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Orkney NHS Board

Annual audit report to Orkney NHS Board

and the Auditor General for Scotland

Year ended 31 March 2011

28 June 2011

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*").

This report is for the benefit of Orkney NHS Board and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Executive summary

We issued unqualified opinions on the financial statements of Orkney NHS Board ('the Board') for the year ended 31 March 2011, following their approval by the Board.

Financial year 2010-11 has been another challenging year for the Board. Management has had a number of significant issues (both financial and non-financial) to address.

Significant in year cost pressures and delayed delivery of efficiency initiatives led to an underlying deficit in the region of £2.6 million. The Board only achieved financial balance following receipt of additional funding late in the financial year which was linked to the nature and extent of the specific in year pressures.

Forecasts for 2011-12 predict a deficit of £1.3 million, which is after assuming efficiency savings significantly above those delivered in prior years and, in percentage terms, above other NHS Scotland boards. Further significant efficiency savings will be required in order to deliver financial balance within the terms of the five year plan. Financial performance in recent years creates significant risk that even this deficit position may not be achieved.

In addition to financial support, the Scottish Government Health Directorate ('SGHD') is providing tailored support to the Board. This includes assistance in developing the Board's 'corporate intelligence' with the aim of identifying issues earlier to allow better management and resolution.

The Board's approach to HEAT target trajectories in the 2011-12 local delivery plan ('LDP') has been approved by SGHD, but the financial plan has not and they have stressed the responsibility of the chief executive to ensure the Board delivers within the allocated resources.

No formal response has been received from the Scottish Government capital investment group in relation to the business case for redevelopment of the hospital and dental facilities. Management has been advised, however, to consider revenue funding for the project.

Key accounting judgements and consideration were required in relation to accounting for property, plant and equipment in the year. The Board's valuation policy was altered to be applied at the beginning of the financial year and resulted in a downwards revaluation of £1 million, the majority of which was reflected through the statement of comprehensive net expenditure. Additions in the year were also reviewed and it was identified that a number of these did not add to the value of the Board's property, plant and equipment and accordingly were impaired, resulting in a charge to the statement of comprehensive net expenditure of £1.6 million.

In addition, there was a revision to the accounting for property, plant and equipment through a change in useful lives applied to components of property assets. This reduced the depreciation charged in the year.

We validated management's completion of the people management Best Value toolkit. We found that the Board demonstrates 'better practice' in a number of areas, however there were also a number of areas with scope for improvement.

During the year we completed short returns to Audit Scotland on the Board's response to two national reports. In respect of both studies, we reported that no self-assessments nor action plans had been completed, but review and discussion processes were in place for dealing with the recommendations made in the reports. We also performed follow up work on the Board's response to the report *Improving public sector purchasing.* Overall, we reported the Board's arrangements to be average compared with our experience elsewhere and noted a number of minor recommendations for improvement.

Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a reasonable framework for organisational decision-making.

Headlines

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*"). This specifies a number of objectives for our audit.

This report summarises our work for the year ended 31 March 2011.

We wish to record our appreciation of the continued co-operation and assistance extended to us by NHS Orkney staff during the course of our work.

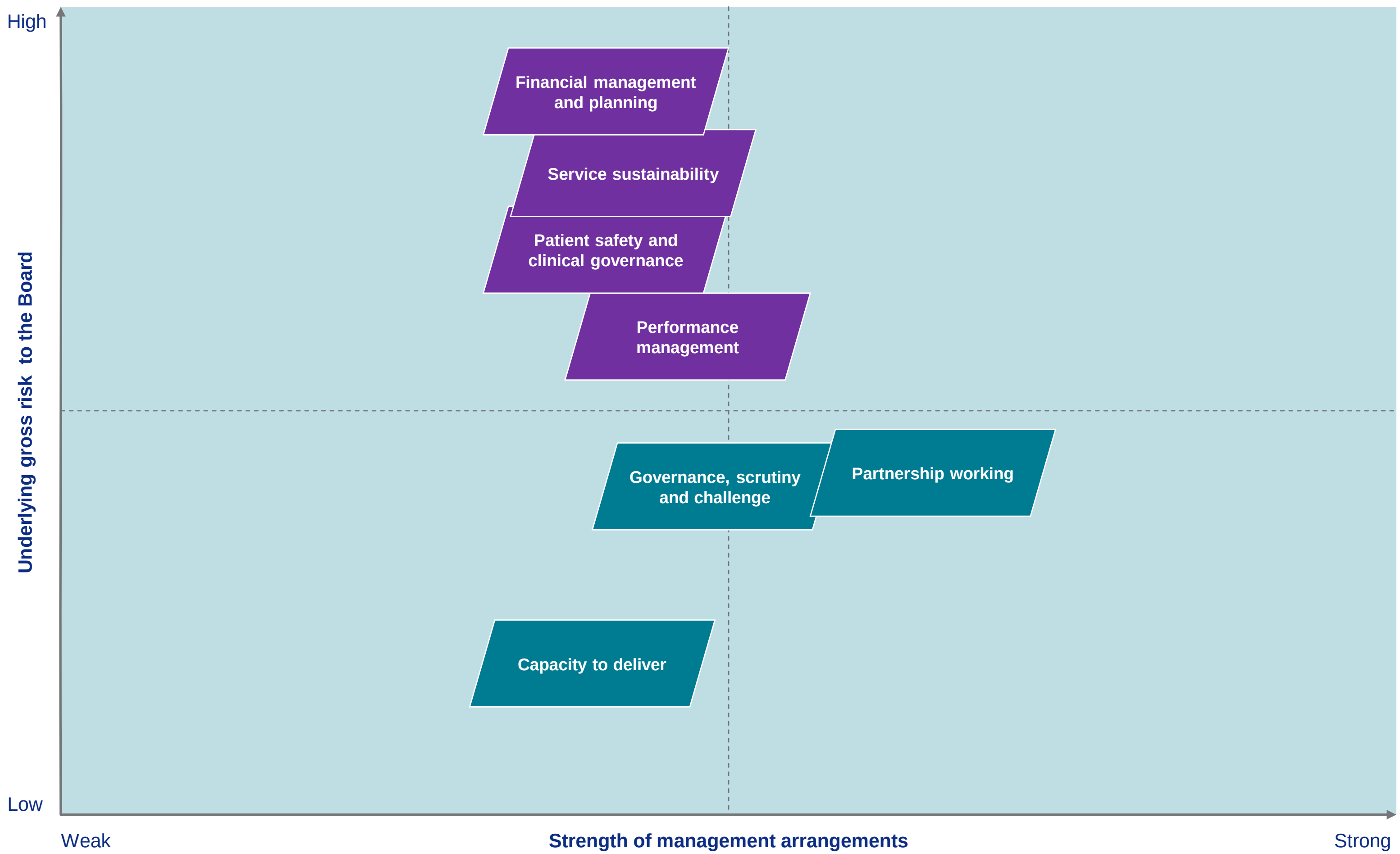
Priorities and risks	
Management has made significant progress to enhance arrangements in a number of areas. Significant risks continue to exist, but internal processes reduce the likelihood and potential impact on the Board.	Page 5
We continue to report significant risks in respect of patient and clinical safety, sustainable services and financial management, despite the introduction of new actions and controls during the year. In our view, these risk continues to present ongoing challenges.	Page 5
Financial statements	
We have issued unqualified audit opinions on the 2010-11 financial statements and the regularity of transactions reflected in those financial statements.	-
No technical accounting matters were considered during the audit process; no audit adjustments were required; accounting for impairment and revaluation was not concluded until 16 June 2011; creating some inefficiencies.	Page 7
Use of resources	
The Board met its financial targets; however this was only possible due to additional one-off non-recurring funding.	Page 9-10
We validated management's completion of the people management Best Value toolkit, which concluded that arrangements were generally good, but identified some areas for improvement.	Page 11
We assessed management's response to Audit Scotland's national reports on emergency departments and use of locum doctors in hospitals; management has taken reasonable action to mitigate risks and have given some consideration to the recommendations made in these reports.	Page 12
Governance	
There have been no significant changes and the statement on internal control continues to confirm the existence of a comprehensive framework of internal control, but draws attention to ongoing developments in respect of risk management, health and safety and clinical governance arrangements.	Page 13
Internal audit completed their plan for the year. One review in the year, in relation to health and safety, received a 'red' assurance rating.	Page 13
Arrangements to prevent and detect fraud are embedded in internal controls, including processes to comply with requirements in respect of the National Fraud Initiative.	Page 13

Summary of arrangements

Competing risks and pressures continue to present new and recurring challenges.

There are a number of key risks to the Board and areas where controls could be strengthened to mitigate these.

The diagram summarises the potential underlying risks to achievement of strategic objectives, compared to the strength of management arrangements to mitigate these risks. The following pages summarises those areas where we believe that significant risks are inadequately managed, together with those where management arrangements are likely to mitigate or eliminate these risks to a greater or lesser extent.



Assessment of significant risks

There are significant risks around arrangements in respect of: patient safety and clinical governance; service sustainability; and financial management.

Actions have been identified to address these risks, but underlying risks remain.

Patient safety and clinical governance	The quality and improvement committee has responsibility for patient safety and clinical governance. Arrangements over risk management continue to be redefined to enhance quality and timeliness of information. The committee continues to focus on the patient experience and has a number of ongoing plans, including the evolving people agenda and patient focus public involvement action plan. Management reports that for several years the Board has operated without a formal in house health and safety function; this resulted in weaknesses in both systems and processes. These weakness were identified by both management and internal audit. Significant progress has since been made in relation to health and safety and fire safety.	The design and implementation of actions assist in mitigating the associated risks. The Board has evidenced that it is taking measures to reduce this risk and the plans implemented will take effect over the next 12 months and will continue to be developed to reflect changes and current requirements. A corporate health and safety strategy was approved by the Board in April 2011. The overall aim of this strategy is to ensure the development and sustainability of high quality health and safety support services and systems.
	■ In our view risks exist, and actions have been identified to address these risks. Continued focus is required, however, to ensure mitigation is successful.	
Service sustainability	The Board has two major redesign programmes currently being taken forward: the service redesign programme and the social care partnership. Both plans are closely linked and are fundamental to the delivery of the current five year clinical strategy and the five year financial plan. The business case for the redevelopment of the Balfour hospital has yet to be approved by SGHD.	Progress has been made in further developing arrangements in both areas, however there is still a long way to go to evidence successful delivery of either programme. Due to uncertainties risks still remain over the financial and non-financial implementation of the programmes. Although service sustainability does not depend on the redevelopment, sustainability of the Board's services at an appropriate level and quality is currently predicated on it.
	■ In our view risks exist, but actions have been identified to address these risks. Continued focus is required, however, to ensure mitigation is successful.	

Assessment of significant risks (continued)

Financial management	Efficiency savings continue to be a major focus of the Board; savings of £2.7 million are required in 2011-12. In 2010-11, a number of individually significant in year cost pressures resulted in Board reliance on additional non-recurring funding in order to meet its financial targets. A number of key pressures remain including locum medical staff costs, drug costs and off island patient activity.	The Board has made progress in processes over financial monitoring and reporting, however there are continued financial pressures and uncertainties which make this difficult. Achievement of financial forecasts for 2011-12 and beyond will require successful implementation of significant savings schemes.
	■ In our view significant risks exist; actions have been identified by management but the lead time for full implementation and consequential impact must be fully considered.	
Performance management	Performance management is embedded through regular monitoring of the Board's targets and performance by the finance and performance committee which includes all non-executive board members. Sessions continue to be held with target responsibility leads to discuss HEAT targets and the availability of data and information. The Board utilises benchmarking data where it considers this to be appropriate, relevant and useful. However, there is recognition that benchmarking data can be skewed in smaller entities such as the Board, thus affecting its usefulness for decision making purposes. In early 2010-11, the Board restructured its finance department, with a new post of head of finance and performance created, thus bringing together responsibility for financial and non-financial performance arrangements. Discussions continue to develop and refine performance reports, including through a corporate scorecard.	Management consider that this has assisted in the monitoring of targets across the Board, including HEAT targets. The Board continues to meet or exceed 82% of HEAT targets (2009-10: 79%). The LDP for 2011-12 specifically targets those areas that require further improvement. As part of tailored support from SGHD, the Board is looking to increase the level of corporate intelligence with a view to better understanding and managing performance. It is also anticipated that this will provide management with earlier notification of issues. It is important that management understands the outputs of benchmarking and why the Board performs differently to other boards to ensure that performance comparison is appropriate. Financial performance in 2010-11 was impacted by a number of significant in year pressures. The scale and nature of these cost pressures reflects the scale of the challenges that the Board faces; close performance management will be required to ensure these can be overcome.
	■ In our view risks exist, but actions have been identified which, once implemented should mitigate these risks.	

Financial statement level risks (continued)

Management anticipated risks around property, plant and equipment, impairment and capital projects; no audit adjustments were required.

Delays concluding on the accounting in these areas delayed our audit procedures and the completion of the draft financial statements.

Areas of HIGH audit risk

Area	Value (£'000) 2010	Value (£'000) 2011	KPMG comment
Property, plant and equipment useful lives - depreciation	1,346	1,286	On 8 December 2010, the Scottish Government advised boards of a proposed amendment to existing methodologies for assessing the useful lives of buildings reported at depreciated replacement cost. The revised methodology intended to ensure that assigned useful lives reflected wear and tear of all elements, but also recognised maintenance spend to preserve the less significant elements, aligning them to the overall building life. Management identified, with the assistance of third party valuers, those buildings and components impacted by the proposed change and the relevant components were amended to the highest individual component life of each building. The revised depreciation charge reflected a reduction of £90,000, which was appropriately reflected in the financial statements. Extending the useful live of buildings and their components is subjective and based on management judgement. In addition, there is an inherent assumption that robust, affordable maintenance plans exist. In the absence of an approved business case for the redevelopment of the Balfour hospital, management considers that ongoing maintenance work is a necessity to ensure ongoing operation of the facility. To ensure that the depreciation policy of the Board is appropriate, management should ensure that maintenance plans are updated to reflect the Board's policy and ability to maintain relevant asset components.

Financial statement level risks (continued)

Management anticipated risks around property, plant and equipment, impairment and capital projects; no audit adjustments were required.

Delays concluding on the accounting in these areas delayed our audit procedures and the completion of the draft financial statements.

Areas of HIGH audit risk

Area	Value (£'000) 2010	Value (£'000) 2011	KPMG comment
Property, plant and equipment - valuation	17,604	16,027	The Board's property was last subject to valuation at 31 March 2008. The Board's accounting policies, and IFRS, therefore required that an interim valuation was completed in 2010-11 and management engaged the Board's valuer to undertake a valuation of land and buildings as at 1 April 2010. This was on the basis that the valuer's work to componentise property, plant and equipment at 1 April 2010 indicated a significant difference in their value to that recorded in the 2009-10 financial statements. This difference in value was a result of capital works performed and capitalised since the previous valuation which had not added to the overall value of the buildings. This partially reflects the nature, age and condition of much of the Board's property. Depreciation for 2010-11 has been calculated taking into account the valuation adjustments as at 1 April 2010 and we estimate the impact to be a reduction of around £100,000 in the charge for the year. The Financial Reporting Manual ("FReM") requires that "All tangible non-current assets shall be carried at valuation at the reporting period", which is consistent with the requirements of IAS 16 Property, plant and equipment. Although not specifically stated, it is implicit within the FReM and IFRS that assets are revalued at the financial reporting date, i.e. 31 March 2011. To ensure assets are carried at an appropriate valuation at 31 March 2011, management engaged the valuer to separately consider the value attributable to fixed asset additions in the year. Accounting standards require accounting policies to be applied consistently from year to year and accordingly, future valuations will require to be performed at the beginning of the relevant financial year. This has resulted in a downwards valuation of £1 million of existing buildings. Management has considered the accounting for this revaluation and recorded £0.6 million (mainly in relation to the Balfour hospital) of this as an impairment in the statement of comprehensive net expenditure as the revaluation reserve on existing assets had been utilised. This was funded through Annually Managed Expenditure ('AME') funding.

Financial statement level risks (continued)

Management anticipated risks around property, plant and equipment, impairment and capital projects; no audit adjustments were required.

Delays concluding on the accounting in these areas delayed our audit procedures and the completion of the draft financial statements.

Areas of HIGH audit risk

Area	Value (£'000) 2010	Value (£'000) 2011	KPMG comment
Property, plant and equipment - additions	1,957	2,299	From discussions with the valuer during the year, and as part of the property, plant and equipment valuation exercise, management identified that a number of capital projects taking place during the year were unlikely to add to the accounting value of buildings. Rather than performing a second valuation at the end of the financial year in addition to that at 1 April 2010, management engaged the valuer to perform a separate review of property, plant and equipment additions during 2010-11. As part of his on-site visit to the Board, the valuer inspected the various capital projects in the year and considered whether these would increase the value attributable to the Board's buildings. A number of projects were identified where capital works had been undertaken to improve the Board's service delivery, but they did not result in an increase in depreciated replacement cost of the assets. As a result, additions totaling £2.3 million were impaired by £1.6 million. This was reflected as a charge in the statement of comprehensive net expenditure and funded as 'AME'.

Financial statements preparation and audit process

Draft financial statements were not received in line with agreed timescales, in particular accounting for property, plant and equipment was not finalised by management until 16 June 2011 which caused inefficiencies and delays in finalising audit procedures.

Systems and controls
Preparation of the financial statements ■ We commenced our audit on 11 May 2011, however a complete set of draft financial statements were not available until 27 May 2011. This resulted in some changes to the timing of our audit work programme. The accounting for property, plant and equipment, in particular relating to the impairment and revaluation, delayed the completion of the final version of the NHS accounts template until 16 June 2011. ■ A draft directors' report and operating financial review were presented for our consideration on the 3 June 2011, which was after completion of our audit fieldwork.
Control environment ■ We issued a 'prepared by client' request prior to our audit visit, setting out a list of required analyses and supporting documentation. Some schedules were available at that point, however, much of the required documentation had not yet been collected. This required us to amend our audit work plans in order to complete our testing on those areas available. We liaised with management during our audit fieldwork as further information became available and the requested documents were passed to the audit team.

Financial position

The Board met its three financial targets – revenue resource limit, capital resource limit, and cash requirement.

The 2011-12 financial plan forecasts a deficit of £1.3 million; this has yet to be approved by SGHD.

Financial Position

The Board achieved all three of its financial targets for 2010-11, reporting a surplus of £35,000 against the revenue resource limit ('RRL'), however this was only achieved after a number of non-recurring additional allocations.

Performance against financial targets for 2010-11 was as follows:

	Final allocation (£'000)	Outturn (£'000)	Variance (£'000)
Revenue resource Limit	46,037	46,002	35
Capital resource limit	2,368	2,243	25
Cash Requirement	48,600	48,375	225

The outturn against RRL in the financial statements has been achieved due mainly to a number of significant factors:

- additional support of £1.25 million from SGHD against specific in year costs pressures;
- brokerage funding of £0.8 million from SGHD;
- a reduction in NHS Grampian service level agreement costs of £350,000 to reflect the impact of additional costs borne by the Board arising directly from onward referrals from NHS Grampian and costs borne by the Board when NHS Grampian was unable to accommodate referrals;
- a reduction in depreciation as a result of the revision to asset lives of £90,000; and
- a reduction in depreciation (estimated at around £100,000) as a result of the valuation performed at the beginning of the financial year.

The Board has an underlying recurring deficit of around £2.6 million, representing 5.6% of the RRL allocation for the year. This recurring deficit is due to a combination of additional significant in-year cost pressures and the delayed impact of savings schemes (now considered by management to have been overly ambitious to fully deliver in year).

The Board started the year with a non-recurring reserve of £1.15 million to cover anticipated cost pressures. This was quickly utilised to fund the anticipated pressures and further, unforeseen pressures, arose during the year which contributed to the underlying deficit:

- significant UNPAC expenditure (over £1 million in 2010-11 compared to an average of £600,000 in the prior two years);
- failure to recruit two vacant consultant anaesthetist posts (unplanned costs of over £130,00); and
- locum costs of over £380,000 incurred in managing a number of other staffing and recruitment issues.

The scale and impact of unforseen in year costs emphasises the need for the Board to have robust budgeting and forecasting processes. The Board also incurred in year costs of £0.5 million in relation to severance payments.

Of the factors noted above that allowed the Board to achieve its RRL target, £1.6 million was only received in the final month of the financial year. It is anticipated that £250,000 of the additional funding received from SGHD will require to be repaid in the future. The reduction in SLA costs with NHS Grampian was agreed following discussions over performance and delivery against the SLA in the year. Management is considering the terms of the SLA and the operational issues arising in the year to ensure they are minimised in future.

Financial position (continued)

The Board met its three financial targets – revenue resource limit, capital resource limit, and cash requirement.

The 2011-12 financial plan forecasts a deficit of £1.3 million and has yet to be approved by SGHD.

Efficiency savings 2010-11

Delivery of a balanced position for 2010-11 was predicated on the delivery of £3.4 million of in year savings. This included a recurring savings target of £1.89 million, a non-recurring target of £0.8 million and an additional £0.7 million allocated for potential non-recurring costs associated with ongoing service change and redesign.

Through a range of savings schemes that were identified and a review of all budgets, around 90% of the recurring savings target was identified early in the financial year. However, it became evident during the year that a number of change programmes would not deliver anticipated levels of savings due to slippage in implementation.

Management accepts that the in year delivery against the recurring savings target is disappointing and that the scale of issues are more far reaching and deep rooted than previously anticipated. In addition, the late sign off in 2010-11 of the recovery plan by the board reduced the time available to implement savings plans. Management considers there are positives that can be taken from 2010-11 performance, including the successful implementation of plans expected to deliver increased savings in future years, mainly due to the full year benefit of these plans being realised. This is detailed in the table below (February 2011 analysis):

Savings delivered against target	(£'000)
Opening recurring savings target	1,890
Delivered in year	1,052
In year 'gap'*	838
Full year effect of in year actions*	(679)
To be added to 2011-12 target	159

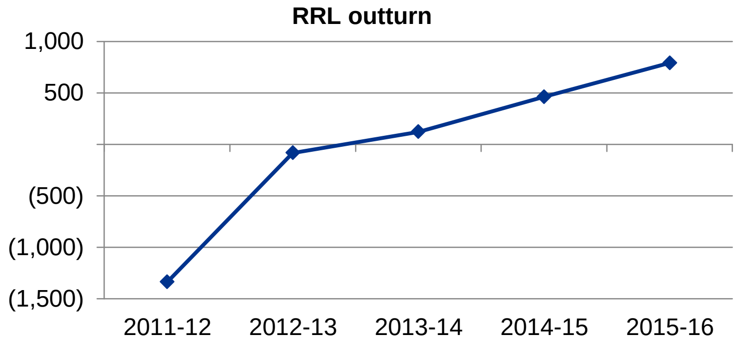
*Of the 2010-11 in year 'gap', £679,000 is expected to be realised in 2011-12 through the full year impact of initiatives; an additional £159,000 is therefore required to be identified.

Financial planning

The five year financial plan ('the plan'), for the period 2011-12 to 2015-16, has been submitted to SGHD with the local delivery plan. With ongoing funding pressures on the public sector in Scotland and significant financial issues in 2010-11 for the Board in particular, it is critical that the Board has effective and reliable budgeting and financial monitoring processes.

The plan forecasts a deficit outturn of £1.3 million for 2011-12 against the anticipated RRL allocation and, as a result, has yet to be approved by SGHD. The plan reflects significant ongoing risks over the Board's financial sustainability, but management considers it to be realistic.

The graph below shows the forecast financial position over the next five years.



Despite reflecting a deficit position in 2011-12, there are likely to be significant financial challenges delivering against the plan both in that year and beyond. For example, a total uplift of 3% is anticipated in core funding for 2011-12, compared to assumed inflation of 6-7% in certain areas, such as GP prescribing and hospital drugs. Managing to deliver even the forecast deficit will require the Board to overcome the challenges encountered in fully delivering savings in 2010-11 and there are significant risks that this will not be achieved.

Financial position (continued)

Management has continued close dialogue with SGHD and a programme of tailored support is being provided to the Board to enable identification of underlying issues and further efficiencies. This includes detailed consideration of the clinical strategy and assistance in developing improved 'corporate intelligence' to ensure the Board has early warning of emerging issues. As a result, a revised clinical strategy is expected to be finalised in the autumn of 2011 with a revised financial strategy produced thereafter.

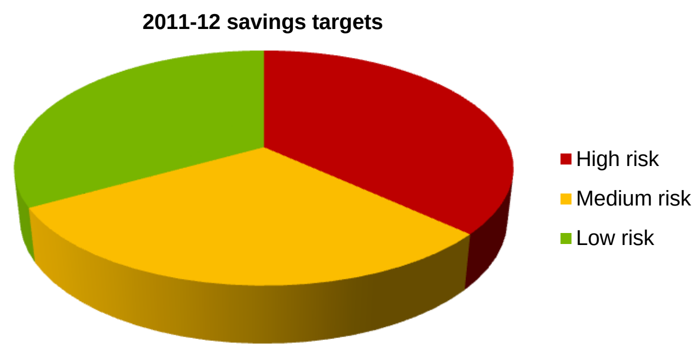
Efficiency savings 2011-12 and beyond

There are three themes to the Board's recurring efficiency targets for 2011-12, totalling £2.7 million:

- carry forward of unachieved 2010-11 efficiencies - £838,000;
- achievement of the national 3% target - £935,000; and
- further savings to ensure financial balance - £935,000.

The required efficiency target brings the total in year savings to be identified to 6%, double the national target for other boards and represents 4.5% of the Board's 2010-11 core expenditure. Management has established plans to ensure this target is met, with all departments required to find 10% efficiency savings by 2014 of which 4% must be made in financial year 2011-12. As at June 2011 the Board has identified schemes to deliver annual savings in line with requirements, however a number of these are time-dependent and may require support from SGHD. Given the elapsed time in identifying efficiency schemes, the time required to implement these and the scale of efficiencies required, there is a significant risk that the required savings will not be fully delivered in 2011-12.

The 2011-12 savings targets have been risk assessed by management as:



Of the total target, £1 million (37%) has been assessed as 'high' risk.

Capital

The Board's capital allocation for 2011-12 is £1.6 million, consisting of a formal allocation of £900,000 and a capital grant to Orkney Islands Council of £721,000. Initial capital plans show a requirement for additional funding of £779,000 in 2011-12. The reduced capital funding available from 2011-12 onwards will mean that difficult decisions will need to be made in prioritising capital projects.

A full business case has been submitted to SGHD for the redevelopment of the Balfour hospital. Management are awaiting formal confirmation as to whether the application has been successful. The lack of available capital funding in future years, however, may mean that the redevelopment will be funded as a non-profit distributing financial and clinical model through the Scottish Futures Trust.

Best Value

Arrangements within the Board in relation to people management display a number of examples of 'better practice'.

Further improvements can be made, in particular approval of the human resources strategy was outstanding at the time of our review.

At the time of our review, the human resource strategy was in draft.

The Board has gone to considerable efforts engaging with staff to communicate the benefits of good staff governance, but improvements could still be made in this area, for example through linking information in the eKSF system to the corporate learning and development plan, which in turn links to the corporate strategy.

Human resources has provided training to departmental managers and the Board has arrangements to ensure staff have access to the right level of training.

The Board has an approved business plan for organisational change, which includes clear benefits and risks, as well as financial implications.

There is an annual and longer term workforce plan which gives a clear basis for future service delivery needs.

The Board is considering innovative ways to attract, retain and manage talent. In doing so the Board was able to successfully fill all GP vacancies and retained key staff. It has also offered posts internally to capable staff to provide development opportunities.

The Board has been unsuccessful in recruiting to a number of key positions and this continues to have significant financial impact on the Board through the use of locums.

The Board is involved in high level benchmarking through the integrated resource framework. Staff costs are included in annual budgets and progress and performance indicators are reported to the finance and performance committee. However, management considers that further work is required with regards to reporting staff cost savings.

The Board is considering ways of obtaining further benefits from the time and cost inputs of training. Following staff feedback, management is looking to develop and evolve more in-house training.

Appraisals are managed through the eKSF system which links together all aspects of performance management and staff development.

The Board monitor statutory and mandatory training to ensure this is completed regularly and management aim to offer staff the correct courses.

A learning and development manager has been employed to review training provision and management consider that this is already having an impact on how training is delivered.

The Board participated in an NHS Scotland staff survey and the results have been included in the staff governance standards action plan.

The Board's communication strategy links to the staff governance action plan and identifies a wide range of methods used to communication information to staff.

Staff receive regular incentives, including complimentary therapy sessions and subsidised gym membership.

We consider there is scope for the Board to improve the transparency to staff between performance and reward.

Audit Scotland national reports

Management has established procedures to consider and respond, where applicable, to individual national reports issued by Audit Scotland.

Audit Scotland national reports

Audit Scotland periodically undertakes national studies on topics relevant to the performance of NHS Scotland. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at Board level, as appropriate.

Management has established procedures to allow consideration of individual reports at the board and sub-committee meetings. In addition, where appropriate, management carry out a self-assessment against the national study and implement local action plans, as required.

We have considered two relevant studies published during 2010-11, 'using locum doctors in hospitals' and 'emergency departments', and submitted a short return to Audit Scotland on the Board's response in February 2011.

In respect of both studies we reported that no self-assessments nor action plans had been completed, however review and discussion processes were in place for dealing with the recommendations made in the reports.

Improving public sector purchasing

In 2010-11 a more targeted follow-up was required in respect of the Board's actions following publication of the joint Accounts Commission / Auditor General for Scotland report, *Improving public sector purchasing* published in July 2009.

Our work centred around the answers to three questions to facilitate analysis of the Board's arrangements and considered the results of two Purchasing Capability Assessments ('PCA's) performed in 2009 and 2010.

We found that the Board had made clear improvements from 2009, including an improved PCA score, which now meets level one compliance. A steering group has been set up to facilitate reporting and implementation of a procurement strategy in 2010.

We identified three recommendations, including risk assessments and action plans within the procurement strategy, formalising improvement action plans and implementing a system to monitor achievement of savings plans. These recommendations have been reported to management separately.

Overall the performance in this area is considered average in comparison to our experience in the sector.

Corporate governance framework and supporting arrangements

Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a reasonable framework for organisational decision-making.

Corporate governance framework	The Board has a corporate governance structure which aims to ensure that accountability is taken for the efficient use of the Board's resources. There have been some changes to the governance structure from prior years, in particular changes to the executive management team. The Board has four sub-committees which each have terms of reference outlining their roles and responsibilities. These committees provide appropriate challenge to management in order to determine the effective running of the Board and use of resources. ▪ We consider the overall corporate governance framework at the Board to be appropriate.
Statement on internal control	The statement on internal control provides details of the purpose of the framework of internal control, along with an analysis of its effectiveness. In line with NHS Scotland guidance, the statement on internal control is supported by annual reports from each of the board sub-committees. ▪ The statement on internal control complies with relevant guidance.
Internal controls	Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively. ▪ We have previously reported a number of recommendations to management; these included a number of recommendations raised in the prior year.
Internal audit	We have considered the audit work performed and reports completed by internal audit. The reports issued in the year included one 'red' assurance rated area. A number of recommendations have been raised for management to implement to strengthen the system of internal control. ▪ Internal audit have completed their review for the year and provided assurance on the adequacy, and effectiveness of the Board's arrangements for governance, risk management and control.
Fraud and irregularity	We reviewed the procedures and controls related to fraud and are satisfied these controls are effective in mitigating the associated risks. The director of finance is the fraud champion and has responsibility for investigating alleged instances of suspected or detected fraud. The Board has participated in the NFI exercise and a total of 184 matches were identified, of which 16 were recommended for follow up. The Board has investigated all matches and to date no issues have been identified . ▪ No significant instances of fraud or irregularity have been identified.

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Appendices

Appendix four – action plan

The action plan summarises specific recommendations, together with related risks and management's responses.

- **High risk issues are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.**
- **Moderate risk issues have an important effect on internal controls, but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately, but the weakness remains in the system.**
- **Low risk issues would, if corrected, improve the internal control in general, but are not vital to the overall system. These are generally issues of best practice that we feel would be of benefit to you if introduced.**

Ref	Issue and risk	Recommendation and risk	Management response
1	There are significant underlying risks in relation to financial management and planning, service sustainability, patient safety and clinical governance and performance management.	We recommend management continue to focus on these areas to ensure mitigation is successful. **High risk**	The chief executive and the management team will continue to give focus to delivery and performance across all aspects of the Board's services. **Responsible officer**: Chief Executive **Implementation deadline**: Immediate

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