

June 2008

# Annual Report to Members

# NHS Education

# for Scotland



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# 1. Introduction

## To the Members of NHS Education for Scotland and the Auditor General for Scotland

- 1.01 We have completed our audit of NHS Education for Scotland for the year ended 31 March 2008.
- 1.02 The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2007/08 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.
- 1.03 Our overall responsibility as external auditor of NHS Education for 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.
- 1.04 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.
- 1.05 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 also the Auditor General for Scotland and other auditors such as Audit Scotland’s Health Performance and Public Reporting Group.
- 1.06 Our audit has been planned and conducted to take account of these wider perspectives.
- 1.07 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.
- 1.08 This Annual Report to Members, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.
- 1.09 We would like to thank all NHS Education for Scotland managers and staff for their assistance throughout the audit process

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June 2008

## 2. Executive Commentary

### The Audit Process and Accounting Issues

- 2.01 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 high standard.
- 2.02 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. These adjustments all related to the narrative disclosure in the accounts.

### Our Audit Opinion

- 2.03 Our audit opinion concerns both the true and fair statement of NHS Education for Scotland's ("the Board's") financial results for the year ended 31 March 2008 (2007/08) and the regularity of its income and expenditure in the year.
- 2.04 We are pleased to report that our opinion on the true and fair view on the financial statements is unqualified.
- 2.05 Our regularity opinion on income and expenditure is also unqualified.
- 2.06 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 is unqualified. Our audit opinion does not extend to any other part of the Directors' Report.

### Governance Arrangements

- 2.07 A summary of the work we have performed in the year in relation to the Board's Governance Arrangements was set out in our 2007/08 Interim Management Letter. The Board has in place sound arrangements albeit these are continuing to develop, particularly in the area of staff governance.

### Business Risk Areas

- 2.08 The Board faces a number of business challenges over the next few years relating to the ongoing implementation of MMC and financial management.
- 2.09 In response NHS Education for Scotland has documented strategies for 2008/09 in the Corporate and Management Plans, both of which have been approved by the Board. Short to medium term plans are also included within the Strategic Workplan which initially covered the period 2005-2008 but which is now in the process of being refreshed.

### Financial Performance and Forecast

- 2.10 The Board achieved a £15.2 million surplus for the year, compared to the predicted £13.9 million surplus position reported in the financial plan at the beginning of the financial year. This surplus included a £13.1 million surplus brought forward from 2006/07.
- 2.11 Despite achieving a surplus of £15.2 million this year the Scottish Government has informed the Board that it will be able to retain only the £13.9 million surplus budgeted at the start of the year. However, it has since been agreed that the Board will hand back a further £5 million which relates to 2006/07 and 2007/08 revenue costs which will not be incurred as a result of the delayed implementation of the Dental Action Plan. This means the Board's carry forward to next year will be £8.9 million. However, the Scottish Government has intimated that it may permit a further element of the achieved surplus to be carried forward depending upon the overall outturn of the NHS in Scotland.

2.12 The Board is projecting a recurring break even budget for 2008/09. This will result in a £8.9 million surplus at the end of 2008/09.

### **Systems of Internal Control**

2.13 The Code of Audit Practice requires us to review and report on the Board's Statement on Internal Control. Based on our normal audit procedures, we do not disagree with the disclosures contained within the Statement of Internal Control.

2.14 A number of control matters requiring corrective action have been reported previously to Board's Audit Committee.

# 3. The Audit Process, our Audit Opinion and Accounting Issues

## Audit Process

3.01 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 high standard. Overall, we believe an efficient audit process was achieved and an effective working relationship exists with your staff.

## Preparation and Approval of Financial Statements

3.02 The Financial Statements were prepared in accordance with the accounting requirements contained in the NHS Accounts Manual for the Annual Report and Accounts of Unified NHS Boards, and supplementary guidance, as issued by the Scottish Government Health Department (SGHD) and approved by the Scottish Ministers.

3.03 The Financial Statements were submitted to the Board’s Audit Committee on the 19 June 2008 and approved and adopted at the Board meeting on 26 June 2008.

## Our Audit Opinion

3.04 Our audit opinion concerns both the true and fair statement of the Board’s financial results for the year ended 31 March 2008 (2007/08) and the regularity of its income and expenditure in the year.

3.05 We are pleased to report that our opinion in both regards is unqualified.

3.06 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been prepared properly. Our opinion on the Remuneration Report is unqualified. Our audit opinion does not extend to any other part of the Directors’ Report.

## Key Financial Targets

3.07 The Board achieved its key financial targets for the year, as follows:

Financial Targets	Achievement
Revenue Resource Limit (“RRL”)	The Board spent £375 million against its RRL of £390 million, resulting in a surplus of £15 million. Of this underspend, £8.9 million has been approved for carry forward into 2008/09.
Capital Resource Limit (“CRL”)	Total capital spend was £764,000 against a CRL of £764,000.
Cash Requirement Target	The Board spend during 2007/08 was £366 million, within the cash requirement target of £366 million.

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

- 3.08 Misstatements represent audit findings for which we do not agree with the amount, classification, presentation or disclosure of items in the financial statements.
- 3.09 In conducting our audit 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 processed. Our expectation is that all non trivial misstatements are adjusted.
- 3.10 On the basis of our work, we only proposed a small number of disclosure adjustments.

# 4. Governance and Business Risk Areas

## Introduction

4.01 We comment on the following areas throughout this section of the report:

- Overall Governance
- Financial management
- People management
- Performance management
- Partnership working
- Information management

4.02 We have reported in greater detail on a number of these areas in our Interim Management Letter for 2007/08 which was submitted to the Audit Committee on 17 April 08.

## Overall Governance Arrangements

4.03 NHS Education for Scotland is managed through the Board, Audit Committee, Staff Governance Committee, the Business Group and other standing committees.

4.04 Whilst governance is generally good, the Board is aware that staff governance remains an area where improvements are necessary. The Board is utilising the Scottish Government's self assessment toolkit to revise its Staff Governance Action Plan.

## Financial Management

4.05 Budgetary control is critical to the robustness of any financial management systems. We are pleased to report that sound budgetary control is in place at the Board.

4.06 The financial position of the Board is monitored by the Business Group and by the Finance and Performance Management Committee.

## People Management

### Equal Pay

4.07 The Board has not received any claims relating to equal pay and therefore has not disclosed a potential contingent liability in this year's financial statements.

### Overseas Recruitment

4.08 Audit Scotland has requested that auditors perform additional work at the year end to confirm that all NHS Boards are compliant with the new Partnership Information Network (PIN) publication *Safer pre and post employment checks – policy for NHS Scotland*. Specifically, Audit Scotland requested that we validate that appropriate documentation was being evidenced by the Boards when recruiting overseas employees. We can confirm that Board staff are aware of the new PIN guidance.



- 4.09 We performed detailed testing on all eleven staff currently employed by the Board who were identified by the Human Resources (HR) team as being non European Economic Area (EEA) nationals. The following results were noted:
- Evidence of work permits was not retained for two employees although copies of the residence permits were included;
  - Evidence that identification had been checked was not retained in two of the files;
  - Evidence that references had been checked was not retained in two of the files; and
  - In one file the evidence of indefinite leave to remain, qualifications and ID checks were obtained only through review of a recruitment checklist.
- 4.10 We reviewed the 'Recruitment and Selection' procedures and noted that these include the procedures required by the Board on pre-employment checks. However, procedures for confirming eligibility to work in the UK are not covered by written procedures, due to the small number of international staff recruited. Instead HR staff refer to government websites for guidance. ***Staff should be reminded of the need to comply with the relevant statutory PIN guidance relating to the recruitment of employees. All evidence supporting an individual's right to work in the UK should be retained within their personnel file.***

**Action 1**

#### Agenda for Change

- 4.11 The Board has now reached 98.5% assimilation in respect of Agenda for Change. The outstanding posts relate to staff who are either on long term sickness leave or maternity leave. Whilst the Board anticipates that there will be some maintenance work required such as the re-evaluation of posts, it is not expected that Agenda for Change activities will require significant resource in the future.

#### Significant Vacancies

- 4.12 The Board currently has two significant vacancies amongst its senior management, being the Director of Human Resources and the Director of Education Development.

#### Performance Management

- 4.13 The Board's performance management system is based on a dashboard reporting tool which allows performance information to be captured and monitored against targets at every level of the organisation. This includes information on performance against the strategic objectives and performance against the Local Delivery Plan and associated HEAT targets. The Finance & Performance Management Committee reviews full performance reports generated by the dashboard system on a quarterly basis.

#### Partnership Working

- 4.14 In our 2007/08 Interim Management Letter we reported on the progress made by the Board in establishing appropriate structures and processes to help deliver its partnership working. Partnership working is integral to the delivery of the Board's objectives with key partners including the territorial Health Boards, the Scottish Government, Higher and Further Education bodies and the Scottish Funding Council (SFC).
- 4.15 The implementation of Modernising Medical Careers remains a key risk to partnership working and the Board is committed to retaining a close working relationship with each Health Board, the Scottish Government, the British Medical Association and Junior Doctors. MMC plans have been agreed with representatives from each of these organisations for 2008.

#### Information Management

- 4.16 We have performed detailed controls work on the Internal General Computer controls currently in place at the Board. Findings were included in our 2007/08 Interim Management Letter and a summary of work relating to the Board's systems of internal control is included in Section 7 of this report. A key challenge for 2008/09 will be the delivery of the Scottish Government's shared services strategy. The Board has joined the NHS Ayrshire and Arran consortium and is working towards the key date of migration of financial systems to the required software (Cedar 3.4) by October 2008.

# 5. Financial Targets and Performance 2007/08

## Revenue Out-turn

- 5.01 The Board reported a surplus out-turn for the year of £15.2 million. This includes funding of £13.1 million carried forward from 2006/07 meaning expenditure incurred during the year was £2.1 million less than the in-year allocation.
- 5.02 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.
- 5.03 **The Board's Reported Financial Out-turn for 2007/08.**

	£'m Actual	£'m Actual
Recurring income	367.3	
Recurring expenditure (before savings)	(367.3)	
Recurring savings	<u>7.7</u>	
<b>Underlying recurring surplus / (deficit)</b>		<b>7.7</b>
Non-recurring income	22.9	
Non-recurring expenditure (before savings)	(22.8)	
Non-recurring savings	<u>7.4</u>	
<b>Non-recurring surplus/(deficit)</b>		<b><u>7.5</u></b>
<b>Financial surplus/(deficit) for the year</b>		<b><u>15.2</u></b>
Figures confirmed by Caroline Lamb, NHS Education for Scotland Director of Finance		

5.04 **Actual Out-turn versus Original Plan**

	£m	£m
<b>Analysis of Surplus at 31 March 2008</b>		<b>15.2</b>
Underspends:		
Dental Action Plan	7.7	
Modernising Medical Careers	2.7	
Audiology	1.2	
Other Projects	3.6	
<b>Actual surplus reported (31 March 2008)</b>		<b><u>15.2</u></b>
<b>Carry Forward to 2008/09</b>		
Budgeted Surplus agreed with SGHD at 1 April 2007	13.9	
Less: portion of Dental Action Plan funding to be returned to SGHD	(5.0)	
<b>Permitted carry forward</b>		<b><u>8.9</u></b>

**Underspend**

5.05 The most significant underspend is the £7.7 million reported against the Dental Action Plan. This surplus is a cumulation of the £3.05 million carried forward from 2006/07 and £4.65 million underspend in the current year. The majority of this underspend relates to the revenue funding for the outreach "Teach and Treat" centres. The Board has been liaising with the Scottish Government Health Department throughout the year and has agreed to return £5 million of this underspend after 31 March 2008.

**Capital Expenditure Out-turn**

<b>Capital Expenditure 2007/08</b>	<b>£'m</b>
<b>Capital expenditure in year</b>	<b>764</b>
Capital Grants given	<u>0</u>
	0
Capital Receipts	(0)
Capital Grants received	<u>(0)</u>
<b>Capital Resource Limit out-turn</b>	<b><u>764</u></b>
<b>Capital Resource Limit</b>	<b><u>764</u></b>

**Capital Expenditure**

5.06 The most significant area of capital expenditure was in respect of the development of the e-Library portals. This involved the acquisition of hardware and the development of bespoke software to allow users from the wider NHS community to access this resource.

# 6. Financial Forecast 2008/09

## Forecast for 2008/09

6.01 The table identifies that after savings the Board plans to return a surplus of £8.9 million.

	£'m Forecast	£'m Forecast
Recurring income	392.7	
Recurring expenditure (before savings)	(392.7)	
Recurring savings	<u>8.7</u>	
<b>Underlying recurring surplus / (deficit)</b>		<b>8.7</b>
Non-recurring income	9.8	
Non-recurring expenditure (before savings)	(9.8)	
Non-recurring savings	<u>0.2</u>	
<b>Non-recurring surplus/(deficit)</b>		<b><u>0.2</u></b>
<b>Financial surplus/(deficit) forecast for the year</b>		<b><u>8.9</u></b>
Figures confirmed by Caroline Lamb, NHS Education for Scotland Director of Finance		

6.02 In considering this forecast, a number of factors need to be recognised, as outlined below.

### Cost Pressures

6.03 The Board has identified a number of financial risks, which have been incorporated into its forecast financial position.

6.04 Modernising Medical Careers remains a financial risk to the Board during 2008/09. There are risks pertaining to the forecast estimates of doctor vacancies at 1 August 2008 which could result in excess medical recruitment. There is also the risk of increased costs due to the “double running” of posts and as a result of the terms and condition negotiations in GPST1. The combined financial impact of these issues could total as much as £5.3 million.

6.05 The changing profile of medical trainees towards posts which require greater educational input from the Board may also result in increased pressure on educational support and associated administration. The Board anticipates that the potential financial impact of this could be approximately £500,000.

6.06 The pay settlements for Agenda for Change and training grade staff also constitute a significant financial risk. The impact of Training Grade settlements, should these be significantly greater than the predicted 3.15%, will be £230,000 for every additional 0.1% rise.

## Planned Savings

- 6.07 The Scotland-wide Efficient Government initiative is designed to deliver public sector savings of £500 million by 2007/08 and £1 billion by 2009/10. In common with other Health Bodies, the Board has not been set any specific targets in relation to this.

# 7. Systems of Internal Control

## Statement on Internal Control

- 7.01 The Code of Audit Practice requires us to review and report on the Board’s Statement on Internal Control.
- 7.02 The Board has used the correct format for its Statement and has outlined the processes it has employed to identify and evaluate risks. In addition, key elements of the Board’s control framework have been highlighted.
- 7.03 The Statement also outlines areas where the Board has initiated actions to improve internal control as follows:
  - Implementation of a system for recording information in risk registers which facilitates the co-ordination, analysis and sharing of risk information and which enables follow up of agreed risk actions;
  - Use of information from the new web-enabled risk management system to compare and contrast risk identification and risk scoring across different parts of the organisation;
  - Inclusion of Risk Management as a common core objectives for each Director;
  - Review and revision of the remit of the PFPI Committee to ensure that there is one point of accountability for equality and diversity matters and to ensure that all practice is subject to appropriate scrutiny;
  - Issue of guidance to all governance committees of the Board covering the content and format of their annual report to the audit committee; and
  - Production of a commentary on the content of the annual reports from all governance committees of the Board and use this, as part of a Board away day, to identify areas of good practice and areas for development.
- 7.04 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

## Follow Up Report on control matters raised for action in previous years

- 7.05 We followed up the Board’s progress in implementing recommendations raised in previous years.
- 7.06 At the time of reporting, of the 19 agreed actions, progress was as follows:

Status	Annual Report to Members 2006/07	Interim Management Report 2006/07	Follow Up Report 2006/07	Total
Action Implemented	6	5	2	13
Action in Progress	-	-	1	1
Limited/Little Progress to Date	-	-	-	-
Action No Longer Applicable	1	1	3	5
<b>Total</b>	<b>7</b>	<b>6</b>	<b>6</b>	<b>19</b>

- 7.07 Overall, we are pleased to report that NHS Education for Scotland has made significant progress in implementing recommendations from previous audit reports and only one recommendation was outstanding, albeit partially implemented. Most of the recommendations that are no longer applicable related to the now cancelled relocation project.

## Interim Management Letter 2007/08

- 7.07 Our Interim Management Letter was also presented to the Audit Committee on 19 April 2008. The report contained a number of recommendations to improve controls, none of which were graded as higher risk.
- 7.08 The Board has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. We will follow up this action plan during our 2008/09 audit.

### Control Weakness Identified

- 7.09 During the course of the final audit, one new control weakness was identified as follows:

#### Network Access

- 7.10 To enhance security administration standard forms are made available on the intranet to ensure access to the Board's networks is tightly controlled, especially for new joiners and staff leaving the organisation. A standard form must be completed by the relevant line manager and either signed and submitted on paper, or submitted electronically from the line manager's email address to IT. During our testing of this control we identified that it is not mandatory to retain this approval documentation. ***Management should ensure that line manager's authorisation is retained to support all requests for new joiners and leavers to be added to the Boards network. This could include scanned-in signed copies of the joiners or leavers forms, or an authorising email from the line manager's NES account.***

**Action 2**

### National Fraud Initiative (NFI)

- 7.11 We submitted a return to Audit Scotland in February 2008, providing information on the Board's arrangements for the management of its 2006/07 NFI project. We concluded that NHS Education for Scotland appeared to have established satisfactory systems to fulfil the requirements of the 2006/07 NFI exercise.
- 7.12 As outlined in CEL 18 (2007) the Scottish Government Health Directorate supports Audit Scotland's proposal that NHS bodies should continue to participate in NFI. The 2008/09 exercise will commence on 6 October 2008 with payroll being the only mandatory dataset for submission by health bodies. However health bodies may also take the opportunity to submit trade creditors' payment history information for comparison.

### Fraud Strategy and Submission

- 7.13 CEL (2008)3 informed Boards of the need for an updated strategy to combat NHS fraud and set out specific action in relation to the strategy. We can confirm that the Board is aware of the new guidance but that the Fraud Strategy has not been updated since June 2007 to take account of any required changes. ***The Board should undertake a review of its fraud policy to ensure compliance with the revised guidance published in CEL 3 (2008).***

**Action 3**

- 7.14 The Board has submitted a nil return in respect of frauds during 2007/08.

# Appendix 1: Action Plan

Ref	Recommendation (report paragraph)	Risk Category	Management Response and Action	Responsible Officer	Date of Implementation
1	Staff should be reminded of the need to comply with the relevant statutory PIN guidance relating to the recruitment of employees. All evidence supporting an individual's right to work in the UK should be retained within their personnel file.	Medium	Agreed.	Head of Human Resources	Immediate
2	Management should ensure that line manager's authorisation is retained to support all requests for new joiners and leavers to be added to the Board's network. This could include scanned-in signed copies of the joiners or leavers forms, or an authorising email from the line manager's account.	Low	Agreed.	Head of Information Management & Technology	Immediate
3	The Board should undertake a review of its fraud policy to ensure compliance with the revised guidance published in CEL 3 (2008).	Low	Agreed.	Director of Finance and performance Management	September 2008



# Appendix 2: Other Reports Submitted During the 2007/08 Audit

## Reports submitted by PricewaterhouseCoopers LLP during the 2007/08 audit process

### **Planning Visit**

1. Annual Service Plan

### **Interim Visit**

2. Follow up of 2006/07 Audit Recommendations
3. Interim Management Letter 2007/08

### **Final Accounts Visit**

4. Audit Opinion
5. Annual Report to Board Members

## Health Reports finalised by Audit Scotland during 2007/08

1. Managing long-term conditions (16 August 2007)
2. Primary care out-of-hours services (30 August 2007)
3. Health and community care bulletin (11 October 2007)
4. Priorities and Risks Framework: A national planning tool for 2007/08 NHSScotland audits (16 November 2007)
5. Overseas staff in the NHS – pre-employment checks (29 November 2007)
6. Overview of Scotland's health and NHS performance 2006/07 (14 December 2007)
7. A review of free personal and nursing care (1 February 2008)

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

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