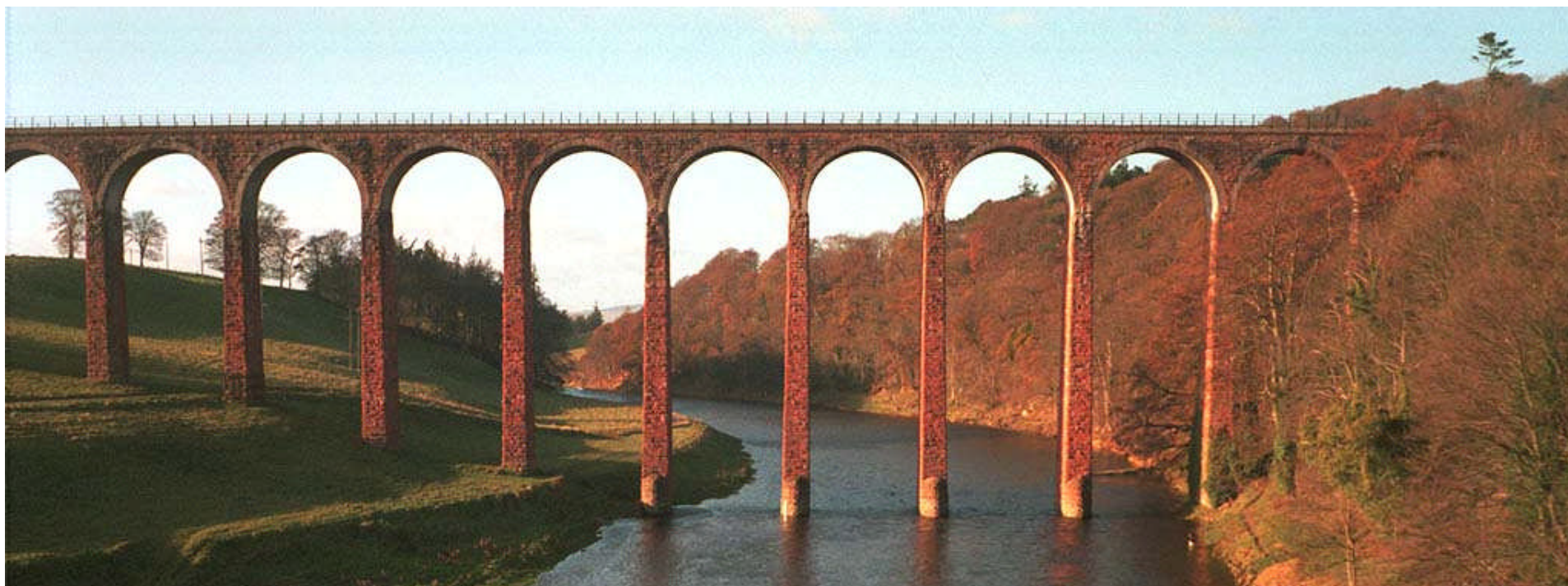


# NHS Borders

## Annual Report to Members and the Auditor General for Scotland 2008/09

For Discussion at the Audit Committee on 22 June 2009



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The principal objective of our audit procedures is to enable us to express our opinion, in line with the requirements of the Audit Scotland Code of Audit Practice, on the financial statements as a whole. Our audit opinion does not guarantee that the financial statements are free from misstatement. Our audit responsibilities, and their limitations, are explained in our letter of appointment.

Any oral comments made in discussions with you relating to this report are not intended to have any greater significance than explanations of matters contained in the report. Any oral comments that we make do not constitute oral advice unless we confirm any such advice formally in writing.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks at the Board or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

# 1. Introduction

## Purpose of this report

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2008/09 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

## Scope of the Audit

Our overall responsibility as external auditor of NHS Borders is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007.

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.

It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the “appointed auditor”, the Auditor General for Scotland and other auditors such as Audit Scotland’s Health Performance and Public Reporting Group.

Our audit has been planned and conducted to take account of these wider perspectives.

Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA (UK&I)’) 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.

This Annual Report to Members, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA (UK&I) 260.

## Acknowledgment

We would like to formally extend our thanks to all NHS Borders staff for the assistance they have given us during the audit process.

## 2. Executive Summary

### Audit Opinion and Accounting Issues (Section 3)

Our audit opinion addresses both the true and fair statement of the Board's financial results and balances for the year ended 31 March 2009 (2008/09) and the regularity of its income and expenditure in the year.

We are pleased to report that our opinions on the true and fair view and on the regularity opinion are both **unqualified**.

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.

A number of accounting issues were discussed with management during the audit. The most significant of these are set out below:

- Status of Clinical and Medical Negligence Provisions; and
- Treatment of Equal Pay Contingent Liability.

These issues have all been adjusted for in the final version of the financial statements.

### Financial Management and Performance (Section 4)

The Board is reporting a surplus for the year of £0.082 million. The overall surplus position has resulted from a combination of an underlying recurring

deficit of £0.958 million and non-recurring surplus of £1.040 million. The Board successfully met all three of its key financial targets (Revenue Resource Limit, Capital Resource Limit and Cash Requirement).

### Financial Forecasts for 2009/10 (Section 5)

The Board has prepared financial forecasts and savings plans as part of its Strategic Change Programme (SCP) which is designed to enable the Board to identify savings on a recurring basis, without impacting upon the quality of service provided.

Financial forecasts for 2009/10 include a projected surplus of £1 million, based on achieving challenging efficiency savings from the SCP of £4 million recurring and £1.129 million non-recurring. However, looking ahead in light of the changes in the UK economic outlook, there is a risk that the SCP does not now address the full scale of possible future funding challenges.

This could have significant implications for the delivery of services for NHS Borders. While the Board's SCP is successfully meeting its original savings aims and objectives, the efficiency savings currently planned may not be sufficient to enable the Board to break-even on an ongoing basis.

The Board should commence planning for this likelihood at the soonest opportunity to ensure that it is able to react effectively to the significant financial constraints which will be placed upon it from 2010/11 and beyond.

## Governance and Business Risks (Section 6)

As part of our External Audit Plan, we have performed work in the year in relation to the Board's governance arrangements. Our findings were presented in our 2008/09 Interim Management Letter. In overall terms, the arrangements appear robust and the Board has taken significant steps towards the development of the Community Health and Care Partnership ('CHCP') with Scottish Borders Council. Good progress is also being made by the Board in relation to People Management and Information Governance.

## Systems of Internal Control (Section 7)

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. However, we do note that progress in implementing previously reported and agreed external audit recommendations has been slower than anticipated, now requiring a refreshed and concerted effort by management.

## Recommendations

Throughout the course of our audit, where we have identified potential areas for improvement we have made recommendations, which are summarised in Appendix A along with management's responses.

# 3. Audit Opinion and Accounting Issues

## Audit Opinion

Our audit opinion concerns both the true and fair statement of the Board's financial results for the year ended 31 March 2009 and the regularity of its income and expenditure in the year.

We are pleased to report that our opinion on the true and fair view on the financial statements is **unqualified**.

Our regularity opinion on income and expenditure is also **unqualified**.

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.

## Audit Process

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, with noticeable improvements noted from the previous year.

However, we did experience issues with regard to availability of key staff during the final audit visit and this did have an impact on the efficiency of the audit process. Nevertheless, we have been able to meet our original reporting timetable.

Overall, we believe that an effective working relationship exists with your staff.

## Preparation and Approval

The Financial Statements were prepared in accordance with the accounting requirements contained in the NHS Board Accounts Manual for Directors' Report and Accounts of NHS Boards and for Scottish Financial Returns and supplementary guidance, as issued by the Scottish Government Health Directorates (SGHD) and approved by the Scottish Ministers.

The Financial Statements were submitted to the Board's Audit Committee on the 22 June 2009 and were approved and adopted at the Board meeting on 25 June 2009.

## Unadjusted misstatements

Under ISA (UK&I) 260 "*Communication of audit matters to those charged with governance*", we are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those which we assess as being trivial in nature.

As a result of our work, we proposed a number of audit adjustments and all of these have been processed by management in the finalised version of the 2008/09 financial statements.

## Accounting Issues

A number of accounting issues were discussed with management during the audit. The most significant of these are set out below.

### Status of Clinical and Medical Negligence Provisions

The values of the Clinical and Medical Negligence Provisions contained within the notes to the financial statements are based upon information received directly from the Central Legal Office (CLO) in respect of ongoing claims against the Board.

At the time of the preparation of the financial statements, the CLO report for the financial year to 31 March 2009 had not been received and hence the data used to calculate the provision was that contained within the previous quarter's report.

Upon review of the year-end report, it was noted that one of the provisions included in the previous quarter's report had decreased in estimated value from £0.500 million to £1. This had not been reflected in the first draft of the financial statements.

A long-term debtor to the value of £0.400 million was also held by the Board in relation to the insurance cover offered by the CNORIS scheme in relation to this specific provision.

The correcting audit adjustment to the Balance Sheet has created a net increase to the Board's surplus of £0.100 million and this has been processed in the final version of the financial statements (£0.500 million original provision less insurance debtor of £0.400 million in relation to the provision).

### Treatment of Equal Pay Contingent Liability

Following recent developments in the cases against the NHS in relation to Equal Pay and Agenda for Change, the CLO Equal Pay Unit and Audit Scotland have agreed wording which should be included within the notes to

the financial statements regarding the contingent liability for Equal Pay claims. NHS Borders has complied fully with this wording. The Board has previously received claims in relation to Equal Pay, although no new claims were received in the financial year to 31 March 2009.

### International Financial Reporting Standards (IFRS)

Government bodies, including NHS Boards, are required to adopt IFRS for 2009/10, including the restatement of 2008/09 comparatives. The objective is to bring the public sector into line with the private sector, and to introduce greater comparability and consistency across public sector accounting.

In order to prepare IFRS compliant accounts in 2009/10, NHS Borders will need to revise its accounting policies, change the format of its financial statements and include a significant number of additional disclosures. It will need to restate its 2008/09 comparative figures and report these together with its 2009/10 figures on an IFRS basis.

In order to restate the 2008/09 closing balances under IFRS, the Board was required to recalculate its opening balance sheet as at 1 April 2008 on an IFRS basis and submit it to the Scottish Government Health Directorates by 28 November 2008.

We were required to report on the processes adopted by management to prepare the IFRS opening balance sheet as at 1 April 2008. The results of our findings have been reported separately in a letter to the Director of Finance. Particular recommendations were in relation to the accounting treatment of intangible assets due to a change in government policy and the calculation of the holiday pay accrual.

The next stage of the process is that a full set of IFRS accounts will be prepared for 2008/09 by the end of September 2009. These will be subject to audit review by end November 2009.

# 4. Financial Management and Performance 2008/09

	£m	£m
Recurring income	201.871	
Recurring expenditure (before savings)	(206.176)	
Recurring savings	<u>3.347</u>	
<b>Underlying recurring surplus/(deficit)</b>		<b><u>(0.958)</u></b>
Non-recurring income	4.912	
Non-recurring expenditure (before savings)	(6.152)	
Non-recurring savings	<u>2.280</u>	
<b>Non-recurring surplus/(deficit)</b>		<b><u>1.040</u></b>
<b>Financial surplus/(deficit) for the year</b>		<b><u>0.082</u></b>
<b>Underlying recurring surplus/(deficit) as a percentage of recurring income</b>		<b><u>(0.474)%</u></b>
Confirmed by NHS Borders Director of Finance: Robert Kemp		

## Performance against Key Financial Targets

The Board has met the three targets set each year by the SGHD, as follows:

	Limit set by SGHD £m	Actual Outturn £m	Variance (over)/under £m
Revenue Resource Limit (RRL)	179.569	179.487	0.082
Capital Resource Limit (CRL)	6.499	6.495	0.004
Cash Requirement	183.600	183.516	0.084

## Revenue Income & Expenditure

The overall financial surplus of £0.082 million has been achieved as a result of a recurring deficit of £0.958 million which is compensated for by a £1.040 million non-recurring surplus, as detailed in the table opposite.

The Board had budgeted for a break-even position at the year end including an underlying recurring deficit of £0.941 million. We have been informed that the Board operates on the basis of a 0.5% tolerance level on its break-even position i.e. approximately £1 million above or below break-even. The outturn recurring deficit is slightly ahead of budget as a result of better than expected performance against efficiency savings targets.



Details of the areas of overspend and underspend in the year are provided in the table below. The table and narrative below set out in summary form the main under and overspends against budget for the year to 31 March 2009.

Actual Out-turn versus Original Budget	£m	£m
<b>Projected breakeven for 31 March 2009</b>		<b>0.000</b>
<b>Underspends:</b>		
Clinical Executive	0.035	
Other services	1.020	
Over-recovered income	<u>0.151</u>	
		<b>1.206</b>
<b>Overspends:</b>		
Family Health Services	(0.354)	
Externally provided services	<u>(0.770)</u>	
		<b>(1.124)</b>
Actual Surplus Reported 31 March 2009		<b><u>0.082</u></b>
<b>Agreed carry forward to 2009/10</b>		<b><u>0.082</u></b>

#### Costs under budget (net £1.206 million)

Other service savings of £1.020 million were made up of a support services underspend on operational budgets of £0.401 million and over-recovery against savings targets of £0.018 million. The main reason for the under spend was that the cost of revenue items which had previously been classified as capital expenditure was lower than anticipated. There was also

a £0.582 million underspend against allocated reserves and a saving of £0.019 million on capital charges.

Minor underspends of £0.035 million and £0.151 million were achieved in the Clinical Executive and over-recovered income respectively.

#### Costs over budget (net £1.124 million)

The two key elements of overspend in the year relate to services provided by external providers and Family Health Services.

NHS Borders sends significant numbers of patients to other NHS Boards (specifically NHS Lothian) for treatment. This incurs an “out of area” charge from the other NHS Board. NHS Borders was notified of the cost of these out of area charges which it had not reflected in 2008/09 budgets, resulting in a significant overspend of £0.770 million.

The NHS across the UK has experienced significant variance on drugs and prescribing costs during 2008/09. The effect at a local level for NHS Borders has been an overspend of £0.354 million.

#### Capital Programme Performance

The majority of the capital expenditure in the year (£6.495 million) has been in relation to the completion of two dental schemes at Coldstream and Hawick (£3.008 million). Capital schemes in place at the Borders General Hospital have also amounted to £0.806 million, while the various IT projects have produced a capital spend of £0.994 million. The remaining expenditure relates to medical equipment, estates and other minor projects.

The overall Programme outturn was in line with budget expectations, with the Board having focused effort on delivering existing projects.

NHS Borders recorded £0.171 million as Capital Grant expenditure in 2008/09. The grant monies were processed to Independent Ophthalmic Practitioners to assist in the purchase of Digital Camera equipment.

# 5. Financial Forecast for 2009/10

	£m	£m
Recurring income	207.896	
Recurring expenditure (before savings)	(212.879)	
Recurring savings	<u>4.000</u>	
<b>Underlying recurring surplus/(deficit)</b>		<b><u>(0.983)</u></b>
Non-recurring income	4.899	
Non-recurring expenditure (before savings)	(4.045)	
Non-recurring savings	<u>1.129</u>	
<b>Non-recurring surplus/(deficit)</b>		<b><u>1.983</u></b>
<b>Financial surplus/(deficit) for the year</b>		<b><u>1.000</u></b>
<b>Underlying recurring surplus/deficit as a percentage of recurring income</b>		<b><u>(0.473)%</u></b>
Confirmed by NHS Borders Director of Finance: Robert Kemp		

## 2009/10 Projected Outcome

The Board is projecting a surplus of £1 million for the 2009/10 financial year. In a tightening financial climate this appears to be a strong financial position. This surplus reflects a combination of a £0.983 million recurring deficit and a £1.983 million non-recurring surplus.

### Recurring deficit

In preparing its budget for the 2009/10 financial year, the Board has identified and quantified a number of cost pressures as detailed below:

Pressure area	Cost (£m)
Inflation	3.095
New Cost Pressures/Investments (unplanned activities, Modernising Medical Careers, Associate Specialists, Renal expansion, etc)	2.530
Pre-Committed Investments	2.264
Drugs (assuming 6% uplift)	1.451
Agenda for Change	0.855
Others	<u>0.377</u>
	<b>10.572</b>

The cost pressures of £10.572 million are counterbalanced by anticipated funding growth for the current financial year of £5.589 million. This has left a recurring shortfall of £4.983 million.

As part of the Efficient Government Target and to ensure that the Board continues to remain economically viable, management has identified that a maximum of £4 million of recurring efficiency savings can be generated for 2009/10 to help fund the areas of pressure noted above.

The targeted recurring savings of £4 million are £0.653 million higher than those achieved in 2008/09. The recurring savings will be achieved by a variety of measures including commissioning costs, drug costs, redesign of clinical services and improvements in support services. However, it was noted that £0.983 million of the £4 million savings have yet to be identified through specifically named projects.

Last year the Board recognised the extent of the challenges that lay ahead and established a Strategic Change Programme (SCP) with a level of savings designed to maintain financial balance. The probability is that the extent of those challenges will increase following changes to the economic outlook of the UK. The Board also has an underlying recurring deficit of £0.958 million. However, with the likely increased extent of savings targets for future years there is a concern about the scope of the Board's current savings programme to meet likely future challenges.

### Non-recurring surplus

The recurring deficit is supported by a significant non-recurring surplus of £1.983 million, largely due to a fall in the levels of non-recurring expenditure of 34.2% (£2.107 million) from 2008/09 to 2009/10. This principally represents expenditure on Agenda for Change back payments (£2.265 million) during 2008/09, which will not be incurred during 2009/10. The level of non-recurring income has remained largely the same as non-recurring Agenda for Change income had already tailed off before 2008/09.

Non-recurring savings of £1.129 million are to be achieved through controls on discretionary spend, vacancy control, review of project spending and

rationalisation of telecommunications.

### Financial Plans

Management has produced a medium term financial plan for the period from 2009/10 to 2013/14 which has been presented to the Strategy and Performance Committee as well as to the Board. This presents a frank assessment of the economic climate facing NHS Borders and the public sector generally over this period.

The UK pre-budget report indicated that an additional £5 billion of savings would be required from the public sector in 2010/11. There still remains significant uncertainty across the sector how this will translate into targets for individual Boards, although the probability is that there will be a significant increase in savings requirements from 2010/11 in comparison to those previously anticipated.

NHS Borders does already have in place a challenging SCP which seeks to identify efficiency savings (£4 million in 2009/10). While the SCP appears to have been delivering on its original intended aims, the probability is that the Programme does not now address the full scale of possible future funding pressures.

This could have significant implications for the delivery of services for NHS Borders. While the Board's SCP is successfully meeting its original savings aims and objectives, the efficiency savings at the level currently planned may not be sufficient to enable the Board to break-even on an ongoing basis.

The Board should commence planning for this likelihood at the soonest opportunity to ensure that it is able to react effectively to the significant financial constraints which will be placed upon it from 2010/11 and beyond.

### ACTION 1

# 6. Governance and Business Risks

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

- Overall Governance Arrangements
- Partnership Working
- Service Sustainability
- Financial Management
- Performance Management
- People Management
- Information Management

We have also reported in further detail on a number of these areas in our Interim Management Letter for 2008/09 submitted to the Audit Committee on 30 March 2009.

## Overall Governance Arrangements

In our Interim Management Letter we noted that the governance arrangements in place at the Board appear robust, with a strong level of participation evidenced through minutes and discussion with Executive Directors.

## New Appointments

Included within our recommendations in recent reports was a suggestion for the Board to recruit a new Non-Executive Board Member to sit on the Audit Committee. Following a comprehensive recruitment process, a new Non-Executive Board Member was appointed during the financial year.

There has also been a new appointment to the Board Executive Team with the recruitment of a new Director of Workforce. Improvements to the standard of communication in relation to workforce matters have been noted following this appointment. This has included the development of a more robust Workforce Plan which is designed to link more effectively with the learning and development needs of the staff of NHS Borders.

## Pathfinder Projects and Shared Support Services

NHS Borders continues to work collaboratively with Consortium Partner Boards supporting the work of Pathfinder Projects. Within Finance, progress has been made by the Modernisation Project Board to implement the foundation activities identified by the Shared Support Services Programme.

## Key Controls

Within the Interim Management Letter, we raised a number of potential control improvements. These were graded as low to medium risk and none of these related to gaps in key controls.

## Partnership Working

Significant commentary was included within the Interim Management Letter, on the development of the Community Health & Care Partnership (CHCP) with Scottish Borders Council (SBC).

This highlighted that more formal governance arrangements and a restructuring of the CHCP reporting framework had taken place and that a number of Joint Commissioning Teams (JCTs) had been set up with other public sector partners (including SBC). These JCTs have a variety of remits covering Mental Health, Drugs and Alcohol related matters.

This process was aided by the introduction of the first annual Single Outcome Agreement (SOA) in 2008/09, which included a number of joint objectives. A second annual SOA has been produced for the 2009/10 financial year.

A number of potential areas for improvement were noted for partnership working. These were as follows:

- Clarifying the responsibilities and reporting framework for the Planning & Delivery Committee and the JCTs;
- Undertaking a review of governance and accountability arrangements against the Audit Scotland self-assessment tool by CHCP partners; and
- Addressing the issues which were identified in the process of preparing the SOA for 2008/09.

These have been agreed by management and implementation progress is being made.

There has been discussion across the public sector in Scotland in relation to the pooling of budget arrangements in relation to CHCPs and CHPs. Discussions between the partners to the CHCP in the Scottish Borders have revealed that there is no intention to move towards a pooled budget at the current time. Aligned budgets are currently monitored by the CHCP on a quarterly basis.

## Service Sustainability

The Board's SCP has delivered the planned level of savings during the 2008/09 financial year and there has been considerable buy-in from across the organisation.

The SCP involves the move to shift the balance of care by creating a more efficient workplace with the overall goal being to achieve £10m in efficiency savings over the three years to 2010/11. This target is phased annually and monthly with progress reported to the Board on a monthly basis.

As detailed within Section 5 of our Report, while the SCP appears to be successfully meeting its original aims and objectives, the economic recession is likely to result in significant savings requirements across the public sector as government spending reduces. Therefore, the efficiency savings currently planned may not be sufficient to enable the Board to break-even on an ongoing basis. The Board should commence planning at the soonest opportunity to ensure that it is able to react effectively to the significant financial constraints which will be placed upon it from 2010/11 and beyond.

### **ACTION 1**

## Financial Management

Management and the Board receive financial information each month to help manage performance against budgets and control expenditure. Management accounts are prepared on a monthly basis. Management Accountants liaise with Budget Holders to analyse the management reports and understand key variances against budgets. The outcomes of the monthly reviews are consolidated into monthly financial management reports that are considered by the Board and senior management. The information produced and frequency of reporting is designed to ensure that decision makers have appropriate information on which to base decisions.

The reporting arrangements were considered in detail during the year and reported in our Interim Management Letter.

## Performance Management

### Key Performance Indicators

The Board and the Strategy and Performance Committee receive a monthly Key Performance Indicators (“KPIs”) report prepared by the Director of Planning and Performance and Director of Integrated Healthcare. This report includes the Local Delivery Plan national targets together with a range of other reporting.

It was noted in the Interim Management Letter that the Board did not have sufficient capacity within its current reporting and monitoring framework to report against the 18-week Referral To Treatment (RTT) indicator. This issue will be followed up in the course of our interim audit in the 2009/10 financial year.

In addition to the Local Delivery Plan KPI reporting, a general performance reporting framework has been established around the Single Outcome Agreement with joint KPIs. This was introduced through the CHCP Planning & Delivery Committee in November 2008.

Other than the capacity issues with the 18-week RTT target, the performance management mechanisms at the Board appear to appraise Board Members of the performance of the Board against key national targets and indicators.

#### **ACTION 2**

## People Management

### Staff Governance Action Plan

During the year we carried out a short review with the objective of ensuring that staff governance action plans included reference to matters arising from:

- Staff survey results;
- Mandatory SWISS statistics on people management; and
- Outstanding issues from the previous year's action plan.

We also ascertained whether the current staff governance action plan included timescales, identified who was responsible and set out measurable actions.

Our work revealed that issues had been included in the staff governance action plan where:

- a significant portion of staff survey respondents had not provided a positive response to a question within the survey; and
- mandatory SWISS statistics indicated action needed to be taken.

There were no outstanding items from the 2007/08 staff governance action plan to be carried forward into the 2008/09 action plan.

All actions noted in the staff governance action plan had clearly assigned responsibilities and where an action was not complete, a timescale for completion was recorded in the action plan.

Based on these findings, we did not recommend that any changes to the staff governance action plan were required.

### Progress with Pay Modernisation including Benefits Realisation Plans

In our Interim Management Letter we included a recommendation that management should monitor and report internally upon the Pay Modernisation Benefits Delivery Plan periodically, to ensure that they are able to provide comfort to the Board that sufficient and appropriate progress is being made.

### Agenda for Change

All members of staff have been assimilated to Agenda for Change bandings and all arrears for current staff have now been paid. Contact with leavers and retirees who are due arrears as a result of initial assimilations, will be made by the end of July 2009.

## Equal Pay

A total of 34 Equal Pay claims have been made to date across NHS Borders. No further claims were made to NHS Borders in respect of Equal Pay during the 2008/09 financial year.

During the year there has been a significant development in the legal environment in relation to Equal Pay and Agenda for Change. A test case (Hartley vs. Northumbria Healthcare NHS Foundation) which had been brought claiming that the Agenda for Change pay system did not address pay inequalities in the NHS has concluded in the favour of the NHS Foundation. Although this decision may be appealed in future, NHS Borders believes it has reduced the likelihood of any further Equal Pay claims in respect of Agenda for Change.

The treatment of those claims received by the Board at 31 March 2009 as contingent liabilities is consistent with the prior year. Wording to be inserted in the note to the financial statements has been agreed by the CLO Equal Pay Unit and Audit Scotland.

## Sickness Absence Levels

NHS Borders reported to the Staff Governance Committee meeting in May 2009 a cumulative sickness absence rate of 4.63% for the financial year to 31 March 2009.

The Local Workforce Action Plan update report recently discussed at the Workforce Planning Board meeting included an improvement measure to continue to hold awareness training regarding the Management of Attendance Policy to support a planned reduction of sickness absence to 4% or lower.

## Information Management

Best Value audits are being carried out across the public sector to help protect taxpayers' interests by examining the use of resources and to report

on the delivery of outcomes for people who use services. The Best Value audits are being carried out in a cycle focusing on distinct areas each year. In 2008/09 the Use of Resources Best Value audit focused on Information Management.

The Audit of Best Value involved a toolkit prepared by Audit Scotland. The conclusions from the toolkit provide an assessment of current performance as well as assisting a judgement on the capacity of the service to improve.

A summary of the Board's performance against the 5 key areas of the toolkit is summarised below:

Information Management Toolkit Module	Evaluation
Information Governance and Leadership	Better Practices
Information for Decision Making	Better Practices
Service Delivery	Basic Practices
Compliance and Control	Better Practices
Knowledge Management	Basic Practices

The evaluations for each module are attributed to one of four levels: does not meet basic requirements; basic practices; better practices; and advanced practices.

The Board meets Basic Practices in the majority of areas in relation to Information Governance, with the weakest areas being in relation to Knowledge Management. This entails having an effective system for capturing and communicating information, communicating accurate information to internal and external stakeholders on a timely basis and reporting on information management performance. The following areas were noted as "not meeting basic practices":

- There is only limited reporting of information risks in the risk register. The IM&T department is just completing a piece of work to review the optimal system to assess these at departmental level and

determine which need to be incorporated into the Corporate Risk Register;

- The Board has only a basic catalogue to identify and record the information it holds for meeting its reporting obligations. This was established as part of the Business Continuity Project and remains to be validated, reviewed and updated; and
- There is currently a limited range of targets and key performance measures with regard to communicating information. However, work is under way through reporting through a call logging system (VQSM) to begin to develop such measures.

We also identified an area of Advanced Practice as follows:

- There is extensive consultation through the IM&T Clinical Advisory Board, Borders Executive Team and Clinical Executive. The IM&T Senior Managers are also linked to Clinical Boards and attend meetings on a regular basis.



# 7. Systems of Internal Control

## Systems of Internal Control

We are required under ISA (UK&I) 260 to report to you any material weaknesses in the accounting and internal control systems, including general computer controls identified during the audit. The results of our work on systems of internal control were communicated to Audit Committee in our Interim Management Letter on 30 March 2009.

The report contained 11 recommendations to improve controls, two of which were graded as higher risk. These were as follows:

- The Board has recently undertaken an exercise to identify the risks to the organisation at a strategic level. This preliminary exercise has given rise to more than 30 risks. The scheduled review of the risk register during early 2009 should be used to focus on higher-rated risks for Board monitoring and attention.
- A number of changes are being introduced in the 2009/10 LDP which includes an 18 week referral to treatment (RTT) target. The monitoring systems which NHS Borders currently has in place are not sufficient to be able to track this data through the patient journey and some work is required in this area to ensure that NHS Borders is able to report on and track its performance against the trajectory. Although this has been identified as an issue by management, no solution has yet been determined.

However, there were no risks identified that could be considered material in overall nature to the financial statements.

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 2009/10 audit.

## Statement on Internal Control

The Code of Audit Practice requires us to review and report on the Board's Statement on Internal Control.

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.

The Statement also outlines areas where the Board plans to improve internal control. These include:

- Finalisation, validation and testing of comprehensive disaster recovery for key IT systems;
- SSTS, a national time recording system that interfaces directly with the payroll system will be rolled out;
- Work will be completed on the formulation and adoption by the Board of a property management strategy that clearly identifies the property requirements of NHS Borders; and
- Completion of a full Board review of the Strategic Risk Register.

Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

## Audit Issues

During our final audit visit, we noted a number of control issues. These related to the fixed asset breakdown in the accounts, deferred income balances, capitalisation threshold for grouped assets, review of bank reconciliations and review of journals posted to the financial ledger.

These issues will be reported to management in a separate Final Management Letter.

## Follow up of outstanding recommendations

We followed up the Board's progress in implementing recommendations made in the prior year. Our Follow Up Report was considered at the Audit Committee meeting on 30 March 2009.

At the time of reporting, of the 41 agreed actions, progress was as follows:

Status	Annual Report to Members 2007/08	Internal Controls Report 2007/08	Follow Up Report 2007/08	Total
Action implemented	1	2	14	17
Partially implemented	3	2	8	13
Little action to date	-	1	-	1
Not yet due for implementation	1	-	5	6
No longer applicable	1	-	3	4
<b>Total</b>	<b>6</b>	<b>5</b>	<b>30</b>	<b>41</b>

Overall, the Board had fully implemented 17 recommendations from the reports issued in 2007/08. However, partial action has been taken on 13 of

the recommendations due, with a further 6 not yet being due for implementation at the time of review. While there has been progress made against these recommendations, a large amount of work is required in order to fully implement all audit recommendations. We will undertake a full review of progress as part of next year's audit work and will report on the findings from this in March 2010.

## ACTION 2

## National Fraud Initiative

The National Fraud Initiative (NFI) brings together data from health bodies, councils, police and fire rescue bodies 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.

NFI in Scotland is now well underway following the release of the identified possible matches in February 2009. The service has been investigating the matches since February to consider if any instances of fraud have been identified.

We have been liaising with the NFI Key Contact and have noted that a total of four high risk matches were identified from the original matching process. These have all been investigated by management with no indications of fraud or misappropriation noted. Investigations into the lower risk matches remain ongoing.

We are the lead auditors for NFI at the Board and have access to the NFI database. This enables us to monitor the progress made by the Board in investigating matches. We will continue to liaise with the NFI Key Contact at the Board throughout the year in order to ensure that the recommended matches are investigated appropriately. The outcomes of the NFI exercise will be reported in 2010.

## Internal audit

The role of internal auditing is determined by management and therefore its objectives differ from ours. It is part of our approach to gain an understanding of the internal audit function to determine if it would be effective and efficient to use their work.

During 2008/09, Lothian and Borders Audit Management Services continued to act as the Board's internal auditors. We have reviewed the work of internal audit and have, where appropriate, placed reliance on their work.

# Appendix A – Action Plan

Ref	Issue and Recommendation	Management Response
1	<p><b>Finding (from pages 9 and 11):</b></p> <p>The UK pre-budget report indicated that an additional £5 billion of savings would be required from the public sector in 2010/11. There still remains significant uncertainty across the sector how this will translate into targets for individual Boards, although the probability is that there will be a significant increase in savings requirements from 2010/11 in comparison to those previously anticipated.</p> <p>NHS Borders does already have in place a challenging Strategic Change Programme which seeks to identify efficiency savings (£4m in 2009/10). While the SCP appears to have been delivering on its original intended aims, the probability is that the Programme does not now address the full scale of possible future funding pressures.</p> <p><b>Recommendation:</b></p> <p>The Board should at the soonest opportunity commence its planning for this likely position to ensure that it is able to react effectively to the significant financial constraints which will be placed upon it from 2010/11. This should include giving consideration to widening the scope of the existing Strategic Change Programme.</p>	<p><b>Management Response:</b></p> <p>NHS Borders has engaged the services of Tribal, and has already run two successful, wide ranging workshops with significant clinical involvement and leadership with a view to agreeing areas for change and driving forward the necessary plans. There is an understanding and an acceptance that these plans will in all probability need to be stretched further to cover the likely impacts of the changed economic environment. These plans will be the subject of continued review over the summer with a view to a realignment to the financial outlook once the impact of the budget statement is known and from this develop a firm programme to be signed up to over the second half of 2009/10 for delivery in 2010/11 onwards.</p> <p><b>Responsible Officer:</b> Chief Executive</p> <p><b>Due Date:</b> 31 March 2010</p>

Ref	Issue and Recommendation	Management Response
2	<p><b>Finding (from pages 12 and 16):</b></p> <p>A total of 31 external audit recommendations remain outstanding from previous and current year reports, including five high risk recommendations as follows:</p> <ul style="list-style-type: none"> <li>• Management should ensure that the Business Continuity Plans are tested to ensure that they are practical and adapted where necessary;</li> <li>• A review of financially significant information held by end users must be undertaken to ensure security and validity of the general ledger and, ultimately, the financial statements;</li> <li>• The Board should continue to monitor its investment and capital plans, which should be reassessed and re-forecast on at least an annual basis to ensure that identified savings are achievable. The ability to deliver the capital programme to schedule should also be reassessed;</li> <li>• Periodic review of the risk register should be used to focus on higher-rated risks for Board monitoring and attention; and</li> <li>• NHS Borders should ensure that it is able to report effectively against the new 2009/10 HEAT targets, specifically regarding the 18 week GP referral to treatment target.</li> </ul> <p><b>Recommendation:</b></p> <p>Management should take more concerted action against previously raised recommendations, particularly in relation to those noted as high risk, to ensure that all actions are achieved in line with original timescales.</p>	<p><b>Management Response:</b></p> <p>The need for robust and timely follow-up of audit recommendations is fully accepted. Updates are now provided to all Audit Committees on progress and every recommendation is allocated to a responsible Director who must ensure that the necessary action plans have been implemented. The monitoring system will be further refined to introduce a measurement of time taken to implement audit recommendations.</p> <p><b>Responsible Officer:</b> Director of Finance</p> <p><b>Due Date:</b> September 2009</p>

# Appendix B – Communications to Management

International Auditing Standard (“ISA”) (UK&I) 260 – Reporting to those charged with Governance, requires that the External Auditor communicates certain matters to those charged with governance.

Those charged with Governance is taken to be the Members of the Audit Committee with responsibility discharged through the regular meetings of the Audit Committee during the year. Summarised below are the requirements set out within ISA 260 together with reference to the relevant communication with you during 2008/09 or comments as appropriate.

Communication Required under ISA 260	Reference/Comment
Engagement letters	Signed Engagement Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	Audit Planning document reported to 19 December 2008 Audit Committee and confirmed no member of audit team has any direct interest, financial or otherwise, in NHS Borders.
Audit Approach and Scope	Audit Planning document (reported to Audit Committee 19 December 2008).
Accounting Policies/Practices with a Material Effect on the Financial Statements	Section 3 of our Annual Report to Board Members and the Auditor General for Scotland.
Potential Effects of Material Risks and Exposures	Audit Planning document (19 December 2008).
Audit Adjustments	Section 3 of our Annual Report to Board Members and the Auditor General for Scotland.
Material Uncertainties relating to Going Concern	None identified.
Disagreement with Management about Matters	Not applicable.

Communication Required under ISA 260	Reference/Comment
that could be Significant to the Financial Statements	
Expected Modifications to the Auditor's Report	No modifications identified. A true and fair opinion provided.
Letter of Representation	Signed by Management 22/25 June 2009.
Material Weaknesses in Internal Control	Internal Controls findings reported separately in our Interim Management Letter (30 March 2009), Section 7 of our Annual Report to Board Members and the Auditor General for Scotland and
Fraud	Discussed fraud arrangements with the Chair of the Audit Committee (19 December 2008), Management throughout audit process.
Laws and Regulations	We have not identified any material breaches of laws and regulations in the period which impact on the 2008/09 Financial Statements.
Audit Materiality	Audit Planning document – presented to Audit Committee in 19 December 2008
Fair Value Measurement and Disclosure	Included in representation letter, signed by management dated 22/25 June 2009
Related Parties	Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.

### Formal Reporting to Management during 2008/09

During the year we have presented a number of formal reports to Management and the Audit Committee and produced certain outputs. Our principal outputs during 2008/09 are summarised below:

Formal Output	Timing								
Audit Plan	December 2008								
Interim Accounts – Audit Opinion	December 2008								
Detailed Timetable for 2008/09 Financial Audit	December 2008								
IFRS Opening Balance Sheet Letter	February 2009								
Follow-up of 2007/08 Recommendations	March 2009								
Interim Management Letter	March 2009								
Letter to Director of Workforce regarding the process for preparation of the Staff Governance Action Plan	April 2009								
Annual Report to Board Members and the Auditor General for Scotland	June 2009								
<p>Audit Opinions</p> <table border="0"> <tr> <td data-bbox="188 863 772 903">1. True and fair view on the financial statements</td> <td data-bbox="817 863 851 903">✓</td> <td data-bbox="873 863 929 999" rowspan="3" style="font-size: 3em; vertical-align: middle;">}</td> <td data-bbox="952 903 1093 1007" rowspan="3" style="vertical-align: middle;">Unqualified Audit Opinions</td> </tr> <tr> <td data-bbox="188 919 674 959">2. Regularity of income and expenditure</td> <td data-bbox="817 919 851 959">✓</td> </tr> <tr> <td data-bbox="188 975 607 1015">3. Remuneration Report (sections)</td> <td data-bbox="817 975 851 1015">✓</td> </tr> </table>	1. True and fair view on the financial statements	✓	}	Unqualified Audit Opinions	2. Regularity of income and expenditure	✓	3. Remuneration Report (sections)	✓	June 2009
1. True and fair view on the financial statements	✓	}			Unqualified Audit Opinions				
2. Regularity of income and expenditure	✓								
3. Remuneration Report (sections)	✓								



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

In the event that, pursuant to a request which the institution has received under the Freedom of Information Act (Scotland) 2002 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), the Board is required to disclose any information contained in this report, it will notify PwC promptly and will consult with PwC prior to disclosing such report. The Board agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC, the Board discloses any of this 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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