during 2006/07 was £22 million meeting the cash requirement target of £22 million.

- 1.06 NHS Health Scotland achieved a £511,000 surplus for the year. It should be noted that NHS Health Scotland carried forward an underspend of £127,000 from 2005/06 resulting in an in-year surplus of £638,000 against the annual allocation.
- 1.07 NHS Health Scotland has budgeted to receive an allocation of £22.498 million for 2007/08 albeit this has yet to be confirmed by the Scottish Executive Health Department.

- 1.08 Further details about performance in 2006/07 and planned performance in 2007/08 are given in Sections 4 and 5 of this report.

### **The Audit Process and Accounting Issues**

- 1.09 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by management were of a good standard.
- 1.10 We are required to report any unadjusted errors to those charged with governance. All adjustments identified from the audit process have been agreed and adjusted by management.

### **Systems of Internal Control**

- 1.11 The Code of Audit Practice requires us to review and report on the Statement of Internal Control given in the accounts. Based on our normal audit procedures, we do not disagree with the disclosures contained within the Statement on Internal Control.
- 1.12 Details of control matters noted during the course of our audit are set out in Section 7.

### **Governance Arrangements**

- 1.13 A summary of the work we have performed in the year in relation to NHS Health Scotland's Governance arrangements is set out in Section 8. There were no significant areas for improvement arising from our work.

### **Prevention and detection of fraud and irregularities**

- 1.14 Our work on the prevention and detection of fraud and irregularities included:
- review of NHS Health Scotland's overall arrangements for the prevention and detection of fraud and corruption;
  - consideration of NHS Health Scotland's arrangements in respect of the National Fraud Initiative (NFI);
  - review of fraud guidance issued by Audit Scotland and the Scottish Executive Health Department (SEHD); and
  - submission of an annual fraud return to Audit Scotland.
- 1.15 Further details of all these matters are set out in Section 9.

### **Other Business Matters**

- 1.16 As part of our audit, we have obtained and documented certain information relating to NHS Health Scotland in a number of areas including business risks and relocation.
- 1.17 A summary of this work is set out in Section 10.

## 2. Introduction



- 2.01 Our overall responsibility as external auditor of NHS Health Scotland is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007.
- 2.02 In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources.
- 2.03 It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving not only the “appointed auditor”, but importantly the Auditor General for Scotland and other auditors such as Audit Scotland’s Health Performance and Public Reporting Group.
- 2.04 Our audit has been planned and conducted to take account of this wider perspective.
- 2.05 NHS Health Scotland and the Chief Executive are, together with other matters, responsible for:
- Ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
  - Maintaining proper accounting records; and
  - Preparing financial statements which give a true and fair view of its financial position and its expenditure and income, in accordance with the Financial Reporting Manual.
- 2.06 In this regard, we are responsible for issuing an audit report (opinion) on:
- Whether the financial statements give a true and fair view of the financial position and expenditure and income
  - Whether the financial statements have been properly prepared in accordance with relevant legislation, accounting standards and other reporting requirements
  - The regularity of expenditure and income

- 2.07 Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "*Communication of audit matters to those charged with governance*", we are required to communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity.
- 2.08 This Annual Report to Members summarises key aspects of our work throughout the audit year, highlighting any matters which we believe should be brought to your attention. Therefore this Report, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.

#### **Acknowledgements**

- 2.09 We would like to thank all NHS Health Scotland managers and staff involved for their assistance throughout the audit process.

# 3. Independent Auditors' Report and Key Financial Targets

**Our Audit Opinion**

- 3.01 Our audit opinion concerns both the true and fair statement of NHS Health Scotland's financial results for the year ended 31 March 2007 and the regularity of its income and expenditure in the year.
- 3.02 We are pleased to report that our true and fair view on the financial statements is unqualified.
- 3.03 Our regularity opinion on income and expenditure is also unqualified.
- 3.04 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report for 2006/07 is unqualified. Our audit opinion does not extend to any other part of the Directors' Report.
- 3.05 Our opinion is set out in full in [Appendix 3](#).

**Financial Targets**

- 3.06 NHS Health Scotland's performance against its three financial targets was as follows:

Financial Targets	Achievement
Net resource limit should not exceed the Revenue Resource Limit ("RRL")	Revenue spend was £22.084 million against its RRL of £22.595 million, resulting in a surplus of £511,000.
Capital Resource Limit ("CRL")	Total capital spend was £31,000 against a CRL of £50,000, resulting in an underspend of £19,000.
Cash Requirement Target	The cash spend during 2006/07 was £22 million meeting the cash requirement target of £22 million.

- 3.07 Whilst the actual outturn for the year was a surplus of £511,000, it should be noted that NHS Health Scotland carried forward an underspend of £127,000 from 2005/06. This means there was an in-year surplus of £638,000 over the annual allocation.



## 4. Financial Performance 2006/07

- 4.01 NHS Health Scotland is responsible for conducting its affairs and for putting in place proper arrangements to ensure that its financial position is soundly based.
- 4.02 NHS Health Scotland reported a surplus of £511,000 in 2006/07, which management hopes to carry forward to 2007/08. As this is greater than the 1% of RRL allowed for carry forward (£226,000), NHS Health Scotland requires Scottish Executive approval for this action. This approval has not yet been formally received, although discussions are ongoing.

### Financial Performance in the Year

- 4.03 It is emphasised that we do not express a specific audit opinion on the figures on the following pages – these have been extracted in agreement with management from various reports, supporting papers and detailed discussions with management.
- 4.04 The table which follows sets out NHS Health Scotland's financial position for 2006/07, split between recurring and non-recurring income and expenditure.

	£m	£m
Recurring income	18.234	
Recurring expenditure	(19.215)	
Underlying recurring surplus/(deficit)		(0.981)
Non-recurring income	4.360	
Non-recurring expenditure	(3.854)	
Balance of non-recurring		<u>0.506</u>
Difference		(0.475)
Other income sources	0.604	
Non-recurring SEHD income/year-end support	-	
Corporate savings programme	0.382	
Total other income		<u>0.986</u>
<b>Financial surplus/(deficit)</b>		<b>0.511</b>

- 4.05 In previous years a key challenge for NHS Health Scotland has been the split of its RRL allocation between core and non core funding. Whilst this situation has improved in 2006/07, it has created some uncertainty over its long term funding and the need to request funding for specific projects on an annual basis.
- 4.06 At the start of each financial year NHS Health Scotland is required to confirm with SEHD funding for specific projects for the year. Having confirmed the funding considered necessary for the year, it was always anticipated that NHS Health Scotland would spend its RRL for the year. The actual outturn position of £511,000 underspend was therefore unplanned.
- 4.07 However, management was aware early in the year of the potential for a significant underspend and put in place a number of arrangements to manage the issue:
- Regular reporting to the Audit Committee which was convened to meet on a more regular basis;
  - Quarterly formal budget review meetings, the outcome of which was reported to the Audit Committee;
  - Ongoing monitoring of committed expenditure; and
  - Virement of budgets to areas where expenditure could be accelerated.
- 4.08 Despite these controls, the full underspend could not be eliminated, although it was significantly lower than that predicted at certain points in the year.
- 4.09 The main components of the underspend can be analysed as follows:

<b>Underspend at 31/03/07</b>	
<b>£000</b>	
National Resource Centre for Ethnic Minority Health (NRCEMH)	195
Prevention 2010	45
HQ Administration and running costs of offices	88
Small over/under spends netting off (all individually under £40,000 each)	183
<b>Total Under spend</b>	<b>511</b>

#### **National Resource Centre for Ethnic Minority Health**

- 4.10 NRCEMH was established in 2002 to support NHS Boards in fulfilling their obligations under 'Fair for All' and the Race Relations Act. NRCEMH's primary function is to facilitate and support all health boards within NHSScotland in developing a culturally sensitive and competent service.

- 4.11 During the year, the director of NRCEMH retired and a temporary acting up arrangement was put in place. This change caused some delays with restructuring and reassignment of workloads.
- 4.12 The underspend within NRCEMH is significant, amounting to 29% of its overall budget. Of the underspend, £148,000 resulted from project slippage and £47,000 was in respect of staffing costs.
- 4.13 NHS Health Scotland hopes to be able to carry this amount forward to 2007/08. However, confirmation of this has not yet been received from the Scottish Executive.

#### **Prevention 2010**

- 4.14 Prevention 2010 is a three year programme initially targeting those aged 45-64 in the most socially deprived 15% of the population where there is a risk of serious ill health, particularly cardiovascular disease. The approach will actively seek out those at risk and offer them access to services and treatments which meet their needs.
- 4.15 A pilot scheme, budgeted to cost £45,000, was planned with the Scottish Executive. However, delays have resulted in this pilot project slipping, meaning the planned costs have not been incurred.

#### **HQ and Admin costs**

- 4.16 There has been underspend of £88,000 in relation to HQ Administration and running costs of offices in the year, compared to budget.
- 4.17 This has primarily been caused by the difficulty experienced in filling permanent positions. Although some agency staff have been brought in to fill gaps, they have not incurred the same cost in relation to car leasing and travel and subsistence. It is hoped that more permanent employees will be recruited in 2007/08, bring expected costs back in line with this year's budget.
- 4.18 In addition there was an under spend in relation to telecommunications, where the work was delayed until after the year end.

#### **Other over/under spends**

- 4.19 As noted in the table above, all other budgets finished the year within £40,000 of their budget. There were no significant overspends, with the largest being £2,000 for the Early Years project.
- 4.20 Included in the above comparison to budget is the income from the sale and distribution of publications. These sales, of £343,000, were £107,000 behind budget. Sales of publications in any given year are primarily dictated by the available budgets within other NHS bodies. As many Boards over spent in the year, sales levels were lower than expected.

- 4.21 Because management was aware at an early stage of the likelihood of a significant underspend, during the course of the year a number of areas, which had the ability to bring forward expenditure, had their budgets increased. Without this act of management it is likely that the underspend would have been significantly higher.
- 4.22 The issue of project underspend has been a recurring theme within NHS Health Scotland. Should approval be given for the carry forward of the full £511,000 underspend, this will add a further spending pressure to the organisation during 2007/08.

**Action Point 1**

# 5. Forecast Financial Position for 2007/08

## Financial Plans for Future Periods

5.01 For the purposes of this report, the projected position of NHS Health Scotland for 2007/08 has been summarised in the table below:

The Board's Forecast Position for 2007/08	£'m Actual	£'m Actual
Recurring income	17.207	
Recurring expenditure	(18.039)	
Underlying recurring surplus/deficit)		(0.832)
Non-recurring income	5.291	
Non-recurring expenditure	(5.291)	
Balance of non-recurring	-	
Difference		(0.832)
Other income sources	0.458	
Non-recurring SEHD income/year-end support	-	
Corporate savings programme	0.374	
Total other income		0.832
<b>Surplus for 2007/08</b>		<b>NIL</b>

Confirmed by NHS Board Director of Finance: .....

### **2007/08 Income**

- 5.02 The planned budget position for 2008, as included above, requires a total revenue allocation of £22.498 million. The Scottish Executive has so far confirmed £17.207 million of this requirement. The remaining £5.291 million is anticipated to be provided in relation to specific projects but has not yet been confirmed.
- 5.03 The late confirmation of specific allocations makes it difficult for NHS Health Scotland to plan specific projects and increases the risk that further underspends will arise. This is compounded by the recent change in political administration which has created uncertainty over a number of NHS Health Scotland projects and priorities. Again this increases the risk of underspends arising.

#### **Action Point 2**

- 5.04 As highlighted in Section 4, it is anticipated that the full £511,000 under spend from 2006/07 will be available to carry forward to 2007/08, in addition to the resource allocation confirmed to date.

### **Planned Expenditure**

- 5.05 The financial plan incorporates an efficiency saving target of £374,000. The equivalent target of £245,000 was achieved in 2006/07 with savings of £350,000 reported.
- 5.06 The savings target for 2007/08 is considered by management to be achievable. However, it is important that the progress against this efficiency target is monitored to ensure that it can be met.

#### **Action Point 3**

- 5.07 Although budgets have been set for all 2007/08 projects, spending so far is already significantly behind budget. This is partly due to the lack of confirmation by the Scottish Executive of revenue resources for the year. If current spending trends continue, a significant under spend would again occur in 2007/08. Management is aware that spending profiles are an issue and are causing resources to remain unused. Internal budgetary discussions are ongoing as a means to address these concerns.

#### **Action Point 1**

### **Cost Pressures**

- 5.08 Despite the emerging underspend for 2007/08, management has identified a number of financial risks as follows:

### **Agenda for Change**

- 5.09 The work completed to date in respect of Agenda for Change indicates that there will be additional ongoing costs relating to the increments paid to staff. NHS Health Scotland staff assimilated on to the Agenda for Change pay scales during 2006/07 (90% in January 2007 and the final 10% in March 2007). All staff who were moved on to higher pay scales, including any successful outstanding appeals, will continue to be entitled to these pay levels in coming years.

### **Relocation**

- 5.10 NHS Health Scotland is awaiting approval of its Full Business Case to support its relocation to Glasgow. Whilst the change in administration at Scottish Executive level may lead to some uncertainty around the implementation of the policy, NHS Health Scotland's accommodation arrangements, over six sites, are such that alternative consolidated premises, whether under the banner of relocation or not, will be required. The funding for the cost of such a move has yet to be agreed.

#### **Action Point 4**

- 5.11 One option currently being considered is the move of 90 staff into Elphinstone House in Glasgow, which would be shared with the Scottish Police Services Authority. Although this would help to reduce the number of locations in use, it is expected to cost £200,000 annually to run and dual running along side current premises would be required in the short term. This would have to be included within future budgets.
- 5.12 These pressures will require to be monitored by management to ensure that the ongoing financial sustainability of NHS Health Scotland is not undermined.

#### **Action Point 5**

# 6. The Audit Process and Accounting Issues

## **Audit Process**

- 6.01 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by management were of a good standard. Overall, we believe an efficient audit process was achieved and an effective working relationship exists with your staff.

## **Preparation of Financial Statements**

- 6.02 The Financial Statements were prepared in accordance with the accounting requirements contained in the NHS Accounts Manual for Annual Report and Accounts of Unified NHS Boards, and supplementary guidance, as issued by the Scottish Executive Health Department (SEHD) and approved by the Scottish Ministers.
- 6.03 These financial statements have been prepared under the accounting policies set out within them.

## **Financial Statement Approval**

- 6.04 The Financial Statements were considered by the Audit Committee on 15 June 2007, and recommended to the Board on 29 June 2007 where they were approved and adopted.

## **Accounting and Other Issues**

- 6.05 We would like to draw to your attention the following matters in respect of the financial statements:

### **Agenda for Change**

- 6.06 NHS Health Scotland currently has an accrual for £31,000 included within its accounts in relation to Agenda for Change. This accrual relates to the possible costs associated with any successful appeals which are expected to be raised by staff.
- 6.07 Management has judged that there is no requirement to include a further provision in the accounts. 90% of staff were assimilated in January 2007 and, due to the 3 month cut off period, all appeals from this phase are now known. The remaining 10% assimilated in March 2007 and have one month left to raise an appeal. The unknown element of the accrual is therefore limited to a small portion of the work force, for whom an estimate has been made. We concur with management's view.



### **Relocation Provision**

- 6.08 The financial statements do not include a provision in respect of costs associated with the relocation of NHS Health Scotland from its current premises. The costs which may arise relate to dilapidation expenditure which will be required to restore rented premises to their original condition, as well as other costs. As the Full Business Case has yet to be approved, and it is expected that SEHD will meet any costs incurred, we concur with management's decision not to include a provision in this regard.

### **Misstatements and Significant Audit Adjustments**

- 6.09 Misstatements represent audit findings where we do not agree with the amount, classification, presentation or disclosure of items in the financial statements. A misstatement may arise from an error or fraud and other irregularity. An error refers to an unintentional misstatement in financial statements.
- 6.10 In conducting our procedures, we may identify misstatements that require adjustments to the recorded amounts. These audit adjustments are discussed with management who, in consultation with us, determine if an adjustment should be recorded. Our expectation is that all non trivial differences are adjusted.
- 6.11 As a result of our work to date, we identified only one adjustment to the figures within the accounts, which has been adjusted by management.
- 6.12 A small number of disclosure adjustments were noted during the course of our audit. These have all been processed by management.

### **PFI/PPP contracts**

- 6.13 NHS Health Scotland does not have any PFI/PPP arrangements in place at present, and does not at this stage anticipate their use in future periods. As a result, it has not been necessary for us to provide any specific views on the accounting treatment for such projects.

# 7. Systems of Internal Control

**Statement on Internal Control**

- 7.01 The Code of Audit Practice requires us to review and report on the Statement on Internal Control given under the relevant code before its publication.
- 7.02 NHS Health Scotland has used the correct format for its statement as prescribed in the Manual of Accounts and has outlined the processes designed to identify and evaluate risks.
- 7.03 NHS Health Scotland has highlighted the following actions in respect of the control and risk environment:
  - Monthly meetings of the Corporate Management Team to consider plans and strategic direction of the organisation;
  - Periodic reports from the Chair of the Audit Committee to the Board concerning internal controls;
  - Regular reports from internal audit on the adequacy and effectiveness of the system of internal control together with recommendations for improvement;
  - Regular reports from managers on the steps they are taking to manage risks in their areas of responsibility including progress reports on key projects;
  - A regular programme of facilitated workshops to identify and keep up to date the record of risks facing the organisation; and
  - An organisation-wide risk register is maintained.
- 7.04 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

**Follow Up Report on Previous Control Matters Raised for Action**

- 7.05 We followed up NHS Health Scotland’s progress in implementing the recommendations made by the previous external auditors. Our Follow Up Report was considered at the Audit Committee in January 2007.
- 7.06 Of the 9 recommendations made in reports issued in 2005/06 progress was as follows:

Action Implemented	2
Action In Progress	4
Action Not Yet Due	3
	<b>9</b>

### **Financial Systems and our 2006/07 Internal Controls Report**

- 7.07 Our Internal Controls Report was presented to the Audit Committee in March 2007. It contained 10 weaknesses, none of which were considered to be high risk.
- 7.08 NHS Health Scotland has compiled an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion which is currently in draft form. This document has been issued and a formal response is expected soon.

### **Internal Audit's Report on NHS Health Scotland's Internal Controls**

- 7.09 The extract of the Internal Auditor's opinion for 2006/07 is reproduced below:
- 7.10 "... I am satisfied that NHS Health Scotland is operating an adequate and effective system of internal control."

# 8. Governance Arrangements

## Statement of Corporate Governance

8.01 Through good governance, NHS boards are able to improve services they deliver and the working lives of staff they employ. Governance means setting the strategic direction within the parameters laid down by the Scottish Executive Health Department's policies, providing leadership, setting the tone for the whole organisation, overseeing the control of the organisation's work and reporting activities and progress to stakeholders. NHS board members are, therefore, collectively responsible for the success of their organisation.

8.02 Governance within NHS Health Scotland can be considered under four main headings:

Financial and Performance Governance	The proper management of resources and a sound financial standing will enable the organisation to achieve its aims and objectives and meet its obligations as and when they fall due.
Clinical Governance	The Board should have an established clinical governance framework which supports and monitors standards for care, creates an environment for the continuous improvement of services, supports strategic planning and facilitates service delivery.
Risk Management	Responsibility is placed on the Board and primarily the Accountable Officer in the Statement on Internal Control to maintain a sound system of internal control and comply with all applicable laws and regulations.
Staff Governance	NHS employers are expected to have systems in place to identify areas that require improvement and to develop action plans that describe how improvements will be made. The underlying principle is that NHS Boards should recognise that investing in staff will allow them to deliver services to the best of their ability.

8.03 NHS Health Scotland discharges its governance responsibilities through the following committees:

- Audit;
- Staff Governance; and
- Quality Assurance Group (short term).

## **Financial and Performance Governance**

- 8.04 NHS Health Scotland has in place an integrated financial system which allows management to prepare effective and transparent budgets and subsequent reports. The Board and the Audit Committee receive regular financial reports which allow them to scrutinise and challenge the financial position of the organisation.
- 8.05 During 2006/07, NHS Health Scotland launched its intranet reporting tool which allows employees to have access to detailed financial information relating to each of the projects they are accountable for. It also allows high level monitoring of performance across the organisation and enables managers to drill down to individual project level.
- 8.06 The information available includes qualitative information on expected outcomes, project progress and links to strategic objectives. It also includes quantitative information such as summary reports for budgetary control purposes.
- 8.07 Although the intranet reporting tool is currently used predominantly for budgetary control purposes, moving forward NHS Health Scotland is looking to expand the extent to which the tool is used to measure non financial performance.

## **Clinical Governance**

- 8.08 Although Clinical Governance does not appear to be immediately applicable to special Boards, such as NHS Health Scotland, NHS Quality Improvement Scotland (QIS) has deemed it to be so. Their interpretation of 'Clinical Governance' in this case emphasises the 'standards of care' element and extends it to include quality control.
- 8.09 In order to comply with the Clinical Governance requirements, a Quality Assurance Group (QUAG) was established in February 2007 as a short term work group with a remit to report to the Board on quality assurance arrangements.
- 8.10 It is expected that longer term, a more permanent Quality Assurance Committee may be set up as a sub committee of the Board. This is still under discussion.
- 8.11 The main five areas of work to be considered by the current QUAG are
- Accuracy;
  - Appropriateness;
  - Commissioning research and other professional services;
  - Project planning,
  - Management and delivery; and
  - Responding to external consultations.

- 8.12 The final meeting of the temporary group will be held on 28<sup>th</sup> August 2007, after which it will report to the Board.

#### **Action Point 6**

#### **Risk Management**

- 8.13 Risk management is often defined as a systematic process for identifying, assessing, controlling, monitoring, reviewing and auditing risk. Effective risk management is of critical importance to the health service as adverse consequences of risk could place limitations on the quality of health care delivery, and put a strain on staff and financial resources.
- 8.14 All Health Boards are required to implement a robust and effective framework for the management and understanding of risk. The framework should be developed by building on existing good practice and should be used to facilitate planning and decision making processes.
- 8.15 NHS Health Scotland continues to develop its approach to Risk Management. During 2006/07 various actions have been taken including the appointment of a full time Resources Officer in May 2006. This officer has assumed day-to-day responsibility for the maintenance of the Corporate and Divisional Risk Registers including regular reporting to the Corporate Management Team.
- 8.16 The Corporate and the Divisional Risk Registers were updated following risk management workshops held on 31 January 2006 with the Corporate Management Team and 6 March 2006 with the Senior Managers' Group. In addition, the new intranet management information system will be used to capture project risk on an individual project basis.
- 8.17 Moving forward there are still various risk management issues to be resolved, in particular the software package to be used. The current package used, RISGEN is comprehensive and reporting can be adapted to suit organisational needs. However, it requires a level of risk management knowledge and expertise of use, which does not lend itself to occasional use by a large number of staff. '4Risk' is being considered as an alternative product and discussions are underway with Bentley Jennison, the Board's newly appointed internal auditors, regarding this.

#### **Staff Governance**

- 8.18 The NHS Reform (Scotland) Act amended the National Health Service (Scotland) Act 1978, making it a legal requirement for Health Boards to have in place arrangements for good governance of staff. It is the duty of every Health Body to put and keep in place arrangements for the purposes of:
- improving the management of the officers employed by it;
  - monitoring such management; and
  - workforce planning.

- 8.19 NHS Health Scotland's Staff Governance Committee has an important role in ensuring consistency of policy and equality of treatment of staff across the organisation and continues to meet on a regular basis to address and respond to relevant issues and to ensure that progress against the Staff Governance Action Plan continues.
- 8.20 The Staff Governance Committee is governed by a formal remit which details its roles and responsibilities.

# 9. Prevention and Detection of Fraud and Irregularities

## **Responsibility with respect to Fraudulent and/or Illegal acts**

- 9.01 The preparation of the financial statements is the responsibility of management. Our responsibility as auditor is to express an opinion on those financial statements.
- 9.02 Effective internal control reduces the likelihood that errors, fraud or illegal acts will occur and remain undetected. However, it does not eliminate that possibility. Our responsibility regarding fraud is to obtain reasonable assurance that material misstatements resulting from fraud will be detected.
- 9.03 Accordingly, while we cannot guarantee that all errors, fraud or illegal acts, if present, will be detected, we design our audit to provide reasonable, but not absolute, assurance of detecting errors or fraud that would have a material effect on the financial statements as well as illegal acts having a direct and material effect on the financial statements.

## **Fraud and Corruption Reviews**

- 9.04 NHS Health Scotland has reviewed its policy for the prevention and detection of fraud in the year and the updated version is currently in draft form. This has been presented to and considered by the Audit Committee and reviewed as part of our audit. No weaknesses have been identified from the draft.
- 9.05 As part of our audit, we examine journal entries and accounting estimates for biases and add an element of unpredictability in audit procedures from year to year.
- 9.06 Our enquiries of management and our testing of financial records did not reveal any illegal or possible illegal acts. However, improper conduct is usually carefully concealed and consequently, the probability is not high that our regular audit work, however diligently performed, will bring it to light.

## **National Fraud Initiative**

- 9.07 In 2006/07 NHS Health Scotland took part in the National Fraud Initiative (NFI) in Scotland. The Health Department and NHS Counter Fraud Services have strongly supported the involvement of health bodies in the exercise, which is undertaken as part of the audits of the participating bodies.



- 9.08 NFI brings together data from health bodies, councils, police and fire and rescue boards, and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. Health bodies provided payroll data for the exercise.
- 9.09 The NFI 2006/07 results (data matches) were made available to health bodies on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application.
- 9.10 Work has been undertaken by NHS Health Scotland to review each of the matches reported, with no instances of fraud identified. The primary cause of matches highlighted was due to dual employment, with a number of staff working for other organisations. In addition, two issues were raised regarding the visa status of employees. However, it appears that this is due to out of date data held by the Home Office, rather than issues at NHS Health Scotland.

#### **Fraud Guidance**

- 9.11 We have reviewed the fraud and irregularities guidance issued by Audit Scotland during 2006/07 and certain HDLs issued by SEHD, and undertaken work accordingly. There were no matters arising from this work.

#### **Fraud Submission**

- 9.12 A return is made to Audit Scotland of all the reported frauds in the year. NHS Health Scotland had a "nil" return for 2006/07.

# 10. Other Business Matters

## **Priorities and Risks Framework**

10.01 Audit Scotland publishes an annual Priorities and Risks Framework (PRF), a planning tool for auditors that sets out key high level risks facing Health Boards in Scotland. For 2006/07, the identified risk areas were categorised into the following areas:

- Service sustainability
- Financial management
- Governance
- Performance management
- People management
- Partnership working
- Information management

10.02 During the course of our audit, we considered each of the key risk areas highlighted within the PRF, the impact these areas have on NHS Health Scotland and planned our audit work accordingly. Financial management, performance management and governance have been considered previously in separate sections (see sections 3 and 7). The significant points noted from the remaining sections have been detailed below.

## ***Service Sustainability***

10.03 The Board's vision of where the organisation will be strategically in the next 3-5 years has been documented in the Corporate Plan 2005-08 which has been approved by the Board and is publicly available. Prior to finalisation of the Corporate Plan 2005-08 an extensive consultation exercise was undertaken both internally and externally.

10.04 To allow NHS Health Scotland to monitor how it is performing against the objectives established by the Corporate Plan 2005-08 a 2006/07 Delivery Plan was developed, highlighting nine key deliverables which represented the Board's priorities for 2006/07.

10.05 The 2006/07 Delivery Plan has been fully costed with performance against the plan monitored electronically using NHS Health Scotland's intranet information management system.

- 10.06 There are however key risks which could hinder the extent to which NHS Health Scotland achieves its corporate objectives over the short to medium term. The key risks identified include uncertainty surrounding the proposed relocation from Edinburgh to Glasgow, the underspend on projects and the recent change in the political administration which could have a significant impact on the priorities and funding of NHS Health Scotland.

#### *People Management*

- 10.07 NHS Health Scotland continues to improve its information capability to meet the requirements of both staff governance and to ensure that the SWISS database is kept up to date.
- 10.08 As mentioned above, the Staff Governance Committee meets on a regular basis to address and respond to relevant issues and to ensure that progress against the agreed Staff Governance Action Plan continues.
- 10.09 Pay Modernisation continues to present a risk to the organisation. NHS Health Scotland has completed the Agenda for Change job assimilation process with all in-scope staff now having been moved onto the new pay scales. However, the appeals process is not yet complete and the outcome of this process could negatively impact morale of the staff involved.
- 10.10 In addition to the uncertainty surrounding Agenda for Change the proposed relocation could negatively impact upon staff resources.
- 10.11 The move had originally been expected to take place by May 2007. The move date is now expected to be around November 2009, if the business case is approved in July 2007. This uncertainty is causing operational problems in relation to staff turnover and motivation. Staff turnover levels have risen and it is becoming increasingly difficult to hire staff when their future location can not be confirmed.

#### *Partnership Working*

- 10.12 NHS Health Scotland's Corporate Plan 2005-08 was prepared after an extensive consultation exercise with the organisation's key stakeholders. A recurring theme within the feedback related to partnership working. A large number of responses invited NHS Health Scotland to be more explicit about its relationships with other organisations, particularly NHS Boards, local authorities and Community Health Partnerships.
- 10.13 In response to the feedback the finalised Corporate Plan 2005-08 included a section on Partnerships which identified NHS Health Scotland's key partners.
- 10.14 This emphasis on partnership working was incorporated into the 2006/07 Delivery Plan with the organisation reiterating its desire to work in partnership with a wide variety of NHS and wider public sector organisations.

- 10.15 NHS Health Scotland's Board includes representatives from the NHS, local authority and the voluntary sectors. This allows the Board to incorporate the views/ experiences of a significant number of its key partner organisations into its governance process.
- 10.16 To further assess the impact/ benefits of partnership working NHS Health Scotland commissioned a full review of externally funded organisations. The review was primarily undertaken to assess the financial impact of the current externally funded projects but it did consider the value of each project to Health Scotland and the implications if the projects were de-funded. The assessment considered qualitative as well as quantitative factors.

### ***Information Management***

- 10.17 Developments within IT in the last two to three years have been minimal pending a decision on the planned relocation. As a result IT investment has been limited.
- 10.18 There is no formalised IT Strategy in place. It is anticipated that a strategy will be developed once relocation is undertaken.
- 10.19 Information governance is not part of the remit of IT. A working group has been established to consider how areas of information governance overlap with IT in areas such as data protection and freedom of information.
- 10.20 NHS Health Scotland has a Major Incident Plan with Disaster Recovery forming part of this plan. However, there is no IT strategy in place.

### **Relocation**

- 10.21 The Scottish Executive announced in 2002 that several government organisations, including NHS Boards, were to be relocated out of Edinburgh to create jobs in areas of deprivation. The decision to move NHS Health Scotland to the east end of Glasgow has yet to be finally approved by ministers, but if it is, the move is planned to take place around November 2009.
- 10.22 The original expectation has been for the move to take place in May 2007 and as a result many new employees have been employed on Glasgow based contracts.
- 10.23 One of the six offices currently in use is in Glasgow and plans are underway to vacate this accommodation and consolidate the current number of premises. However, with the change in administration at the Scottish Executive there remains a great deal of uncertainty over the relocation project.

10.25 Relocation has already started to have an operational impact, both in terms of staff morale and NHS Health Scotland's ability to recruit. Management is aware of these issues and the risks they pose to the organisation.

**Action Point 4**

# Appendix 1: Action Plan

Ref	Recommendation	Risk Category	Management Response	Responsible Officer	Date of Implementation
4.22 5.07	Management should continue to work with budget holders to try to minimise the extent of any underspends in 2007/08.	Medium	Agreed	Corporate Management Team	Ongoing, via quarterly Delivery Plan review meetings
5.03	Management should attempt to confirm all allocations with the executive as early as possible.	Low	Agreed	Director of Resource Management	Ongoing
5.06	Management should monitor the delivery of the agreed savings target and take recovery action as necessary.	Low	Agreed	Director of Resource Management	Ongoing, via monthly SEHD monitoring returns and periodic reports to Audit Committee and Board
5.10	Management should liaise with SEHD to agree how relocation, if approved will be funded.	Medium	Agreed	Director of Resource Management	Confirmation currently awaited from SEHD
5.12	Management should continue to monitor these cost pressures to ensure the ongoing financial sustainability of the organisation.	Low	Agreed	Corporate Management Team	Ongoing
8.12	On consideration of the report by QUAG, the Board should decide how its responsibilities for clinical governance will be addressed.	Low	Agreed	Corporate Management Team and Board	Autumn 2007

# Appendix 2: Responsibilities of External Audit and NHS Health Scotland and its Management

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of NHS Health Scotland and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility, we evaluate significant financial systems and associated internal controls and, where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist NHS Health Scotland regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with NHS Health Scotland and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to NHS Health Scotland or any other party.

The prime responsibility for the prevention and detection of fraud and irregularities rests with NHS Health Scotland. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach, we consider these arrangements but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of NHS Health Scotland and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of NHS Health Scotland to put in place proper arrangements to ensure the proper conduct of its financial affairs and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;

- Systems of internal financial control; and
- Standards of financial conduct and the prevention and detection of fraud and corruption.

It is the responsibility of NHS Health Scotland to put in place proper arrangements to manage its performance in order to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that NHS Health Scotland has put in place to secure economy, efficiency and effectiveness in its use of resources.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to NHS Health Scotland during the year as listed at **Appendix 4**.

### **Materiality**

Materiality is defined by the International Accounting Standards Board in the following terms:

*“Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends upon the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”*

Overall audit risk and materiality are significant concepts used in determining the extent of audit work.

Guidelines for this organisation suggest that preliminary materiality be set at approximately 0.5% of turnover. However, materiality is not simply a quantitative figure. Qualitative aspects also need to be considered in assessing whether something would be significant to a user of the financial statements.

The final assessments as to what comprises a material error in the financial statements is a matter of judgement and has been made in accordance with ISA320 “Audit Materiality”.

### **Management’s Judgments and Accounting Estimates**

Management has the responsibility for applying judgment in preparing the accounting estimates and disclosures contained within the financial statements.

### **Audit Independence**

As external auditors of NHS Health Scotland we are required to be independent in accordance with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants and by the Ethical Standards established by the Auditing Practices Board.



These standards require that we disclose to the members all relationships that, in our professional judgment, may reasonably be thought to bear on our independence.

We confirm that no issues have arisen to impair our independence, objectivity and integrity. We further confirm that we are not presently aware of any relationship or non-audit services that would impair our audit independence.

# Appendix 3: Audit Opinion

## **Independent auditor's report to the members of NHS Health Scotland, the Auditor General for Scotland and the Scottish Parliament**

We have audited the financial statements of NHS Health Scotland for the year ended 31 March 2007 under the National Health Service (Scotland) Act 1978. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes but excluding the Directors' Report. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

## **Respective responsibilities of the Board Members, Chief Executive and auditor**

The board and Chief Executive responsible for preparing the Annual Report and the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. The Chief Executive is also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of the Chief Executive's Responsibilities as the Accountable Officer of NHS Health Scotland.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report 2006/07 to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. We also report whether in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. We also report if, in our opinion, the Directors' Report is not consistent with the financial statements, if the body has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

We review whether the Statement on Internal Control reflects NHS Health Scotland's compliance with the Scottish Executive Health Department's guidance. We report if, in our opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements; the financial statements being the only part of the Annual Report that we have audited. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements and the part of the Remuneration Report 2006/07 to be audited. It also includes an assessment of the significant estimates and judgements made by the board and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the body's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report 2006/07 to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report 2006/07 to be audited.

### **Opinion**

#### *Financial statements*

In our opinion

- the financial statements give a true and fair view, in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers, of the state of affairs of NHS Health Scotland as at 31 March 2007 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and

- the financial statements and the part of the Remuneration Report 2006/07 to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

*Regularity*

In our opinion in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

PricewaterhouseCoopers LLP  
Glasgow

29 June 2007

# Appendix 4: Other Formal Reports Submitted During the 2006/07 Audit Process

**Reports submitted by PricewaterhouseCoopers LLP during the 2006/07 audit process**

## **Planning visits**

Outline Audit Approach

## **Interim Visit**

Follow Up of 2005/06 Audit Recommendations  
Internal Controls Report 2006/07

## **Final Accounts Visit**

Audit Opinion  
Annual Report to Board Members

### **Freedom of Information (Scotland) Act 2002**

*This report is intended solely for the information of the Members of the Board of NHS Health Scotland and the Auditor General for Scotland. In the event that, pursuant to a request which these parties receive under the Freedom of Information (Scotland) Act 2002, they will notify PwC promptly and consult with PwC prior to disclosing such External Audit Report. NHS Health Scotland agrees to pay due regard to any representations which PwC may make in connection with such disclosure and NHS Health Scotland shall apply any relevant exemptions which may exist under the Act to such External Audit Report. If, following consultation with PwC, NHS Health Scotland discloses this External Audit Report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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