

June 2008

Annual Report to Members

NHS Health

Scotland



Contents

Section	Contents	Pages
1. Introduction		1
2. Executive Commentary		2 - 3
3. The Audit Process, our Audit Opinion and Accounting Issues	<ul style="list-style-type: none">• Audit Process• Approval of Financial Statements• Audit Opinion• Key Financial Targets• Audit Adjustments	4 - 5
4. Governance and Business Risk Areas	<ul style="list-style-type: none">• Overall Governance• Financial Management• People Management• Performance Management• Partnership Working• Information Management	6 - 8
5. Financial Performance 2007/08	<ul style="list-style-type: none">• Revenue Out-turn• Capital Out-turn	9 - 10
6. Financial Forecast 2008/09	<ul style="list-style-type: none">• Revenue Forecast• Cost Pressures• Planned Savings	11 - 12
7. Systems of Internal Control	<ul style="list-style-type: none">• Statement on Internal Control• Follow Up on Previous Year's Audit• Interim Management Letter• Fraud Matters	13 - 14
Appendix 1:	Action Plan	15
Appendix 2:	Other Reports Submitted during the 2007/08 Audit	16

1. Introduction

To the Members of NHS Health Scotland and the Auditor General for Scotland

- 1.01 We have completed our audit of NHS Health 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 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.
- 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 Health Scotland managers and staff for their assistance throughout the audit process.

PricewaterhouseCoopers LLP
Kintyre House
209 West George Street
GLASGOW
G2 2LW

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 processes undertaken by management were of a good 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.

Our Audit Opinion

- 2.03 Our audit opinion concerns both the true and fair statement of NHS Health Scotland's ("Health Scotland") 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 Health Scotland's Governance Arrangements was set out in our 2007/08 Interim Management Letter. Health Scotland has in place sound arrangements developed over a number of years.

Business Risk Areas

- 2.08 Health Scotland faces a number of business challenges over the next few years particularly relating to financial management and project delivery.
- 2.09 In response Health Scotland has documented strategies for 2008/09 in the Delivery Plan, which has been approved by the Board. Short to medium term plans are also included within the Corporate Plan which covered the period 2005-2008. It has now been agreed that a new Corporate Plan will be developed during 2008/09.
- 2.10 During 2007/08 it was announced that Health Scotland would no longer be required to relocate out of Edinburgh, due to a change in government policy. Health Scotland has reviewed its current position of being located across six sites and now plans to relocate staff to two sites (one in Glasgow and one in Edinburgh). An Estates Strategy is not yet in place, but is currently being developed and a process of consultation with staff has begun.

Financial Management

- 2.11 Throughout 2007/08 significant management attention has been directed towards the forecast financial outturn position. Of particular concern to management has been the potential for a significant underspend against Health Scotland's Revenue Resource Limit.
- 2.12 As part of the mid-year review management identified that an underspend was likely and a decision was taken to return £925,000 to the Scottish Government.

- 2.13 For 2008/09 management has put in place more stringent procedures to try to minimise future underspends by ensuring that projects are fully assessed in terms of deliverability and strategic importance prior to being accepted.

Financial Performance and Forecast

- 2.14 Health Scotland has achieved a £184,000 surplus for the year, compared to the predicted break-even position reported in the financial plan at the beginning of the year.
- 2.15 Health Scotland is projecting a recurring balance in 2008/09, with a predicted year end surplus of £245,000. This is dependent on sound management of recurring and non-recurring income and expenditure and the achievement of a savings programme of £335,000.

Systems of Internal Control

- 2.16 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 on Internal Control.
- 2.17 A number of control matters requiring corrective action have been reported previously to the Board's Audit Committee. The more significant of these relate to information management and the need to take forward previous recommendations regarding Business Continuity Planning and the development of an IM&T strategy.

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 processes 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 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 Directorates (SGHD) and approved by the Scottish Ministers.

3.03 The Financial Statements were submitted to Health Scotland’s Audit Committee on the 27 June 2008 and thereafter approved and adopted at the Board meeting on 27 June 2008.

Our Audit Opinion

3.04 Our audit opinion concerns both the true and fair statement of Health Scotland’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 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 Health Scotland achieved its key financial targets for the year, as follows:

Financial Targets	Achievement
Revenue Resource Limit (“RRL”)	Health Scotland spent £22.907 million against its RRL of £23.091 million, resulting in a surplus of £0.184 million. This excludes the £925,000 Health Scotland returned to the Scottish Government following the mid year review.
Capital Resource Limit (“CRL”)	Total capital spend was £0.069 million against a CRL of £0.069 million.
Cash Requirement Target	Health Scotland’s spend during 2007/08 was £23.040 million within the cash requirement target of £23.062 million.

Misstatements and Significant Audit Adjustments

- 3.08 Misstatements represent audit findings where 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 As a result of our work, we proposed a small number of audit adjustments and all of these have been processed by management in the final version of the 2007/08 financial statements.

4. Governance and Business Risk Area

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 14 March 2008.

Overall Governance Arrangements

4.03 Health Scotland has well established Board and Committee structures for monitoring financial and aspects of operational performance through the Audit Committee, Staff Governance Committee and the Remuneration Committee.

4.04 In response to feedback from the QIS peer review, a decision has been taken to create a new sub-committee, the Health Governance Committee. This group will have responsibility for developing strategies for the scrutiny of quality assurance arrangements.

Financial Management

4.05 Budgetary control is critical to the robustness of any financial management systems. The financial position of Health Scotland is monitored by both the Audit Committee and the Board throughout the year.

4.06 Significant effort has gone into budgetary control in the current year, with a particular focus on ensuring that individual projects were running to schedule and that underspends were minimised.

4.07 In order to actively manage this situation, finance staff have engaged regularly with budget holders to assess the likelihood of budgets being utilised during the year. This work has resulted in certain budget adjustments and expenditure re-profiling during the year. In addition, a mid year review was performed as a result of which £925,000 was returned to the Scottish Government

4.08 We are pleased to report that sound budgetary control is in place at the Health Scotland.

People Management

Vacant Posts

- 4.09 A new Equalities and Planning Directorate was created on 1 April 2008 requiring a significant number of new posts to be filled. During the year Health Scotland has worked towards filling these new posts and as a result the majority of these have now been filled. However, this has created a significant workload for Human Resource and as a result many other vacant posts have been filled by agency staff throughout the year.
- 4.10 In addition there has been a relatively high level of vacancies in at least two of the other directorates. This is in part due to the policy on initially advertising posts internally, resulting in internal appointments rather than the appointment of external candidates.
- 4.11 Although the Director of Programme Design and Delivery has recently announced her resignation, recruitment for a replacement is already underway and it is expected that a replacement will be found before the post becomes vacant.

Agenda for Change

- 4.12 All relevant staff have now been assimilated to Agenda for Change. Appeals have been heard and a small number of these are awaiting further action. An accrual has been included in the financial statements for these cases and has been calculated by examining the likely cost of each case.
- 4.13 Whilst Health Scotland 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 represent a significant work load in the future.

Equal Pay

- 4.14 Health Scotland has not received any Equal Pay claims and furthermore is not aware of any posts for which an Equal Pay claim could be made. It has been agreed with Audit Scotland that no disclosure will be required in the annual accounts in this regard.

Overseas Recruitment

- 4.15 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.
- 4.16 We performed detailed testing on all three staff currently employed by the Board who were identified by the Human Resources team as being non European Economic Area (EEA) nationals. One exception was identified in that although a copy of the residence permit was held on file, a work permit letter was not retained for one employee.
- 4.17 We reviewed the 'Recruitment and Selection' procedures and noted that these include all the requirements to carry out the necessary pre-employment checks, except for the need to check eligibility to work in the UK. This is not included, due to the small number of international staff recruited. Instead Human Resources 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

Performance Management

- 4.18 Health Scotland updated its Performance Management Policy during 2007/08. This sets out the overall aims, improvement goals, management controls and roles and accountabilities for performance management.
- 4.19 To allow real time monitoring of progress against specific projects, financial and non financial performance is managed through the use of the Business Planning Tool, which allows staff at all levels to access up-to-date information.
- 4.20 Performance Management reports are provided to the Board and the Corporate Management Team on a quarterly basis and these include traffic light and exception reporting.

Partnership Working

- 4.21 The Health Scotland 2008/09 Delivery Plan includes a section on partnership working, highlighting the aims and objectives in this area. This focuses on relationships with territorial health boards, the promotion of joint working and the need for their influence in the Health Scotland business planning process.
- 4.22 In particular, Health Scotland is keen to achieve reported improvements in its working relationships, establish a transparent process for involving partners and ensure that all partnership agreements are clear in terms of how the delivery of Health Scotland's priorities will be supported. Furthermore management is considering the possibility of delivering more work in partnership with the voluntary sector.

Information Management

- 4.23 Information Management has been an area of challenge for Health Scotland with investment held pending the final decision regarding relocation. This has led to delays in implementing previous recommendations relating to Business Continuity Planning and the development of a formal IM&T strategy. This issue was raised in our 2007/08 Interim Management Letter.
- 4.24 Health Scotland is part of the shared services consortium led by NHS Ayrshire and Arran for the provision of accounting services and plans to implement Cedar 3.4 on 1 October 2008 and payroll services from 1 August 2008. The transfer of payroll provider and the implementation of the new shared service is being closely monitored by management and new members of staff are being recruited to oversee the project.
- 4.25 Health Scotland has not yet completed the information governance self assessment. Whilst management believes that they are complying with the standard, this has not yet been formally assessed. ***The Board should ensure that it assesses itself against the Information Governance Standard and that all required returns in relation to information governance are submitted by the required deadline***

Action 2

5. Financial Targets and Performance 2007/08

Revenue Out-turn

- 5.01 The actual out-turn for the year was a surplus of £0.184 million. This takes account of the £925,000 allocation that was returned to the Scottish Government during the year.
- 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.

The Board's Reported Financial Out-turn for 2007/08.

	£'m Actual	£'m Actual
Recurring income	17.200	
Recurring expenditure (before savings)	(17.337)	
Recurring savings	<u>0.170</u>	
Underlying recurring surplus / (deficit)		0.033
Non-recurring income	5.885	
Non-recurring expenditure (before savings)	(5.734)	
Non-recurring savings	<u>0</u>	
Non-recurring surplus/(deficit)		<u>0.151</u>
Financial surplus/(deficit) for the year		<u>0.184</u>
Figures confirmed by Alan Crawford, NHS Board Director of Resource Management		

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

	£m	£m
Projected Break Even (1 April 2007)		0
Underspends:		
Keep Well Project	0.085	
Mental Health and WellBeing	0.073	
Other	0.026	0.184
Actual surplus reported (31 March 2008)		<u>0.184</u>

Underspends:

5.04 The Mental Health and Wellbeing project has slipped during the year due to a lack of capacity to deliver Mental Health first aid training.

5.05 The Keep Well Project has not progressed in line with the project plan. The project outputs have yet to be agreed and Health Scotland has identified that there is a lack of readiness at some Health Boards for the project.

5.06 **Capital Expenditure Out-turn**

Capital Expenditure 2007/08	£'m
Capital expenditure in year	0.069
Capital Grants given	<u>0</u>
	0.069
Capital Receipts	(0)
Capital Grants received	<u>(0)</u>
Capital Resource Limit out-turn	<u>0.069</u>
Capital Resource Limit	<u>0.069</u>

Capital Expenditure

5.07 The main areas of capital spend during the year related to IT and electrical equipment.

6. Financial Forecast 2008/09

Forecast for 2008/09

6.01 The table identifies that after savings the Board plans to break even during 2008/09.

	£'m Forecast	£'m Forecast
Recurring income	18.928	
Recurring expenditure (before savings)	(19.262)	
Recurring savings	<u>0.334</u>	
Underlying recurring surplus / (deficit)		0
Non-recurring income	7.161	
Non-recurring expenditure (before savings)	(7.161)	
Non-recurring savings	<u>0</u>	
Non-recurring surplus/(deficit)		<u>0</u>
Financial surplus/(deficit) forecast for the year		<u>0</u>
Figures confirmed by Alan Crawford, NHS Board Director of Resource Management		

6.02 In considering this forecast, a number of factors need to be recognised, as noted in the following paragraphs.

Cost Pressures

6.03 Although Health Scotland has a recurring underspend and returned funding during the year, there are a number of areas where cost pressures may occur during 2008/09.

Estates Strategy

6.04 In the aftermath of the decision on relocation, Health Scotland is currently consolidating its estate with a view to reducing the number of properties it occupies. During the year work has been undertaken to source new properties to facilitate the planned move to one single site in Glasgow and one site in Edinburgh. It is hoped that this will create savings in the long term but in the short term may result in some additional costs, specifically early lease termination costs.

Agency Staff

6.05 As discussed at 4.09, agency staffing was a significant cost pressure for Health Scotland during 2007/08 due to the high level of vacancies and set-up of the new directorate. The majority of these posts have now been filled but the expectation remains that some cost pressure will remain in relation to agency staff costs.

Planned Savings

- 6.06 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. Health Scotland has achieved the three year target of £374,000 between 2005/06 and 2007/08 and is currently working towards identifying sufficient efficiency savings to meet the challenging target of 2%.

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 Health Scotland 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 Health Scotland's control framework have been highlighted.
- 7.03 The Statement also outlines areas where Health Scotland plans to improve internal control particularly in relation to the establishment of key performance and risk indicators.
- 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 previous external audit recommendations. Our Follow Up Report was considered at the Audit Committee meeting on 14 March 2008.
- 7.06 At the time of reporting, of the 23 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	3	6	3	12
Action in Progress	1	4	3	8
Limited/Little Progress to Date	2	-	1	3
Total	6	10	7	23

- 7.07 Overall, Health Scotland has made good progress in implementing recommendations from previous audit reports and we have been informed that work is ongoing to address the recommendations currently classified as partially implemented.

Interim Management Letter 2007/08

- 7.08 Our Interim Management Letter was presented to the Audit Committee on 14 March 2008. The report contained a number of recommendations to improve controls none of which were graded as higher risk.
- 7.09 Health Scotland 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 Weaknesses identified

- 7.10 During the course of the final audit visit we experienced difficulties in tracing the values of stock on the stock listing back to supporting documentation. In some cases items could only be agreed to the prior year stock listing. For those items we traced to supporting documentation we noted a high number of small variances which could not be explained. ***A clear audit trail should be put in place that details the calculation of the stock value in the listing and provides links to supporting invoices. In addition the accuracy of the current stock values should be confirmed.***

Action 3

National Fraud Initiative (NFI)

- 7.11 We submitted a return to Audit Scotland in February 2008, providing information on Health Scotland's arrangements for the management of its 2006/07 NFI project. We concluded that Health 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 Directorates support 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. An updated counter fraud action plan was presented to the Audit Committee on 25 April 2008 and has subsequently been agreed as "fit for purpose" by Counter Fraud Services.
- 7.14 A return is made to Audit Scotland of all the reported frauds in the year. Health Scotland had a "nil" return for 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	Recommendation accepted.	Head of Human Resources	31 August 2008
2	The Board should ensure that it assesses itself against the Information Governance Standard and that all required returns in relation to information governance are submitted by the required deadline.	Medium	Recommendation accepted.	Corporate Management Team	As required by Scottish Government reporting timetable
3	A clear audit trail should be put in place that details the calculation of the stock value in the listing and provides links to supporting invoices. In addition the accuracy of the current stock values should be confirmed.	Low	Recommendation accepted.	Head of Finance/Head of Marketing	31 August 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

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. PricewaterhouseCoopers LLP does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.