NHS Quality Improvement Scotland

Annual report to the Board of NHS Quality Improvement Scotland and the Auditor General for Scotland

2004 / 2005

SCOTT-MONCRIEFF

CHARTERED ACCOUNTANTS

EDINBURGH AND GLASGOW

Contents

1   Summary

Performance

- Performance against the Board's work programme is subject to regular monitoring by the Board. However no formal Performance Assessment Framework indicators have yet been developed and agreed with The Scottish Executive Health Department (SEHD).

- Plans are in place to address the remaining weaknesses in the Board's IT security, business continuity and disaster recovery arrangements.

- The announcement that NHS Quality Improvement Scotland is to relocate to Glasgow presents a significant challenge in terms of staff retention and service sustainability.

Governance

- Good progress has been made in implementing a robust governance structure.

- With the establishment of the Scottish Health Council on 1 April 2005, new governance arrangements will be required to allow the Scottish Health Council to operate with the autonomy and independence required whilst remaining compliant with internal NHS Quality Improvement Scotland systems of accountability and control.

- NHS Quality Improvement Scotland Board membership does not include a non-executive member who holds recent and relevant financial experience as defined by the Smith Report.

Finance

- Our audit opinions on the truth and fairness of the financial statements and the regularity of transactions are unqualified.

- All financial targets set by the SEHD were met in 2004/05.

- NHS Quality Improvement Scotland is forecasting to continue to meet its financial targets in future years.

- Improved financial planning, budgetary control and monitoring processes implemented during the year are now integrated with corporate planning and business processes.

- Key financial risks remain associated with changing roles and responsibilities, the relocation of offices and Agenda for Change.

Conclusion

This report concludes the 2004/05 audit of NHS Quality Improvement Scotland. We have performed our audit in accordance with the Code of Audit Practice and Statement of Responsibilities published by Audit Scotland. Subject to the weaknesses identified in this report, we are satisfied that NHS Quality Improvement Scotland has properly discharged its duties in accordance with the Statement of Responsibilities.

This report has been discussed and agreed with the Head of Finance and Chief Executive and has been prepared for the sole use of NHS Quality Improvement Scotland's Board, the Auditor General for Scotland and Audit Scotland.

We would like to thank all members of NHS Quality Improvement Scotland's management and staff who have been involved in our work for their co-operation and assistance during our audit visits.

Scott-Moncrieff

28 July 2005

2 Introduction

2.1 Audit Framework

The Auditor General for Scotland is the Scottish Parliament's watchdog for ensuring propriety and value for money in the use of public funds. The Auditor General is therefore responsible for appointing NHS auditors and setting the terms of their appointment.

Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out his statutory functions. Audit Scotland has prepared a Code of Audit Practice, which sets out the way in which auditors should carry out their functions, and a Statement of Responsibilities which explains where the responsibilities of the auditor begin and end.

The Auditor General has appointed Scott-Moncrieff as auditors of NHS Quality Improvement Scotland (NHS QIS) for the 5 year period 2001/02 to 2005/06.

2.2 Key priorities and risks

Our audits are risk based. This means that we focus our resources on the areas of highest priority or risk to the Board. To help us identify these areas, Audit Scotland have developed a National Planning Tool setting out the following key priorities and risks for NHS Scotland as a whole.

- Governance – clinical, staff and financial
- Service sustainability
- Financial management
- Performance management
- Pay modernisation
- Workforce management
- Joint working
- Information management

In order to define the scope of our work, we agreed with the Chief Executive the extent to which each of the above areas were key priorities and risks for NHS QIS.

2.3 Scope of the audit

Our work can be classified under the following three headings: performance audit, governance audit and financial audit. The main audit objective for each of these areas is summarised below, along with the key priorities and risks for each area.

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Table 2.3-1 - Audit areas v priorities and risks

Audit area	Audit objective	Key priorities and risks
Performance Audit	To review the Board's arrangements for managing its performance and for securing economy, efficiency and effectiveness in its use of resources.	Service sustainability Performance management Workforce management Joint working Information management
Governance Audit	To review the Board's governance arrangements in relation to: • systems of internal control, • the prevention and detection of fraud and irregularity, • standards of conduct and prevention and detection of corruption, • its financial position.	Corporate governance Clinical governance Financial governance Staff governance
Financial Audit	To provide an opinion on the truth and fairness of the Board's financial statements and on the regularity of transactions.	Financial management Pay modernisation

2.4 Audit Reporting

We have prepared the following detailed audit reports during 2004/05:

• Staff governance report,

• Final report on financial statements and accounting systems.

This annual report summarises all of our work during the year and highlights the key issues we have identified under the headings of performance, governance and finance. The action plan in section 6 details all of the recommendations we have made during the year, along with management's responses.

3 Performance

3.1 Performance Management

Progress reports on the NHS QIS work programme are presented at each board meeting against agreed timescales. Projects that have fallen behind their timescales are highlighted and challenged.

The annual Accountability Review provides the Scottish Executive Health Department (SEHD) with an opportunity to review the performance of NHS QIS, including the Board's performance management arrangements. We note, however, that no formal Performance Assessment Framework indicators have yet been developed and agreed with the SEHD as an objective and systematic means of assessing the Board's performance.

3.2 Service Sustainability

At the time of our review a key risk relating to the sustainability of NHS QIS was the potential relocation required by Ministers. The announcement that NHS QIS is to move all staff to Glasgow has since been made. This announcement presents clear challenges to NHS QIS in relation to staffing. Staff surveys have highlighted that a large proportion of staff would leave if they had to relocate. A substantial risk exists if NHS QIS is unable to maintain the knowledge and expertise, which has been built up by the current staff.

NHS QIS has a five-year corporate plan (2004-2009) in place. The Corporate Plan builds upon the organisation's Strategic Framework and has been submitted for Ministerial approval to ensure that it fits with the priorities of SEHD. Where possible NHS QIS is being urged to work with other inspectorates to ensure a joined up approach to reviews.

3.3 Joint Working

NHS QIS has been working jointly with the Social Work Inspection Agency, the Care Commission, Her Majesty's Inspectorate of Education and Audit Scotland. Memoranda of understanding have been developed with these organisations. Current joint working projects relate to children's services and learning disability. Other joint projects are in the course of being developed regarding services to older people and mental health and the independent healthcare sector.

3.4 Workforce Management

Given the size of the organisation, workforce planning is not considered to be one of the main priorities for NHS QIS to address. However, the staff governance tool which was approved by the Board in March 2005 is setting the agenda for the future.

NHS QIS established a Partnership Forum in July 2004. It is chaired jointly by the Chief Executive and the Employee Director. Membership of the committee includes elected staff members, union representatives and management members. At this time NHS QIS do not have an internal communications strategy in place. The results from the communications audit, undertaken in August 2005, will form the basis of the strategy.

3.5 Information Management and Technology

Quarterly IM&T Strategy Review Group meetings commenced in December 2004. The development of project plans for IT projects are to be monitored by the IM&T group on an ongoing basis.

In relation to information sharing, NHS QIS are in the process of putting into place protocols with key partners, such as the Care Commission and Audit Scotland.

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Backup procedures are in place in relation to an IM&T disaster recovery plan. Production of a formal testing schedule however remains to be completed. Additional technical resource has been secured to ensure the delivery of this key task by July 2005.

3.5.1 Information Technology Review

Internal audit carried out a review of Information Technology in November 2004. The objective of this review was to assess whether the system of procedures and controls surrounding the area of computer operations at NHS QIS were in line with good practice and to identify potential areas of weakness. The report concluded that there were no areas where a lack of procedures or inadequate controls lead to a critical risk being identified. The report did identify six areas where the risk identified could have a potentially high impact:

• The IM&T Strategy remains in draft.

• There is no standard change management process other than for database changes.

• No business continuity or computer disaster recovery plans exist.

• Backup tapes need to be stored off-site.

• Backup procedures required to be formalised.

• The IM&T Department have no Service Level Agreements or key performance indicators.

In December 2004, a software virus infected the NHS QIS computer systems. Although no data were lost, the Board lost four working days at its Edinburgh premises and eight working days at its Glasgow offices. An internal investigation confirmed that the Board had inadequate IT security arrangements in place. Significant work has now been undertaken to ensure that NHS QIS has minimised the risk and impact of similar future software problems.

Given the high level of reliance that the Board place upon computer and other information technology systems, it is essential that IT security, business continuity and disaster recovery plans are in place.

Following the appointment of the Head of IT an action plan has been drafted and agreed. We are satisfied that although these issues remain significant, the Board is in the process of taking measures to fully address them.

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4   Governance

4.1   Governance Framework

NHS QIS has made good progress in ensuring an appropriate governance structure is in place.   Periodic reorganisations resulting from other bodies and responsibilities being incorporated into the Board have resulted in a number of changes.   In 2004/05 the following key developments were noted:

- 1 April 2004: new organisational structure implemented

- 1 January 2005: Scottish Intercollegiate Guidelines Network (SIGN) integrated into NHS QIS.

- 1 April 2005: Scottish Health Council launched as a sub-committee of the Board

Concerns remain that NHS QIS has consistently been asked to undertake additional responsibilities since its inception and that there is a risk that Board structures are not in place to meet these increasing demands.

These concerns have been addressed in part through the provision of an increasingly robust corporate planning and business process environment.   An NHS QIS Corporate Plan 2005-2009, supported by an Operational Plan 2005-2006 and 2005-06 budget, were approved by the Board in March 2005.

Standing Orders including a Scheme of Decisions Reserved for the Board and a Scheme of Delegation are in place.   These have been approved by the Board along with Standing Financial Instructions.

All committee structures have been agreed and are in place.

4.2   Scottish Health Council

From 1 April 2005 the Scottish Health Council (SHC) became the NHS body responsible for:

- Ensuring that Health Boards properly consider the views of patients and the public.

- Ensuring that patients and public have the opportunity to give their views directly to Health Boards and that their views are properly taken into account.

- Assessing how Health Boards are involving patients in decisions about health services.

- Developing and sharing examples of best practice in public involvement.

- Helping patients to give feedback to Health Boards about their experiences of services.

SHC has been formally adopted as a sub-committee reporting to the QIS Board but will retain a degree of independence from central NHS QIS operations.   This independence will be central to the fulfilment of the Council's responsibilities.

It is essential that appropriate governance arrangements are implemented to allow SHC to operate with the degree of independence required whilst remaining compliant with internal NHS QIS systems of accountability and control.

4.3   Staff Governance

The NHS Reform (Scotland) Act 2004 makes it a statutory requirement for NHS employers to have in place arrangements for good governance of staff. Failure to comply with this duty can attract the powers of intervention contained in the NHS (Scotland) Act 1978. The staff governance framework means that Boards are equally accountable for how they behave as employers as well as their existing accountability for finance and clinical matters. The aim of this standard is to improve the way staff are treated in NHSScotland, to be clear on what staff should expect wherever they are in NHSScotland, and to improve accountability for making this happen.

A review of Staff Governance was undertaken as part of our performance audit work in 2004/05. NHS QIS has undertaken a considerable amount of work to deliver the actions identified from the 2003/04 Staff Governance action plan. Further reorganisation of NHS QIS has however prevented the organisation from fully delivering all the actions identified in the previous year. The key actions delivered include the appointment of an Employee Director and establishment of a Partnership Forum. This has created effective employee involvement and consultation within the staff governance process. NHS QIS has however recognised the need to provide continuous support to the members of the Partnership Forum. During 2004/05 NHS QIS further developed processes for cascading information to staff throughout the organisation, a key mechanism for the successful achievement of this was the introduction of Directorate Management Teams (DMTs). As a result regular minuted meetings now take place across the organisation that allow effective and timeous two way communication.

We also found from our review that NHS QIS do not have an internal communications strategy in place. The results from the communications audit, which was to be undertaken in June 2005, was to form the basis of this strategy. The completion of this process is essential for the continued development of staff governance within NHS QIS. During the course of the audit it was clear that NHS QIS had not established review mechanisms and dates, with associated actions, for the communications audit. It is essential for the communications audit to be reviewed after an appropriate period of time to allow the impact of the audit to be measured. The internal communications strategy should therefore include appropriate review dates and mechanisms.

4.4   Corporate Governance

The audited body has a responsibility to:

- Develop and implement systems of internal control and at least annually to conduct a review of the effectiveness of the internal control systems.

- Establish arrangements to prevent and detect fraud and irregularity.

- Ensure its affairs are managed in accordance with proper standards of conduct.

- Conduct its affairs and to put in place proper arrangements to ensure that it is financial position is soundly based.

As auditor we are required to review and report on the NHS QIS corporate governance arrangements.

Our overall conclusion is that the Board's corporate governance arrangements are satisfactory.

4.4.1   Statement of Internal Controls

The framework of internal controls in operation at NHS QIS is reported within the Statement of Internal Control (SIC) included in the accounts. In 2003/04 NHS QIS identified a number of areas as requiring further development. These developments have been fully implemented although the Board's IM&T Strategy was only finalised in March 2005.

Conclusion

We have reviewed the SIC, which has been signed by the Chief Executive on behalf of the Board. Our audit opinion on this statement is covered by our auditors' report within the annual accounts and is unqualified.

4.4.2 Internal Audit

We have placed reliance wherever possible on the work of internal audit. This followed a review of the internal audit service provided by PricewaterhouseCoopers. The review was performed in accordance with the Code of Audit Practice and Statement of Auditing Standard 500.

To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work in the following areas:

- Integra update data migration.

- Creditors payments.

- Payroll and expenses.

- Corporate planning and business process.

- Relocation and consolidation of offices: a review of risk management procedures.

- Management information.

- Information technology.

- Statement of internal control readiness.

Conclusion

In our opinion the internal audit service provided to NHS QIS during 2004/05 complied with the NHSScotland Internal Audit Standards.

4.4.3 Risk Management

The Turnbull report Internal Control: Guidance for Directors on the Combined Code states that a sound system of internal control depends on a thorough and regular evaluation of the risks faced by the body.

In 2004/05 the following key actions were identified:

- A formal review of the current risk action plan and register took place

- A formal programme of risk awareness training was delivered to staff

- Risk management was formally monitored by the Board through the Audit Committee

The Board has a Risk Management Policy, Risk Strategy and a risk register in place.

Conclusion

In our opinion, NHS QIS has adequate arrangements for the management of risk.

4.4.4 Fraud, Irregularity and Corruption

To ensure the integrity of public funds, it is the Board's responsibility to establish arrangements to prevent and detect fraud and other irregularity, including:

- developing, promoting and monitoring compliance with standing orders and financial instructions,

- implementing strategies to prevent and detect fraud and other irregularity

- receiving and investigating allegations of breaches of proper standards.

We plan our work so as to provide a reasonable expectation of detecting misstatements in the annual accounts resulting from fraud or irregularity. In particular, we focus on specific areas of high risk for potential fraud and irregularity and review the control arrangements in place in these areas.

Conclusion

We are pleased to report that we have identified no issues of concern with regard to the arrangements in place for the prevention and detection of fraud and irregularity.

4.4.5 Standards of Conduct, Integrity and Openness

Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance. Guidance on standards of conduct, accountability and openness has been issued by the SEHD.

Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct. We also considered controls over tendering and awarding contracts, registers of interest and disposal of assets.

Conclusion

We are pleased to report that our audit has identified no issues of concern in relation to standards of conduct, integrity and openness.

4.4.6 Audit Committee

The Smith Report on Audit Committees recommends that:

"At least one member of the audit committee should have significant, recent and relevant financial experience. It is highly desirable for this member to have a professional qualification from one of the professional accountancy bodies."

In an NHS context this would include individuals who had served in a senior finance role or as an auditor. As a result of changes in Board appointments NHS QIS no longer has a non-executive member with recent and relevant financial expertise. We consider it important that this issue is addressed during the next round of non-executive appointments.

4.5 Disaster Recovery and Business Continuity Planning

Robust disaster recovery and business continuity planning allow an organisation to react in a measured and efficient manner in response to instances of significant business disruption. Internal audit identified during the year that the Board's disaster recovery and business continuity plans with regard to IT required improvement. Upon discussion with senior management, it was identified that the Board has not developed a corporate disaster recovery and business continuity plan.

The Head of Finance and Head of Corporate Secretariat will be conducting an exercise in summer 2005 to develop these plans. Upon completion of this process the plans should be fully tested and audited. A continuing programme of regular testing and review will be required to ensure that these plans remain robust.

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5   Finance

5.1   Financial Outturn

It is the responsibility of NHS QIS to conduct its financial affairs in a proper manner. As part of our audit, we are required to consider the financial standing of NHS QIS, including the arrangements in place for financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the organisation's operations and use of resources

5.2   Annual Accounts and Audit Timetable

The timetable for the production of the NHS in Scotland Summarised Accounts is very tight. The deadline for the submission of audited NHS Board's accounts to the SEHD is 31 July. We are pleased to report that the accounts were approved by the Board of NHS QIS and will be submitted to the SEHD and the Auditor General for Scotland prior to 31 July 2005.

We are grateful to the Head of Finance and her staff for submitting draft accounts and supporting papers within agreed deadlines.

We identified no material errors during our audit. Adjustments to the financial statements arising from the audit related mainly to changes in disclosure and presentation. We agreed all adjustments at a clearance meeting with the Head of Finance.

5.3   Financial Targets

Health Boards are set the following financial targets by the SEHD:

- To remain within the Revenue Resource Limit (RRL), i.e. expenditure should not exceed the RRL

- To remain within the Capital Resource Limit (CRL); and

- To remain within a cash limit

We are pleased to note that NHS QIS met all of its statutory financial targets in the year ended 2004/05.

Financial Target	Target	Actual	Variance
Revenue Resource Limit	£12,105,000	£11,592,000	£513,000
Capital Resource Limit	£238,000	£216,000	£22,000
Cash Requirement	£12,343,000	£11,803,000	£535,000

5.4   Revenue Resource Limit

NHS QIS achieved an overall surplus of £513,000 against its RRL at 31 March 2005. This consists of the following:

RRL surplus 2004/05	£
Surplus relating to planned activities	£133,000
Additional ring-fenced revenue allocations received late in the year	£380,000
Surplus against RRL at 31 March 2005	**£513,000**

NHS QIS has received permission from the Scottish Executive to carry-forward both the £133,000 planned revenue underspend and £380,000 additional ring-fenced funding to 2005/06.

5.4.1 Additional ring-fenced money

As noted above, NHS QIS received additional ring-fenced funding allocations relating to 2004/05. Some of these allocations were received later in the financial year, in fact two of the allocations were received after the year end. The additional allocations were in respect of the following items:

Date Allocation Received	Expenditure Type	Amount
May 2005	Scottish Medicines Consortium	£43,000
May 2005	Scottish Health Council	£137,000
January 2005	Wheelchair Needs Assessment	£100,000
October 2004	Asthma Project	£135,000
Total		**£415,000**

5.4.2 In-year revenue position

In previous years, we have commented on NHS QIS's failure to spend all of its annual allocation from SEHD and the fact that this indicated that the Board was not yet operating at full capacity. However the 2004/05 surplus must be seen in the context of the surplus brought forward from 2004/05 and the additional ring fenced funding received late in the year.

As shown below, the 2004/05 surplus does not indicate that the Board is unable to spend its annual allocation. If the surplus brought forward is removed then it can be seen that the Board spent £54,000 more than its in-year allocation in 2004/05. If the additional ring fenced allocations received late in the year are also removed, then it can be seen that NHS QIS actually spent £434,000 more than its original annual allocation in 2004/05.

Element of surplus	£
Surplus against RRL in 2004/05, including surplus brought forward	£513,000
Surplus brought forward from 2003/04	(£567,000)
Excess Against In-Year RRL	**(£54,000)**
Additional ring-fenced revenue allocations received late in the year	(£380,000)
Actual Excess Against In-Year RRL	**(£434,000)**

We are therefore pleased to note that the Board is now operating at full capacity. As noted below, financial projections for the next three years indicate that this will continue.

5.4.3 Capital Resource Limit

NHS QIS achieved a saving of £22,000 against its Capital Resource Limit (CRL) of £238,000. This relates to a single capital project which experienced a delay in completion. This delay was caused by factors outside the Board's control. The full £22,000 saving is committed in 2005/06.

5.5   Financial Plan Summary

	2005/06	2006/07	2007/08
	£'000	£'000	£'000
Recurring income	£14,669	£15,197	£15,744
Recurring expenditure	(£14,991)	(£15,303)	(£15,781)
Underlying recurring surplus / (deficit)	**(£322)**	**(£106)**	**(£37)**
Non-recurring income	£648	£150	£44
Non-recurring expenditure	(£326)	£0	£0
Balance of non-recurring	**£322**	**£150**	**£44**
Funding surplus/ (gap)	**£0**	**£44**	**£7**
Other income sources			
Non-recurring SEHD income	£0	£0	£0
Corporate savings programme	£152	£0	£0
Projected financial surplus / (deficit)	**£152**	**£44**	**£7**

5.5.1   Annual allocation uplifts

Financial Plans are incorporated into the NHS QIS Corporate Plan 2005-2009 and the Operational Plan 2005-2006. An uplift of 5.6% has been applied to the Board's revenue allocation for 2005/06. This is lower than the 8.65% applied to unified NHS Boards. For 2006/07 and 2007/08, uplifts of 3.6% have been applied.

NHS QIS must therefore continue to manage its work programmes in the context of challenging resource allocations in future years.

5.5.2   Financial planning headlines

The following financial headlines have been identified through our audit work:

- Financial planning, budgetary control and monitoring processes have improved in 2004/05 and this has allowed the Board to meet its RRL while managing the surplus brought forward and late allocations received (section 5.7 below).

- The impact of continuing service redesign including establishment of the Scottish Health Council will require to be closely monitored.

- Significant financial and operational risks are associated with the confirmed relocation to Glasgow.

- Further cost pressures arise from the impact of pay modernisation, particularly Agenda for Change.

5.6   Financial Planning, Budgetary Control and Financial Reporting

As indicated above, we have reviewed the financial planning, budgetary control and reporting arrangements in place at NHS QIS and consider them satisfactory.

Monthly returns were submitted to the SEHD within the required timescales and in the required format. The implementation of robust management accounting, budget and corporate planning processes during 2004/05 has ensured that the Board operates a sound system of financial control.

In particular the following developments were noted:

- An increased emphasis on corporate planning and budgetary control.

- An increase in finance staff resources.

- The provision of directorate management accountants and improved communication between finance and directorates.

- A review and redesign of management reporting.

- Financial training was provided to budget holders.

- There was increased access for budget holders to the Integra financial ledger.

- The approval prior to the start of the financial year of a five-year corporate plan, 2005/06 annual operational plan and 2005/06 budgets.

The key challenge for the Board is to develop these arrangements to embed a culture of corporate and financial planning and control. This will enhance accountability and provide a framework to allow the organisation to identify and manage key financial risks. The development of a project ledger within Integra and the continual review of management reporting formats have been identified as potential future developments.

5.7 Scottish Intercollegiate Guidelines Network

The Scottish Intercollegiate Guidelines Network (SIGN) was officially subsumed within NHS QIS on 1 January 2005. Approximately 21 staff have been transferred under TUPE (Transfer of Undertakings (Protection of Employment)) and NHS QIS have taken on the annual budget of approximately £850,000.

5.8 Scottish Health Council

From 1 April 2005 the Scottish Health Council (SHC) was established as part of NHS QIS. During the set up process in 2004/05 approximately £300,000 of set-up costs were incurred. No additional funding was received from the Scottish Executive.

The additional cost of the SHC, which will amount to £2.5 million, has been added to the Board allocation in 2005/06. Whilst we recognise that SHC will operate with its own status and identity, NHS QIS must ensure that the current robust financial planning and control arrangements are maintained consistently throughout the organisation.

5.9 Relocation

On 28 June 2005, it was announced that NHS QIS would be relocated to Glasgow as part of the Scottish Executive policy on dispersal of government jobs.

The following key risks will require to be managed:

- Several of the Board's property leases have an expiry or lease-break date in the period 2005 to 2007. Early action will be required to ensure that all existing leases for the Board's properties can be renegotiated at reasonable cost to reflect the new location arrangements.

- Leasehold improvement assets relating to the Board's Edinburgh properties will be written down to net realisable value by March 2007. This value is likely to be zero. As a result an additional revenue cost will be incurred through accelerated depreciation.

- The Board has identified the recruitment and retention of staff as a key organisational risk. It is anticipated that a significant number of Edinburgh based staff will not transfer to Glasgow and reliance will be placed upon temporary and agency staff. This may impose a significant cost pressure in future years.

No additional resources have yet been allocated by the Scottish Executive to facilitate the management of this process. It is therefore essential that the Board undertake a strategic and well-controlled approach. The development of a Relocation Strategy or Property Exit Strategy should be seen as a priority.

5.10   Agenda for Change

NHS QIS is currently matching local posts to national profiles. At 30 June 2005, 20 of the current 115 posts have been successfully matched. As national profiles are targeted at typical posts with a Unified Health Board, it is expected that a large number of posts will not be matched. These posts will require to be locally evaluated adding additional time pressure to the process.

It is essential that the Board continues to monitor the progress of implementing Agenda for Change to ensure that local and national deadlines are met.

An accrual for £79,000 has been included within the financial statements in relation to backdated pay awards for Agenda for Change at 31 March 2005.

6 Action Plan

6.1 Introduction

The following action plans detail the control weaknesses and opportunities for improvement that we have identified during our 2004/05 audit. The action plans also include the results of our follow-up work on the final action plan reported in 2003/04.

It should be noted that the weaknesses identified are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

6.2 Priority rating

The priority rating is intended to assist the Board in assessing the significance of the issues raised and prioritising the action required to address them. The rating structure is summarised as follows:

Priority 1   High risk, material observations requiring immediate action;

Priority 2   Medium risk, significant observations requiring reasonably urgent action;

Priority 3   Low risk, minor observations which require to be brought to the attention of management.

6.3   Key Issues Identified in 2004/05

Title	Issue Identified	Risk and Recommendation	Management Comments
6.3.1. Relocation	NHS QIS will relocate to Glasgow from 2007 as part of the Scottish Executive policy to disperse government agencies throughout Scotland. Approximately 70 staff will be required to move location. No additional resources have yet been identified by the SEHD to facilitate this policy. The relocation presents a number of key risks to the organisation, including: • Staff retention • Service continuity • Operational planning • Additional cost pressures NHS QIS has undertaken a risk assessment of this issue in 2004/05. This was supplemented by an internal audit review.	There is a risk that NHS QIS may be unable to meet its priorities and deliver its work programme. NHS QIS should ensure that robust risk management arrangements and action plans are in place to manage the relocation process. In particular, work must start early to ensure that any potential impact upon service delivery is minimised. The development of a Relocation Strategy and action plan would assist with this. **Priority 1**	Agreed **Responsible Officer:** Chief Executive **Implementation Date:** December 2005

Title	Issue Identified	Risk and Recommendation	Management Comments
6.3.2 Audit Committee	The Smith Report on Audit Committee's recommends that: "At least one member of the audit committee should have significant, recent and relevant financial experience. It is highly desirable for this member to have a professional qualification from one of the professional accountancy bodies." In an NHS context this would include individuals who had served in a senior finance role or as an auditor.	There is a risk that the Audit Committee is unable to fully discharge its role and responsibilities. NHS QIS should ensure that this issue is addressed during the next round of non-executive appointments. **Priority 1**	NHS QIS can not ensure this will happen however the Chief Executive will write to the SEHD drawing this to their attention **Responsible Officer:** Chief Executive **Implementation Date:** September 2005
6.3.3 Scottish Health Council	On 1 April 2005 the Scottish Health Council (SHC) became the body responsible for ensuring that Health Boards properly consider the views of patients and the public. SHC has been formally adopted as a sub-committee reporting to the NHS QIS Board but will retain a degree of independence from central NHS QIS operations. This independence will be central to the fulfilment of the Council's responsibilities	It is essential that appropriate governance arrangements are implemented to allow SHC to operate with the autonomy and independence required whilst remaining compliant with internal NHS QIS systems of accountability and control. In particular, NHS QIS must ensure that current robust financial planning and control arrangements are maintained consistently throughout the organisation. **Priority 1**	Agreed **Responsible Officer:** Director of Planning and Quality/ Head of Finance/ Director of SHC **Implementation Date:** October 2005

Title	Issue Identified	Risk and Recommendation	Management Comments
6.3.4. Staff Governance	NHS QIS has not established review mechanisms and dates, with associated actions, for the communications audit.	Without review mechanisms NHS QIS will be unable to measure the impact of the audit. We recommend that the internal communications strategy should include appropriate review dates and mechanisms. **Priority 1**	Agreed **Responsible Officer:** Head of Communications **Implementation Date:** August 2005 – Audit December 2005- Strategy
6.3.5 Corporate Planning and Business Process	Internal audit carried out a review of corporate planning and business process during 2004/05. This concluded that NHS QIS has made good progress in this area. However the report indicated that improvements were required in the following areas: • Clear annual timetable for corporate planning • Clear link between corporate objectives and directorate objectives • Formal regime of high-level reporting to the Board allowing the assessment of performance against corporate objectives NHS QIS has recently developed and approved a 2005-2009 Corporate Plan and 2005/06 Business Plan.	Without a robust system of planning and business process there is a risk that NHS QIS may be unable to effectively manage and monitor corporate performance. This will become particularly critical during the future period of uncertainty as a result of the relocation decision. It is essential that the actions agreed with internal audit are taken to ensure a sound system of planning with appropriate business processes is in place. **Priority 2**	The recommendations from Internal Audits 2004/05 review have been implemented **Responsible Officer:** Director of Planning and Quality Management **Implementation Date:** February 2005

6.4 Medium and low risk issues identified during 2004/5

Title	Issue Identified	Risk and Recommendation	Management Comments
6.4.1 Payment Policy	It was highlighted in 2003/04 that the NHS QIS payment policy does not meet the requirements of the CBI Prompt Payment Code. Despite efforts by NHS QIS to address this issue, performance remains below that expected of a public sector organisation. During our review of supplier statement reconciliations a number of reminder and final demand notices were identified for key expenditure items. A number of actions have been identified to address this issue in 2005/06.	There is a risk that NHS QIS develops a bad credit rating amongst key suppliers. There is also the risk that suppliers enforce their right to apply interest surcharges to late payments. We recommend that the actions identified by management are implemented. **Priority 2**	Agreed NHS QIS Finance Unit currently are working on actions to improve the payment to creditors within 30 days **Responsible Officer:** Head of Finance **Implementation Date:** September 2005

Title	Issue Identified	Risk and Recommendation	Management Comments
6.4.2 VAT	HM Customs and Excise conducted a review of NHS QIS business activities from April 2004 to September 2004. During their review they identified the following issues: • VAT incorrectly claimed when irrecoverable. • VAT unclaimed when recoverable. • Incorrect VAT number being shown on invoices. • VAT on leased cars private use not accounted for. • Need for VAT training. A net under-recovery of £27,858 was noted in the six-month period.	NHS QIS have taken measures to address these issues, however there remains a risk that VAT is incorrectly accounted for. This may result in an under or over-recovery of VAT. In the most serious case penalties, interest charges or fines may be applied to the organisation. We acknowledge that NHS QIS have taken steps to resolve this issue including staff training. NHS QIS should continue to review their arrangements with regard to VAT. In particular the quality and timeliness of information received from NHS NSS should be monitored. The requirement for provision of specialist VAT advice should also be considered. **Priority 2**	NHS QIS will ensure that NSS deliver the Vat returns more timeously and seek to have this added as a KPI for monthly monitoring **Responsible Officer:** Head of Finance/ Director of Finance NSS **Implementation Date:** July 2005

Title	Issue Identified	Risk and Recommendation	Management Comments
6.4.3 IT Disaster Recovery and Business Continuity Planning	In December 2004, a virus infected NHS QIS computer systems. This resulted in a loss of four working days at the Edinburgh office and eight working days at the Glasgow office. A previous Internal Audit review in October 2004 identified that NHS QIS did not have adequate business continuity plans or disaster recovery procedures in relation to IT.	There is a risk that NHS QIS may be unable to deliver work programmes due to inadequate operational IT controls. We acknowledge that significant progress has been made in this area and an action plan has been included within the draft IM&T Strategy. **Priority 2**	Since December 2004 the It infrastructure and security protection has been reviewed and an action plan implemented. This will be completed by end of July 2005. The IT element of a disaster recovery plan will be in place also by end of July 2005 **Responsible Officer:** Head of IT **Implementation Date:** July 2005

Title	Issue Identified	Risk and Recommendation	Management Comments
6.4.4 Corporate Disaster Recovery and Business Continuity Planning	Upon discussion with senior management, it was identified that corporate disaster recovery and business continuity plans require improvement. These plans would relate to dealing with issues such as: • Flood • Fire • Theft • Terrorism • Significant local and national issues Plans are in place to develop this area during summer 2005.	Robust disaster recovery and business continuity arrangements are essential to ensure the integrity of business systems. Without a fully developed and tested business continuity plan the organisation may be unable to recover and continue operating business critical systems. NHS QIS should ensure that comprehensive disaster recovery and business continuity plans are put in place and tested on a regular basis. **Priority 2**	Agreed NHS QIS is currently working on a Corporate Disaster Recovery plan **Responsible Officer:** Head of Finance/ Head of Corporate Secretariat **Implementation Date:** August 2005
6.4.5 Agenda for Change	NHS QIS is currently matching local posts to national profiles. At 30 June 2005 20 of the 115 posts had been successfully matched. As national profiles are targeted at typical posts with a Health Board, it is expected that a large number of posts will not be matched. These posts will require to be locally evaluated.	It is essential that the Board continues to monitor the progress of implementing Agenda for Change to ensure that local and national deadlines are met. **Priority 2**	Agreed however this will not be facilitated by relocation. **Responsible Officer:** Head of HR/ NHS QIS Board **Implementation Date:** December 2005

Title	Issue Identified	Risk and Recommendation	Management Comments
6.4.6 Goods Received Not Invoiced	A reconciling difference was noted between the general ledger and GRNI system. This relates to a system error generated when partial consignments are received. At 31 March 2005, this balance was immaterial.	There is a risk that the information contained in the system generated GRNI accrual is misstated. NHS QIS should continue to work with NHS NSS to identify and resolve this issue. **Priority 3**	Agreed NHS QIS is working with NSS to ensure that on a monthly basis the GRNI report is fully reconciled and differences actioned. **Responsible Officer:** Head of Finance / Director of Finance NSS **Implementation Date:** May 2005

6.5   Follow Up of Key Issues from 2003/04

Title	Issue Identified	Risk and Recommendation	Update at March 2005
6.5.1. Statement of Internal Control	Significant progress has been made by NHS QIS during the year in addressing weaknesses in the internal control arrangements. This progress has been achieved despite the considerable organisational and structural changes which have faced the organisation. The following internal control issues remain outstanding: • Formal review of the current Action Plan and Risk Register; • Risk Management to be regularly monitored by the Board via the Audit Committee; • Communication of the risk management policy and strategy to all stakeholders; • Availability of the Risk Management policy on the NHS QIS website; • Finalisation of the IM&T strategy.	We recommend that the Board continue to commit to achieving the action required to ensure that all necessary controls are in place. **Priority 1** **Management Response:** Agreed. **Responsible Officer:** Head of Finance Head of IT **Implementation Date:** September 2004	Good progress has been made in 2004/05 in this area. All recommendations have been actioned although the IM&T strategy was only finalised in March 2005. **Management Response:** NHS QIS will continue to ensure that satisfactory controls are in place during the entire 2005/06 period. **Responsible Officer:** Head of IT/ Head of Finance **Implementation Date:** April 2005

Title	Issue Identified	Risk and Recommendation	Update at March 2005
6.5.2. Pension Provision	During our audit of provisions arising during the year, it was identified that NHS QIS made a payment to the SEHD in respect of early retirement costs prior to receiving confirmation of the actual costs from the Scottish Public Pensions Agency. Up to date information was subsequently received from the SPPA which confirmed that the provision for the pension should have been £23,000 greater. The financial statements have been adjusted to show the correct figure.	There is a risk that expenditure and provisions are understated in the financial statements. We recommend that in future NHS QIS obtain full supporting documentation for all such calculations before cash payments are made. We also recommend that NHS QIS obtain information relating to pension calculations directly from the SPPA. **Priority 2** **Management Response:** Agreed **Responsible Officer:** Head of Finance **Implementation Date:** July 2004	The additional pension provision arising during 2004/05 was calculated using accurate information from the SPPA. Payment for the additional provision accrued at 31 March 2005 was withheld pending accurate information from the SPPA. ✓ **Action taken as agreed**

Title	Issue Identified	Risk and Recommendation	Update at March 2005
6.5.3. Grant Funding	As part of the 2003/04 Audit Plan, internal audit completed a review of grant funding paid to third parties by NHS QIS. Their report concluded that the system was inadequate and identified two critical risk issues. We appreciate that the existing grants were originally awarded by the Scottish Executive. NHS QIS however is now responsible for the ongoing requirement to award funding and incur expenditure relating to existing grants in an appropriate manner. As a result of the findings of internal audit, we required to increase our testing in order to gain assurance over grant expenditure and accruals included in the 2003/04 financial statements. In our opinion, the process for administering grant funding could be improved to achieve a closer link between the payment of the grants, performed by the Finance Department and the monitoring of the grant funded projects, performed by the Senior Programmes Manager.	There is a risk that grant expenditure and accruals are materially misstated. There is a risk that invalid expenditure is included in the financial statements. In addition to implementing the internal audit recommendations, we recommend that all statements received by NHS QIS requesting instalments of grant funding are approved by the Senior Programmes Manager prior to payment. This will ensure that the work for which payments are being made has actually been completed. **Priority 1** **Management Response:** Agreed. **Responsible Officer:** Senior Management Accountant Senior Programmes Manager **Implementation Date:** September 2004	The Senior Financial Accountant now attends regular meetings with the Senior Programmes manager and also attends Programmes meetings in full. Any issues regarding grant funding are now discussed at these meetings and a proactive approach taken to the management of grant funding. All statements are now authorised by the Senior Financial Accountant and Directors. ✓ **Action taken as agreed**

Title	Issue Identified	Risk and Recommendation	Update at March 2005
6.5.4. Service Level Agreement with the Common Services Agency	Following a full tendering exercise, the Board appointed Common Services Agency (CSA) to provide financial services from 1 April 2003. During our audit, it was highlighted that there are a number of areas where NHS QIS are not satisfied with the level of service provided. Significant areas of weakness include: • Errors and delays in preparation of bank, purchase, sales and other balance sheet reconciliations. • Errors and delays in preparation of information required to complete monthly VAT returns. • No supplier statement reconciliations are performed. • Delays have been experienced in the processing of purchase and sales invoices. We appreciate that the past twelve months have been a learning curve for both parties. However, the CSA has a responsibility to provide the service paid for by NHS QIS as identified in the SLA. Similarly, NHS QIS should have the facility to enforce compliance with the agreement between the two parties.	There is a risk that material errors or misstatements in NHS QIS financial transactions remain undetected or unresolved. We recommend that the SLA between NHS QIS and the CSA is reviewed on an annual basis to ensure that the responsibilities are clear and meet the needs of both parties. We would also recommend that NHS QIS considers implementing a series of key performance indicators. This would enable the performance of the CSA to be formally monitored against expectations. **Priority 1** **Management Response:** Agreed **Responsible Officer:** Head of Finance/CSA **Implementation Date:** September 2004	The Common Services Agency became NHS National Shared Services during 2004/05. NHS QIS has taken the following action: • The SLA agreement was reviewed and amendments to the detail agreed by both parties. • NHS QIS have met with NHS NSS's Director of Finance on two occasions during 2004/05 to discuss the performance of the SLA. • Monthly meetings are scheduled between NHS QIS and NHS NSS staff and management reconciliations are provided in a more timely manner. • Monthly Key Performance Indicators are provided and formally monitored. Although progress has been made in this area, NHS QIS must continue to closely monitor the SLA agreement to ensure that the agreement operates effectively. **Management Response:** Agreed NHS QIS will continue to closely monitor the efficacy of the service provided by NSS. **Responsible Officer:** Head of Finance/NSS **Implementation Date: July 2005** Ongoing

Title	Issue Identified	Risk and Recommendation	Update at March 2005
6.5.5. Accruals	It was identified during our audit that a list of accrued expenditure at 31 March 2004 had not been prepared by NHS QIS finance staff. The process for identifying and recording accruals was to enter journals as and when invoices were identified. Subsequently journal adjustments were made later to correct the original entry. An up to date list of accruals was not maintained through out this process. Our audit of accruals required significantly more time than expected due to the lack of definitive listings of accruals. In addition, we identified a number of both incomplete and invalid accruals.	There is a risk that accruals are materially misstated in the financial statements. We recommend that NHS QIS develops a robust process for identifying and accounting for accruals at the year end. **Priority 1** **Management Response:** Agreed. In future, we will prepare a year-end accruals spreadsheet. **Responsible Officer:** Head of Finance **Implementation Date:** March 2005	A year-end accrual spreadsheet has been provided for use during our 2004/05 audit. ✓ **Action taken as agreed.**

6.6   Follow Up of Medium and Low Risk Issues from 2003/04

Title	Issue Identified	Risk and Recommendation	Update at March 2005
6.6.1 General Ledger Entries	During our audit we identified a number of errors as the result of incorrect journal entries being entered in the general ledger. These errors included mis-codings, balances being increased where they should be decreased and vice versa. As a result, a higher than expected number of adjustments were made to the draft accounts during the audit. All journals are now being signed by both the preparer and the reviewer, as previously recommended by auditors. However, despite the introduction of this control, errors are continuing to appear.	There is a risk that the financial statements, management accounts and SE returns are materially misstated due to material errors in the general ledger. There is also the risk that financial decisions are based on inaccurate information. **Priority 2** **Management Response:** Agreed **Responsible Officer**: Head of Finance Senior Management Accountant **Implementation Date:** September 2004	This issue arose due to the changes in NHS QISs nominal ledger structure made to reflect changes in the organisational structure. Historic items must be manually transferred from old numeric codes to new alpha codes. We did not identify any material errors in the nominal ledger during out audit work in 2004/05. ✓ **Action taken as agreed**

Title	Issue Identified	Risk and Recommendation	Update at March 2005
6.6.2 Miscellaneous Income	During a review of ledger codes it was identified that NHS QIS has received £131,000 of 'other income' during the year. In the 2003/04 financial statements this income has been offset against the expenditure to which it relates, resulting in net expenditure being disclosed in the operating cost statement and notes to the accounts. While this amount is not considered material to the financial statements, the disclosure does not meet the requirements of the Unified Board Manual for Accounts which requires all income and expenditure to be stated gross.	There is a risk that NHS QIS do not comply with the NHS Unified Board Manual for Accounts. There is also the risk that the financial statements do not show a true and fair view of NHS QIS financial transactions during the year. We recommend that NHS QIS consider all income received during the year in order to ensure accurate classification and disclosure. **Priority 2** **Management Response:** Agreed **Responsible Officer:** Head of Finance Senior Management Accountant **Implementation Date:** August 2004	Income codes have been created within NHS QIS accounts and income is now disclosed as required within the Annual Accounts. ✓ **Action taken as agreed**

Title	Issue Identified	Risk and Recommendation	Update at March 2005
6.6.3

Sales Invoices | It was brought to our attention during the audit that NHS QIS finance staff had requested that the CSA raises an invoice and a credit note during the month of April.

When copies of these documents were requested for audit purposes in July it was identified that the CSA had not yet processed the request. As a result, neither the invoice nor the credit note had been issued to the relevant third party. | There is a risk that NHS QIS does not receive income due on a timely and accurate basis.

We recommend that NHS QIS implement a process whereby they can ensure that requests are timeously actioned by the CSA on their behalf.

Priority 2

Management Response:

Agreed

Responsible Officer:

Head of Finance

Implementation Date:

August 2004 | NHS QIS have assumed responsibility for raising invoice requests. These are then passed to NHS NSS for processing.

Each invoice raised by NHS NSS is matched to an invoice request by NHS QIS.

A reconciliation of sales invoices raised is carried out on a daily basis and explanations obtained for any outstanding items.

✓ **Action taken as agreed** |

Title	Issue Identified	Risk and Recommendation	Update at March 2005
6.6.4 Payroll Expenditure	Payroll costs account for 33% of NHS QIS expenditure. All payroll is processed by the CSA and paid directly to NHS QIS employees. There is a direct interface between the CSA payroll system and the NHS QIS general ledger through which all transactions are posted to the ledger. It was noted during our audit that NHS QIS are unable to interrogate the ledger in sufficient detail to identify payroll costs by individual employee. We understand that access is restricted because NHS QIS staff do not have access to the NHSnet, which is the secure NHSS computer network. NHS QIS were also unable to produce a reconciliation of total payroll costs included in the ledger with the original source data from the payroll system.	There is a risk that payroll costs are materially misstated in the general ledger. There is also the risk that NHS QIS is incurring inappropriate pay costs. We recommend that the facility to interrogate the ledger in sufficient detail is made available to appropriate NHS QIS finance staff. We also recommend that reconciliations between the payroll system and the general ledger are performed on a regular basis. **Priority 2** **Management Response:** Agreed **Responsible Officer**: Head of IT **Implementation Date:** September 2004	NHS QIS staff still do not have the ability to interrogate payroll information within the nominal ledger. This issue is currently being reviewed by NHS NSS. In the interim NHS QIS have implemented the following key controls: • Monthly payroll to nominal ledger reconciliation. • Ability to interrogate the nominal ledger through the use of the Business Objects package. **Management Response:** The availability of the Business Objects package will allow NHS QIS to undertake sufficient detailed analysis of the payroll system to minimise the risk of payroll errors **Responsible Officer:** Head of Finance/ Director of Finance NSS **Implementation Date:** June 2005

Title	Issue Identified	Risk and Recommendation	Update at March 2005
6.6.5 Management Accounts	As part of our audit we are required to review key financial information for the period immediately following the year end of 31 March 2004. NHS QIS were unable to provide management accounts for the period April to June 2004 until after completion of our audit in July 2004. The Board and budget holders have not had access to necessary financial information during the first quarter of 2003/04. We acknowledge that NHS QIS finance staff have been heavily involved in preparing the 2003/04 annual accounts and have been faced with a number of problems regarding the general ledger.	There is a risk that inappropriate financial decisions may be made due to a lack of accurate and timely management information. We recommend that processes are introduced to ensure timely communication of key financial information to budget holders and the Board. **Priority 2** **Management Response:** Agreed. **Responsible Officer:** Senior Management Accountant **Implementation Date:** July 2004	The management accounting function has been developed during 2004/05 in the following areas: • Establishing directorate accountant posts. • Improved monthly management reports. • Monthly meetings between finance staff and budget holders. • Access to Integra granted to certain budget holders. • Financial training. ✓ **Action taken as agreed**

Title	Issue Identified	Risk and Recommendation	Update at March 2005
6.6.6 Bank Reconciliations	Our audit of bank balances at 31 March 2004 includes a review of bank reconciliations between the general ledger and the bank statements. These reconciliations are the responsibility of the CSA under the SLA in place between the two organisations. It was identified during our review that bank reconciliations frequently include a number of reconciling items which are not cleared in a timely manner by the CSA. It was also highlighted to us that bank reconciliations are often prepared late by the CSA, and on some occasions are submitted with unexplained differences. We understand that these problems have been highlighted to the CSA finance department, however no progress appears to have been made to rectify the situation	There is a risk that material errors or misstatements are not identified on a timely basis. We recommend that the CSA are required to comply with their responsibilities under the SLA with the two organisations. **Priority 2** **Management Response:** Agreed. **Responsible Officer:** Head of Finance / CSA **Implementation Date:** September 2004	From September 2005 bank reconciliations were received in a timely manner with explanations for reconciling items. NHS QIS will continue to monitor the operation of this key control in 2005/06. ✓ **Action taken as agreed**

Title	Issue Identified	Risk and Recommendation	Update at March 2005
6.6.7 Data Protection Act	Our audit work to consider the arrangements made by management for the prevention and detection of fraud and irregularities included a review of the Data Protection Act requirements. No evidence was provided to confirm that NHS QIS is registered under the Data Protection Act. It was also identified that no-one within the organisation has been assigned responsibility for monitoring compliance with the Act.	There is a risk that Data Protection regulations may be breached. We recommend that NHS QIS registers their data requirements under the Act. **Priority 2** **Management Response:** Agreed. **Responsible Officer**: Head of Corporate Secretariat **Implementation Date:** October 2004	NHS QIS is now registered under the Data Protection Act. ✓ **Action taken as agreed**

Title	Issue Identified	Risk and Recommendation	Update at March 2005
6.6.8 VAT Returns	It was identified during our review of the monthly VAT returns that returns are not always submitted timeously. It was also noted that on more than one occasion a nil return was submitted. We understand that NHS QIS have been experiencing delays in the timing and quality of information received from the CSA. The timely and accurate submission of VAT returns is the direct responsibility of NHS QIS, and it is NHS QIS who would be liable for any penalties or interest applied by HM Customs and Excise (HMC&E).	There is a risk that NHS QIS is required to pay penalties, fines or interest imposed by HMC&E. There is also the risk that NHS QIS are incorrectly claiming VAT. We recommend that all VAT returns are submitted accurately and timeously. **Priority 3** **Management Response:** Agreed. **Responsible Officer:** Head of Finance/CSA **Implementation Date:** September 2004	Although NHS QIS have reinforced the importance of receiving timely information to NHS NSS, delays are still often experienced in the receipt of VAT information. Delays in the submission of VAT returns are still experienced. Internal VAT procedures have been improved by training and an increase in the number of permanent staff within NHS QIS finance section. NHS QIS will continue to monitor this area carefully to ensure that VAT returns are submitted timeously. **Management Response:** NHS QIS will ask that this is added to the list of KPI's each month and will endeavour to improve the timeliness of NSS **Responsible Officer:** Director of Finance NSS **Implementation Date:** July 2005

Title	Issue Identified	Risk and Recommendation	Update at March 2005
6.6.9 Supplier Statement Reconciliations	During our review of creditors and accruals at 31 March 2004 it was identified that supplier statement reconciliations were not being performed. We understand that this is currently the responsibility of the CSA as part of the SLA to provide finance services to NHS QIS. NHS QIS are currently recruiting additional finance staff to allow this function to be performed in-house.	There is a risk that creditors and accruals are materially misstated. There is also the risk that NHS QIS do not pay their suppliers in a timely manner. We recommend that supplier statement reconciliations are performed and signed by both preparer and reviewer on a regular basis. **Priority 3** **Management Response:** Agreed. **Responsible Officer:** Senior Management Accountant **Implementation Date:** September 2004	Supplier statement reconciliations are now carried out on a regular basis by NHS QIS staff. ✓ **Action taken as agreed**

Title	Issue Identified	Risk and Recommendation	Update at March 2005
6.6.10 Payment Policy	All NHS bodies are required to comply with the principles of the CBI Prompt Payment Code by processing suppliers' invoices for payment without unnecessary delay and by settling them in a timely manner. The results for 2003/04 are as follows: Average number of days credit taken – 29.7 days (2002/03 – 21 days). % by volume of invoices paid < 30 days – 70.3% (2002/03 – 92%). % by value of invoices paid < 30 days – 65.9% (2002/03 – 90%). We understand that the significant decrease in performance between 2002/03 and 2003/04 has been partly attributed to the delays created by passing invoices between the CSA and NHS QIS for authorisation, and partly due to time delays in processing invoices by the CSA. We understand that NHS QIS is currently revising internal processes and recruiting additional staff to allow the processing of invoices to be performed by NHS QIS staff in the future.	There is a risk that NHS QIS develops a bad credit rating amongst key suppliers. There is also the risk that suppliers enforce their right to apply interests to late payments. We recommend that processes are improved to ensure that supplier invoices are processed in a timely manner. **Priority 3** **Management Response:** Agreed. **Responsible Officer:** Head of Finance/CSA **Implementation Date:** September 2004	Following discussion with NHS NSS, NHS QIS has taken responsibility for preparing all payment runs in an attempt to reduce the lead-time in payment processing. NHS QIS have also undertaken the following to ensure that suppliers receive prompt payment: • Contacted supplier to ensure all invoices are sent to central NHS QIS finance. • Contacted all suppliers to ensure that all invoices are supported by a valid Purchase Order reference. • Restated their preferred payment method as BACS. • Remittance advice's are now emailed to suppliers. **Refer to point 6.1.7**.