



Scott-Moncrieff
business advisers and accountants

National Waiting Times Centre Board

Annual report on the 2015/16 audit
to the Board and the Auditor General for
Scotland

June 2016

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Executive summary

Annual accounts

The annual report and accounts for the year ended 31 March 2016 were approved by the Board on 23 June 2016.

We reported unqualified opinions on the financial statements, the regularity of transactions and on other prescribed matters. There are no matters which we are required to report to you by exception.

Financial management

The Board has effective arrangements in place for financial management and the use of resources. We found the Board's key financial systems to be well designed and operating effectively.

The Board achieved all of its financial targets for the year, delivering a break even position against its revenue resource limit. The Board achieved efficiency savings of £3.498 million during the year and recognised capital additions of £6.394 million.

Financial sustainability

Whilst the financial outlook for the health sector continues to be challenging, the Board remains in relatively good financial health.

As required, the Board submitted its local delivery plan to the Scottish Government by the 31 May 2016 deadline. The Board expects to receive formal agreement of the plan in June 2016.

The local delivery plan forecasts a breakeven position against both recurring and non-recurring funding in each of the next three years. Although small increases are expected in the resources available to the Board over the three year period, the Board is also expected to make substantial recurring efficiency savings. The Board has already identified all of the savings it will need to make in 2016/17.

Governance and transparency

We have found that the Board has appropriate governance arrangements in place. The Board continues to develop the role of the audit and risk committee with a clear focus on developing a Board-wide enterprise risk management framework.

- Unqualified audit opinion on:
 - the financial statements
 - regularity
 - other prescribed matters
- All financial targets achieved
- Effective arrangements for financial management and use of resources
- Strong financial planning
- Appropriate governance arrangements
- Performance management supports achievement of value for money

Value for money

The Board continues to have appropriate performance management arrangements in place which support the achievement of value for money.

The Board receives regular reports with explanations and analysis of performance. 20 of the Board's 25 key performance measures were on target for 2015/16. Of the remaining five indicators, the Board expects that two will be achieved with delays and three will not be met.

Conclusion

This report concludes our audit for 2015/16. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Director of Finance and we would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff
June 2016

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Introduction

Introduction

1. This report summarises the findings from our 2015/16 audit of the National Waiting Times Centre Board ('the Board').
2. The scope of our audit was set out in our External Audit Plan, which was presented to the Audit and Risk Committee in November 2015. The plan summarised five key audit issues for 2015/16:
 - financial position;
 - the National Waiting Times Centre Board Endowment Fund;
 - the Beardmore Hotel and Conference Centre;
 - revenue recognition; and
 - management override.
3. This report includes our findings in relation to the key audit issues above. The main elements of our audit work in 2015/16 have been:
 - an interim audit of the Board's key financial systems and governance arrangements;
 - a final audit of the Board's 2015/16 annual report and accounts;
 - completion of a minimum dataset of information as requested by Audit Scotland; and
 - consideration of the local impact of the national performance report [Scotland's Public Sector Workforce](#).
4. Any weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
5. This report is addressed to both the Board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

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Annual accounts

Annual accounts

6. The Board's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the Board and the auditor in relation to the annual accounts are outlined in Appendix 2.

Overall Conclusion

An unqualified audit opinion

7. The annual report and accounts for the year ended 31 March 2016 were approved by the Board on 23 June 2016. We reported, within our independent auditor's report:
- an unqualified opinion on the financial statements;
 - an unqualified opinion on regularity; and
 - an unqualified audit opinion on other prescribed matters.
8. We are also satisfied that there are no matters which we are required to report by exception.

Good administrative processes were in place

9. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to management and staff for their assistance with our work.
10. Arrangements were in place to enable the annual accounts to be submitted to the Scottish Government and the Auditor General for Scotland prior to the 30 June 2016 deadline.

Our assessment of risks of material misstatement

11. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures

1. Financial position

The Board has produced a local delivery plan covering the financial years 2015/16 to 2017/18. Although the core resources available to the Board are expected to remain broadly consistent, the Board is expected to make efficiency savings totalling approximately 5% of its core resources in each year of the plan. There is a risk that delivery of the Board's efficiency savings plans are at the detriment of services and/or on-going financial health.

Excerpt from the 2015/16 External Audit Plan

12. We have reviewed the Board's financial position and related budgets and projections to ensure that they are soundly based. We found that the Board has effective arrangements in place for financial management and the use of resources. The Board also has good financial planning arrangements in place. Further context and our findings in relation to this risk are presented in the *Financial management* and *Financial sustainability* sections below.

2. National Waiting Times Centre Board Endowment Fund

The Board has endowment funds that have historically been administered by the trustees of the NHS Greater Glasgow and Clyde Endowment Funds. In October 2014 the National Waiting Times Centre Board Endowment Fund was registered with The Scottish Charity Regulator and the endowment funds were formally transferred to the National Waiting Times Centre Board Endowment Fund during 2015/16.

2. National Waiting Times Centre Board Endowment Fund (continued)

Where material, health boards are required to consolidate endowment funds into their financial statements. The Board does not plan to consolidate the endowment fund in 2015/16 as it is not expected to be material to the financial statements as a whole.

Excerpt from the 2015/16 External Audit Plan

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13. On 1 April 2015 £0.518million was transferred from the NHS Greater Glasgow and Clyde Endowment Funds to the National Waiting Times Centre Board Endowment Fund ('the endowment fund'). The endowment fund recognised incoming resources of £0.404million in the year and charitable expenditure of £0.222million. At 31 March 2016 the total funds held were £0.7million.
 14. The Board does not consider the endowment fund to be material to the annual accounts as a whole. As a result the Board has not consolidated the endowment fund into its annual accounts in 2015/16. We have reviewed the Board's assessment and agree that the approach taken is reasonable and consistent with the requirements of international accounting standards and the Government Financial Reporting Manual (FRoM). It is also consistent with our own assessment of materiality for the annual accounts as a whole, as outlined in Appendix 1.

3. The Beardmore Hotel and Conference Centre

The Beardmore Hotel and Conference Centre ('the Beardmore') forms a key part of the Board's unique model of care, with the hospital using the accommodation to assist with access for patients and their relatives from all over Scotland.

In May 2014 the Board approved the Beardmore 2020 Strategy. The strategy has been developed to harness the strengths and opportunities available to the Beardmore, its role as an integral part of the National Waiting Times Centre Board and as a national resource for NHS Scotland. The Board's vision is that "by 2020 the Beardmore will be recognised as a pivotal meeting and hospitality element of an internationally renowned Innovation Campus, a global centre of excellence in quality, innovation and collaboration in health, hospitality and learning."

The Board's risk register includes a medium risk over the inability to deliver Beardmore Hotel and Conference Centre 2020 Strategy. We consider that the unique nature of the Board's operations in this area give rise to a potential risk of misstatement in the financial statements.

Excerpt from the 2015/16 External Audit Plan

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15. In line with the wider rebranding undertaken in 2015/16 the Beardmore is now known as the Golden Jubilee Conference Hotel ('the hotel'). The hotel has continued to be self-funding during 2015/16. We have reviewed the accounting treatment of income received and have gained satisfactory assurance that it is recognised appropriately in the financial statements.
 16. The Board continues to progress with the hotel's 2020 Strategy. The strategy is supported by a management and implementation plan and an implementation group has been established with responsibility for planning, implementation, scrutiny of agreed actions and the risk management framework. Key performance indicators have been designed for the hotel and performance is reported regularly to the Board as part of the Board performance report and the corporate scorecard.
 17. During the year, internal audit reviewed the hotel's cash handling controls. The audit report was classified as low risk with only minor issues being raised.

4. Revenue Recognition

Under ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise income in a way that materially misstates the Board's financial performance.

Excerpt from the 2015/16 External Audit Plan

18. We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we evaluated the Board's key revenue streams and reviewed the controls in place over revenue accounting by the Board. We also carried out testing to confirm that the Board's revenue recognition policy is appropriate and has been applied consistently throughout the year.

5. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA 240.

Excerpt from the 2015/16 External Audit Plan

19. We have not identified any indications of management override in the year. We have reviewed the Board's accounting records and obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed the journal entries processed in the period and around the year end.

Audit differences

20. There were no material adjustments to the draft financial statements arising from our audit. We identified some minor disclosure and presentational adjustments, which have been reflected in the final set of financial statements.

Remuneration report disclosures

21. Through the audit process amendments were made to some cash equivalent transfer values disclosed within the remuneration report. An additional disclosure was also made of a compensation payment for loss of office.
22. While the additional disclosure made to remuneration report falls well below the assessed level of overall materiality outlined in Appendix 1 we report it to you on qualitative grounds.

Board representations

23. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements.
24. We identified three unadjusted differences during our audit work. The differences are not considered material to the financial statements, either individually or in aggregate. Through discussion with the Director of Finance the decision was taken not to adjust the financial statements. The differences are reported to the Board through the representation letter.

Regularity

25. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

Qualitative aspects of accounting practices and financial reporting

26. We have considered the qualitative aspects of the financial reporting process including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. The following table summarises our findings:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The significant accounting policies, which are disclosed in the financial statements, are considered appropriate to the Board.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The accounting estimates and judgements used by management in preparing the financial statements are considered appropriate. The principal areas of estimates and judgements have been: property valuations, asset depreciation rates and the valuation of provisions. Where appropriate, the Board has utilised the work of independent experts or industry practice to support the estimates made.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report and accounts or material inconsistencies with the financial statements.	The annual report and accounts contain no material misstatements or inconsistencies with the financial statements.
Any significant financial statements disclosures to bring to your attention.	There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statements disclosure.	While some disclosure and presentational adjustments were made through the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

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Financial management

Financial management

Introduction

27. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is the Board's responsibility to ensure that its financial affairs are conducted in a proper manner.

Overall conclusion

28. We found that the Board has effective arrangements in place for financial management and the use of resources. Our conclusion is based on a review of the Board's key financial systems, financial performance, financial reporting and achievement of savings targets.

Performance against budget limits	Budget limit £million	Actual £million	Saving £million	Target achieved?
Core revenue resource limit	63.721	63.721	-	Yes
Non-core revenue resource limit	6.391	6.391	-	Yes
Total revenue resource limit	70.112	70.112	-	Yes
Capital resource limit	6.387	6.387	-	Yes
Cash requirement	69.679	69.679	-	Yes

The Board met its key financial targets for the year

29. The Board has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD). As shown above, the Board operated within all limits during 2015/16.

A break even position against RRL

30. The Board reported a break even position against its revenue resource limit (RRL) 2015/16. This outturn is consistent with the position that was forecast in the 2015/16 Local Delivery Plan (LDP) agreed with the SGHSCD.

31. The 2015/16 outturn included the £0.5 million saving brought forward from 2014/15, which was received as a non-recurring revenue allocation in 2015/16. A transfer of £3.387 million from revenue funding to capital funding was also agreed with SGHSCD.

Efficiency savings of £3.498 million

32. The Board achieved efficiency savings of £3.498 million during the year, comprising recurring savings of £3.29 million and non-recurring savings of £0.208 million.

33. The total savings achieved in 2015/16 were £0.233 million higher than the target set in the LDP, principally due to the non-recurring savings which were not planned at the outset.

Capital additions of £6.387 million

34. The Board had capital additions of £6.387 million during the year. The majority of these additions related to medical equipment (£5.13 million) purchased as part of a planned programme supported through the transfer of £3.387 million from revenue funding to capital funding. The Board also received donated assets to the value of £0.07 million.

Effective financial systems and budgetary controls

35. As reported to the Board more fully in our interim report, we did not identify any significant deficiencies in the operation or design of internal financial controls over the Board's key financial systems. We consider these systems to be well designed and operating effectively. Reliance has been placed on these controls during our audit of the financial statements.



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Financial sustainability

Financial sustainability

Introduction

36. Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered.

Overall conclusion

37. The Board has good financial planning arrangements in place. Whilst the financial outlook for the health sector continues to be challenging, the Board remains in relatively good financial health.

Financial plans

38. As required, the Board submitted a draft LDP to the SGHSCD in March 2016. Following feedback from the SGHSCD the final LDP was approved by the Board in May 2016 and submitted to the SGHSCD by the 31 May 2016 deadline. The Board expects to receive formal agreement of the LDP in June 2016.

A break even position against RRL

39. The LDP forecasts a breakeven position against both recurring and non-recurring funding in each of the next three years.

Anticipated movements in Core RRL and income	2016/17	2017/18	2018/19
Core RRL & Income (£million)	132.178	133.179	134.097
Increase on prior year (%)	3%	1%	1%

40. As shown in the table above, the Board expects the total available resources to remain broadly consistent in the short term.
41. Unlike most Scottish health boards, the National Waiting times Centre Board receives significant levels of operating income from other Scottish health boards through its role as national service provider. This results in total resources available to the Board being significantly higher than the Core RRL.

Savings plans are in place

42. Although small increases are expected in the resources available to the Board over the next three years, the Board is expected to make substantial recurring efficiency savings each year.
43. The LDP reports that the Board has already identified all of the £3.952 million recurring savings required in 2016/17, as well as 58% of the £4.677million recurring savings required in 2017/18 and 55% of the £5.29 million recurring savings required in 2018/19.

44. Each directorate monitors its budget and variances against financial expectations are subject to appropriate challenge. Historically, the Board has been able to achieve the savings that were required and it remains confident that, based on funding assumptions within the LDP, it will continue to do so.

Key assumptions and risks in the LDP

45. The LDP is based on a number of key financial assumptions:
- Core RRL will rise by 1% in each year;
 - Operating income will be in line with the activity planned for 2016/17 and will rise by 1% thereafter;
 - The planned efficiency savings reported above will be achieved;
 - Planned increases in activity will result in matched expenditure;
 - Pay costs will rise by 1% in each year;
 - General costs will rise by 2.5% in each year; and
 - Drugs costs will rise by 8%.

46. The key financial assumptions made within the LDP are broadly consistent with the rates applied by the board in previous years and appear reasonable when compared to those we have experience of in the sector.

47. The LDP also describes the key risks to the successful delivery of the plan, the proposed risk management strategy to minimise these risks and the potential financial impact. These risks are summarised below:

Key risk	Risk rating	Proposed management of the risk	Impact (£)
Waiting times initiatives The financial implications of additional waiting times initiatives could be significant.	High	The Board will ensure funding levels are maintained and theatre productivity is maximised.	> £0.25 million
Efficiency savings are not achieved Expenditure spend rate may exceed the plan particularly through any increases in energy and waste prices.	Medium	Savings plans will be monitored on a monthly basis and further savings proposals will be considered. Ongoing benchmarking and review of costs.	> £0.5 million
Staffing costs Expenditure may exceed budget due to impact of incremental drift, banding reviews, unsocial hours and on-call arrangements.	Low	The Board will work in partnership to minimise the risk and will develop a robust monitoring and costing model.	> £0.5 million
Delivery of the Golden Jubilee Conference Hotel 2020 strategy Financial model for the Conference Hotel may not be delivered.	Low	Ongoing review of the 2020 strategy will take place with appropriate contingency and redesign plans.	£0.2 million

Workforce planning

48. In November 2013, the Accounts Commission and Auditor General for Scotland published the report *Scotland's public sector workforce*. The report highlighted a number of key messages on workforce changes across Scotland in the public sector and made a number of recommendations to the Scottish Government, central government bodies, the NHS, COSLA and local authorities.

49. As part of our 2015/16 audits, Audit Scotland asked us to undertake a follow up review to help understand the extent public bodies are implementing the recommendations and to help identify common and emerging issues. Key findings from our work are shown opposite:

- The Board applies the six step methodology to integrated workforce planning, as advised by the Scottish Government.
- An organisation-wide workforce plan has been approved by the Board.
- The Board's workforce plan is subject to scrutiny by the Senior Management Team, the Partnership Forum and the Staff Governance (Person Centred) Committee.
- Each department prepares a local workforce plan.
- Succession planning is considered in the short and medium term.
- The Board has policies in place to ensure workforce implications are considered for all change projects.
- The Board has clear procedures and guidelines regulating the use of early departure schemes.

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Governance and transparency

Governance and transparency

Introduction

50. This section is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. The Board is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.

Overall conclusion

51. We have found that the Board has appropriate governance arrangements in place.

Governance arrangements

52. The Board's governance statement reports that no significant control weaknesses or issues have arisen during the year and that no significant failures have arisen in the expected standards for good governance, risk management and control.
53. The Board's overall assessment is supported by the findings of internal audit. The internal auditor concluded that while some areas of weakness were identified during the year, governance, risk management and control in relation to business critical areas was generally satisfactory.
54. We have reviewed the Board's governance statement and are satisfied it complies with the Scottish Ministers' guidance and that the content is not inconsistent with information gathered during the course of our normal audit work.

Risk management

55. The Board continues to have an adequate risk management framework in place. Additionally, work on developing the role of the audit and risk committee has continued during the year with a focus on developing an enterprise risk management framework.

56. A Board-wide risk appetite statement was approved during 2015/16 and the Board is currently considering what governance structures will be required to embed an enterprise risk management framework across all of its functions.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

57. In our opinion, the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption remain adequate and appropriate. The Board also has adequate controls in place to ensure compliance with the regulatory guidance produced by the SGHSCD.

Prevention and detection of fraud and irregularity

58. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

National Fraud Initiative

59. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. We found the Board's arrangements for participation in the NFI were satisfactory.

Internal audit

60. The Board's internal audit service is provided by PwC. The internal auditor has confirmed that the service conforms to Public Sector Internal Audit Standards. To avoid duplication of effort and to ensure an efficient audit process we have taken cognisance of the work of internal audit. We are grateful to the PwC team for their assistance during the course of our work.

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Value for Money

Value for money

Introduction

61. Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.

Overall conclusions

62. We found that the Board has effective arrangements in place for financial management and the use of resources, as reported above. In addition, we have found that the Board continues to have appropriate performance management arrangements in place which support the achievement of value for money.

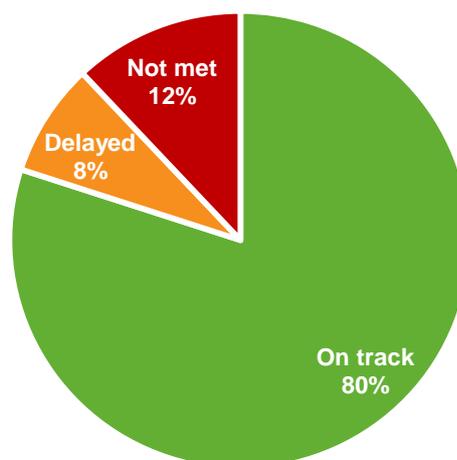
The Board has appropriate performance management arrangements in place

63. As reported to the Board in our interim report, performance is regularly reported against a range of measures, including LDP Standards (formerly referred to as Health, Efficiency, Access and Treatment (HEAT) targets), Healthcare Associated Infections and the Scottish Patient Safety Programme. An update on performance is given to each Board meeting and Performance and Planning Committee.

64. Performance is reported using the red, amber, green (RAG) rating, with detailed narrative explanations given on an exception basis for all red or amber ratings.

65. For each measure, the performance report gives a definition; maps to the Scottish Government's three quality ambitions; defines the thresholds for RAG rating; maps the trend in performance; and gives a brief update on progress.

Performance against key measures



66. The chart above summarises performance against the Board's 25 key measures, as reported to the Board in May 2016. The chart shows that 20 measures (80%) are on track while 3 measures (12%) are not being met. The Board receives analysis on all measures which are rated as red and amber. The table below gives more information on the three red rated measures:

Performance measure	Target	Actual	Board analysis
Sickness absence Board sickness absence rate	4%	5.1%	Long term absence rates have remained relatively stable at 2-2.5%. Short term absence rates have varied through the year. In recognition of this, and further to ongoing work between managers, HR and Occupational Health, a review of short term absence has been led by the Interim HR Director to identify trends within each department in order to better manage absence levels effectively.

Performance measure	Target	Actual	Board analysis
% Bed Occupancy Critical Care Wards (ICU and HDU)	73-85%	68%	Critical care bed occupancy remains below target. While HDU achieved on target occupancy ICU was below target. Workforce pressures in December 2016 resulted in patient cancellations. These workforce pressures have been resolved, use of bank staff has reduced, sickness absence rates are improving and recruitment processes have been completed.
Medical Appraisals Relevant doctors in 2015/16	100%	76%	90 of 100 eligible doctors have had an appraisal interview. Of the 90, 76 have completed the full appraisal process. This is a significant improvement on the April 2015 position. The medical management team will continue to emphasise that responsibility for appraisal sits with the appraiser, an approach that has worked well during the latter half of the year. Close attention will continue to be paid to completion rates in order to ensure progress towards achieving the KPI.

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Appendices

Appendix 1: Scope of the audit

An overview of the scope of our audit

Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) (ISAs).

Our external audit plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to The Board. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks. No additional significant risks were identified during our audit work this year.

The significant risks that had greatest effect on our audit, our response to those risks and our findings from the work performed are set out within *Our assessment of risks of material misstatement* within section 2 of this report. The audit response to each of these risks was designed in the context of the financial statements as a whole, and consequently, we do not express an opinion on individual risks.

Our standard audit approach is based on performing a review of the key accounting systems in place, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work, we have applied the concept of materiality.

Our application of materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report.

The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement.

Our initial assessment of materiality for the annual report and accounts during our planning work was £1.25 million. On receipt of the draft 2015/16 accounts we revised this assessment to £1 million, approximately 1.4% of the Board's RRL. Achieving a breakeven position against RRL is a key target for the Board and one of the principal considerations for the users of the accounts when assessing financial performance.

Performance materiality

We set a performance materiality for each area of work which was based on a risk assessment for the area and percentage application of overall materiality. We have performed audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

Area risk assessment	Weighting	Performance materiality
High	40%	£0.4 million
Medium	50%	£0.5 million
Low	70%	£0.7 million

Reporting

We have reported all misstatements identified through our audit that fell within one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements with a value in excess of £25,000, being our clearly trivial threshold; and
- Other misstatements below £25,000 that we believe warrant reporting on qualitative grounds.

We also report to the Audit & Risk Committee on significant disclosure matters that we identified when assessing the overall presentation of the annual report and accounts.

Appendix 2: Respective responsibilities of the Board and the Auditor

Board responsibilities

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare financial statements that show a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder. This means:

- observing the accounts direction issued by the Scottish Ministers including the relevant accounting and disclosure requirements and applying suitable accounting policies on a consistent basis;
- making judgements and estimates on a reasonable basis;
- stating whether applicable accounting standards as set out in the FReM have been followed and disclosing and explaining any material departures; and
- preparing the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate.

The Board is responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Board and enable them to ensure that the accounts comply with the National Health Service (Scotland) Act 1978 and the requirements of the Scottish Ministers. They are also responsible for implementing appropriate internal control systems, safeguarding the assets of the Board and hence taking reasonable steps for the prevention of fraud and other irregularities.

Our responsibilities

Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance. Specifically in relation to the financial statements, we are required to audit them in accordance with ISAs.

Audit of the financial statements

We are responsible for auditing the financial statements and giving an opinion on:

- whether the financial statements give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the board's affairs as at 31 March 2016 and of its net operating cost for the year then ended;
- whether the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 FReM;
- whether the financial statements have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;
- whether in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- whether part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- whether information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

We also report to you by exception if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers; or

- there has been a failure to achieve a prescribed financial objective.

Code of audit practice responsibilities

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as propriety, performance and the use of resources in accordance with the principles of Best Value and 'value for money'.

Our main additional responsibilities under the Code of Audit Practice are to review and report on:

- the Board's arrangements for managing its performance and for securing economy, efficiency and effectiveness in its use of resources;
- the Board's systems of internal control, including its reporting arrangements;
- the Board's arrangements as they relate to prevention and detection of fraud and irregularity;
- the Board's arrangements as they relate to standards of conduct and prevention and detection of corruption; and
- the Board's financial position.

Independence

We confirm that we have complied with Auditing Practices Board Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:

- There are and have been no relationships between Scott-Moncrieff and the Board, its directors and senior management that may reasonably be thought to bear on our objectivity and independence; and
- Scott-Moncrieff has not provided any consultancy or non-audit services to the Board.



Scott-Moncrieff
business advisers and accountants