

Government and Public Sector

June 2006

# National Waiting Times Centre Board

## Annual Report to Board Members

2005/06

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22 June 2006

Ladies and Gentlemen

**Annual Report to Board Members 2005/06**

We have completed our audit of National Waiting Times Centre Board (the "Board") and its financial statements for the year ended 31 March 2006.

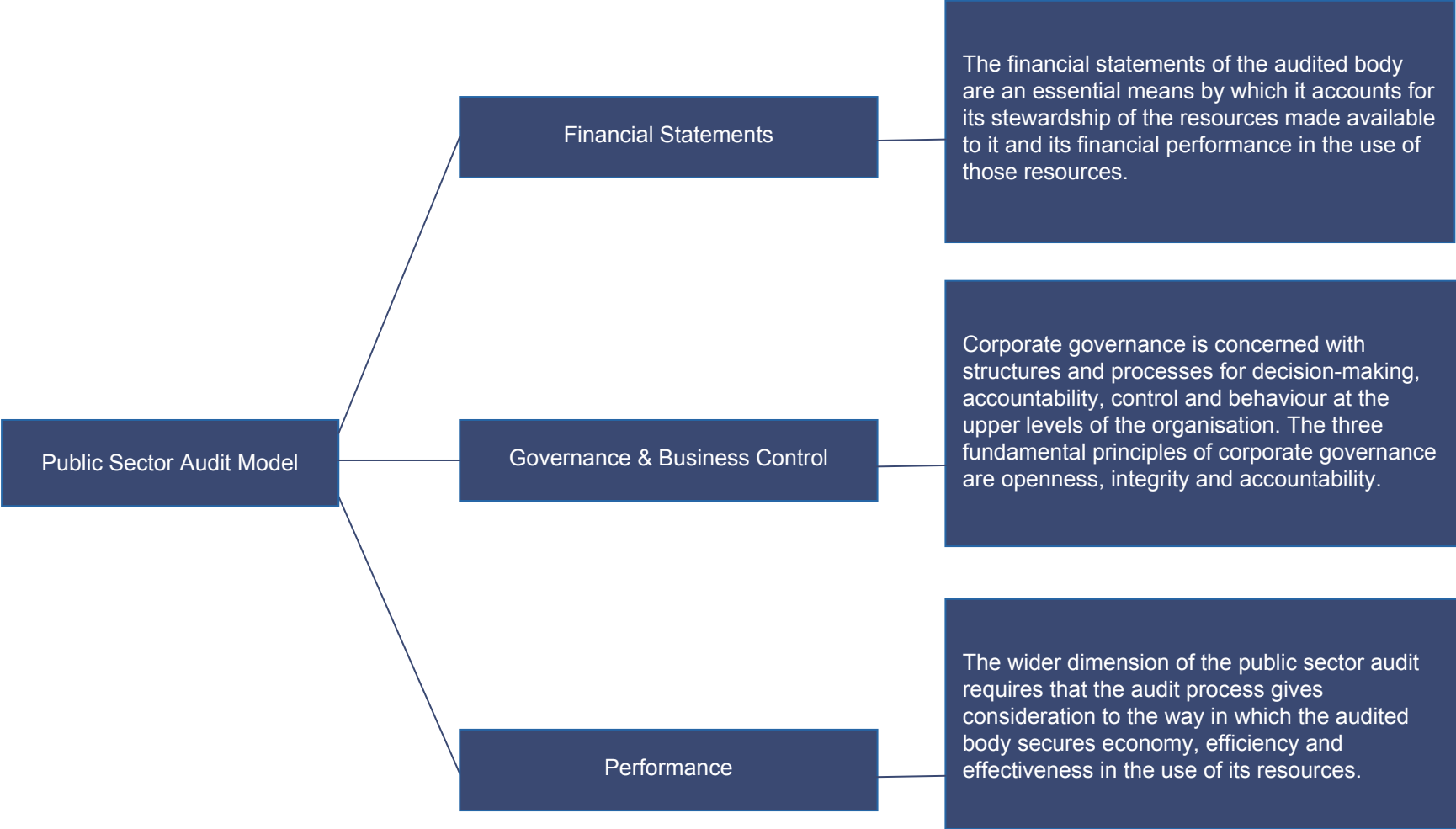
The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2005/06 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

PricewaterhouseCoopers LLP

# Our report structure



# Our report structure (continued)

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# 1. Audit Opinions and Financial Targets

## Our Audit Opinion

- 1.1 Our audit opinion concerns the true and fair statement of National Waiting Times Centre Board's financial balances and results for the year ended 31 March 2006, together with the regularity of its income and expenditure in the year.
- 1.2 Our true and fair opinion on the financial statements is unqualified.
- 1.3 Our regularity opinion on income and expenditure is unqualified.
- 1.4 Our opinion is set out in full in **Appendix 4**.

## Financial Targets

- 1.5 National Waiting Times Centre Board ("the Board") achieved its three financial targets:

Financial Targets	Achievement
Net resource limit should not exceed the Revenue Resource Limit ("RRL")	During 2005/06 the Board spent £34.103 million against its RRL of £38.094 million, resulting in a surplus of £3.991 million.
Capital Resource Limit ("CRL")	Total capital spend was £3.396 million against a CRL of £3.790 million.
Cash Requirement Target	The Board spend during 2005/06 was £34.927 million remaining within the cash requirement target of £41.884 million.

- 1.6 The surplus of £3.991 million includes a Scottish Executive Health Department ("SEHD") approved carry forward of £1.6 million from 2004/05 which is earmarked for the planned West of Scotland Regional Heart and Lung Centre and is to be fully utilised by the Board during 2006/07. In addition, the Board is having ongoing discussions with SEHD to carry forward the remaining balance of the surplus of £2.391 million for use in 2006/07. The financial position of the Board is explained in greater detail in Section 2 – Financial performance 2005/06.

## 2. Financial Performance 2005/06

### 2.1 Overall Financial Performance in Year

	£000's
<b>Clinical Services Costs</b>	
Hospital and Community	44,140
Less: Hospital and Community Income	<u>(11,392)</u>
<b>Net Clinical Services Costs</b>	<b>32,748</b>
Administration costs	5,844
Other Non Clinical Services costs	81
Less: Other Operating Income	<u>(4,570)</u>
<b>Net Resource Outturn</b>	<b>34,103</b>
<b>Revenue Resource Limit</b>	<b><u>38,094</u></b>
<b>Savings/(excess) against Revenue Resource Limit</b>	<b><u>3,991</u></b>

- 2.2 It is emphasised that we do not express a specific audit opinion on the figures which follow – these have been extracted in agreement with management from various reports, supporting papers and other available documentation.

<b><u>The Board's Overall Financial Out-turn Reported for 2005/06</u></b>	<b>£000's</b>	<b>£000's</b>
	<b>Actual</b>	<b>Actual</b>
Recurring Income	50,656	
Recurring Expenditure	<u>(50,118)</u>	
Underlying recurring Surplus		538
Non-recurring income (Includes c/f of £1.6 million from 2004/05)	2,300	
Non-recurring expenditure	<u>(480)</u>	
Balance of non-recurring		<u>1,820</u>
<b>2005/06 Funding Surplus</b>		<b>2,358</b>
<b>Other Income Sources</b>		
Other Income Sources	700	
Non-recurring SEHD Income	400	
Corporate Savings Programme	<u>533</u>	
<b>Total other Income</b>		<b><u>1,633</u></b>
<b>Surplus for 2005/06</b>		<b><u>3,991</u></b>

## Financial Performance in the Year

- 2.3 The Budget for 2005/06 was approved based on a forecasted breakeven position being achieved. However, the actual out-turn for the year was a surplus of £3.991 million.
- 2.4 Included within this balance was £1.6 million which was carried forward from 2004/05 and which is ring fenced for the West of Scotland Regional Heart and Lung Centre. This balance is anticipated to be fully utilised during 2006/07. The remaining surplus of £2.391 million in year arose due to:

	<b>£m</b>
1. Additional income received compared with budgeted income	0.600
2. Savings from a review of medical staffing arrangements	0.974
3. Savings from unfilled staff vacancies during 2005/06	0.595
4. Underspend on Clinical supplies	0.668
5. Net overspend – fuel charges/capital charges	<u>(0.446)</u>
<b>Surplus in year</b>	<b><u>2.391</u></b>

### 1. Income

- 2.5 During 2005/06 the Board received income of £600,000 in excess of the income anticipated due to greater than planned treatments in lower complexity/cost per case categories. Performance in relation to activity and case mix is discussed further in Section 9 of this report.

### 2. Medical staffing arrangements

- 2.6 The medical budget set at the start of 2005/06 was £8.645 million. However, actual costs incurred for the year were £7.671 million. This saving of £0.974 million against budget arose from review of the Board's current medical staffing pay arrangements, which resulted in a pay restructuring that impacted sooner than anticipated. In addition, a decrease in the use of locums resulted in additional in year medical savings.

### 3. Staff vacancies

- 2.7 During 2005/06 there remained a number of unfilled vacancies resulting in an in year non-recurring saving of £0.595 million. £0.489 million related to vacancies within nursing. As part of the 2006/07 budgeting process the Board are committed to reviewing whether these vacancies are recurring or non-recurring.

**Action Point 1**



#### **4. Underspend – Clinical supplies**

- 2.8 As forecast at period 12 the Board had achieved an underspend of £0.668 million in respect of clinical supplies when compared with expenditure forecasts at the start of the financial year. This underspend was a result of the Board undertaking less complex procedures in the year and therefore the cost of clinical supplies was lower than anticipated.

#### **5. Net Overspend – Fuel charges/capital charges**

- 2.9 During 2005/06 significant cost pressures for the Board were increasing fuel costs and capital charges. As a result the Board had a net overspend of £0.446 million, mainly in these categories of spend.
- 2.10 The Board is having ongoing discussions with the SEHD to carry forward its total surplus of £3.991 million into 2006/07.

# 3. Forecast Financial Position for 2006/07

3.1 For the purposes of this report we have summarised the projected 2006/07 financial position for National Waiting Times Centre Board in the table below:

<u>The Board's Forecast Financial Position for 2006/07</u>	<u>£000's</u>	<u>£000's</u>
Recurring Income	56,765	
Recurring Expenditure	<u>(56,765)</u>	
Underlying recurring deficit		0
Non-recurring income	3,991	
Non-recurring expenditure	<u>(2,176)</u>	
Balance of non-recurring		<u>1,815</u>
<b>2006/07 Funding Surplus</b>		<b>1,815</b>
<b>Other Income Sources</b>		
Other Income Sources	0	
Non-recurring SEHD income	0	
Corporate Savings Programme	<u>708</u>	
<b>Total other Income</b>		<b><u>708</u></b>
<b>Anticipated carry forward for 2006/07</b>		<b><u>2,523</u></b>
The anticipated carry forward for 2006/07 includes an in-year surplus of £1.983 million as forecast in the financial plan and the additional surplus achieved during 2005/06 of £540,000.		

- 3.2 The Board completed a 5 year financial plan in March 2006 covering the period 2006 – 2011 and this plan has been submitted to the SEHD, along with detailed financial forecasts based on certain financial assumptions.
- 3.3 The SEHD advised the Board in February 2006 that it's Revenue Resource Limit for 2006/07 would be £39.468 million, which represents an increase of £1.374 million (4% increase) on 2005/06. Against this RRL limit the Board is currently forecasting, as described in the annual plan, an in year surplus of £1.983 million.
- 3.4 Total capital expenditure forecast for 2006/07 is £3.9 million, split as follows:

	<b>£m</b>
2005/06 Carry forward	0.4
Hospital Infrastructure	1.4
Medical equipment (new)	1.5
Information Management and Technology	<u>0.6</u>
<b>Total</b>	<b><u>3.9</u></b>

- 3.5 Significant financial challenges for the Board during 2006/07 and going forward are:

#### **Income**

- 3.6 From 2006/07 the Board will no longer be receiving rental income from tenants in the hospital as the space is required for expansion. In addition, as service provision and the West of Scotland Regional Heart and Lung Centre develops, income from private patients and others will gradually reduce as capacity for this activity reduces. Service Level Agreement income from NHS bodies will also need to be reviewed during 2006/07 to ensure changes in terms of increasing complexity are reflected in the Board's charges.

#### **Pay related issues**

- 3.7 During 2006/07 Agenda for Change and the implementation of the knowledge and skills framework are expected to be fully implemented, although it does need to be recognised that there is an accrual within the 2005/06 financial statements to reflect the anticipated costs, including any additional costs in relation to back pay due to unsociable hours.

#### **Efficiency Savings**

- 3.8 During 2006/07 the Board is planning to undertake a number of efficiency reviews with a view to identifying savings and internal efficiencies. In particular reviews will be undertaken concerning productivity, medical staffing arrangements and a number of procurement initiatives.

**Action Point 2**

# 4. The Audit Process and Accounting Issues

## **Audit Process**

- 4.1 The Financial Statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by Management were of a good standard. Overall, we believe an efficient audit process was achieved and an effective working relationship exists with your staff.

## **Preparation of Financial Statements**

- 4.2 The Financial Statements were prepared in accordance with the accounting requirements contained in the Manual for Annual Report and Accounts of Unified NHS Boards & supplementary guidance, as issued by the Scottish Executive Health Department and approved by the Scottish Ministers.

## **Financial Statements Approval**

- 4.3 The Financial Statements were submitted to the Board's Audit Committee on the 13 June 2006 and approved and adopted at the Board meeting on 22 June 2006.

## **Fixed Asset Register and Balances**

- 4.4 During 2005/06 we undertook a detailed physical asset verification exercise to assist the Board in determining the overall accuracy of the fixed asset register.

- 4.5 **Hospital Assets** - We are pleased to report that management has reviewed the detailed asset information provided by us and taken the necessary action to update the fixed asset register and the financial statements where required. In particular we would highlight that:

- All assets that were inappropriately grouped or incorrectly capitalised (under the £5,000 de-minimus capitalisation threshold) have been removed from the asset register and the financial statements. This has resulted in an additional depreciation charge of £207,000 within the 2005/06 financial statements;
- Plant and Equipment assets are now recorded individually within the fixed asset register;
- Assets that could not be located have been removed from the register; and
- Assets that were incorrectly classified e.g. fixtures and fittings and plant and machinery have been reclassified and this is reflected within the financial statements.

- 4.6 **Hotel Assets** - The future use of the hotel is currently being finalised by the Board and we recognise that a potential change in use of the hotel would result in changes to the treatment of fixed assets, in particular at present all hotel assets are capitalised in accordance with hotel standards, which is a de-minimus of £250 per asset. Management are committed to making the necessary adjustments reported in our fixed asset verification report during 2006/07 once the outcome of the hotel review is known.

### Action Point 3

#### Other Audit Adjustments

- 4.7 Other audit adjustments were identified in relation to the format and figures within the financial statements presented to us for audit. These adjustments were not significant in nature and have been agreed and amended in the financial statements approved by the Board.

#### Treatment of leases

- 4.8 In 2004/05 the Board entered into a number of lease agreements for medical equipment with GE Finance. Medical equipment leased included MRI Scanner, CT scanner, Cardiac Ultrasound, Single Plane System and Centricity Cardras. Each lease agreement entered into was for a period of five years, due to expire in the financial year 2008/09. Over the duration of the leases the total cost to the Board will be around £2 million plus maintenance and insurance. These leases were accounted for in the 2004/05 financial statements as operating leases. As a result, in accordance with SSAP 21 (Accounting for Leases) and the NHS Capital Accounting Manual annual expenditure was reflected in the Operating Cost Statement and no fixed asset or creditor balances were created in the balance sheet.
- 4.9 During our 2004/05 audit clearance meeting with the Board's previous Director of Finance we discussed these leases in particular whether a more appropriate treatment may have been to classify these leases as finance rather than operating leases. Following these discussions with the Director of Finance, it was agreed that this matter would be considered further during 2005/06.
- 4.10 As part of our 2005/06 final audit process we reviewed these 5 lease agreements in further detail and raised numbers of queries with management concerning the way in which the leases were entered into and whether the leases should be treated as finance leases.
- 4.11 A finance lease in accordance with Statement of Accounting Principles (SSAP) 21 is a "lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee"; therefore we reviewed the lease terms against the criteria outlined in SSAP 21 (which also accords with the NHS Capital Accounting Manual). SSAP 21 prescribes a number of criteria to determine the nature of the lease in particular a quantitative test comparing the lease payments with the total purchase cost of the asset and five key qualitative tests, for example what is the impact on terminating the lease, can the Board purchase the asset at the end of the lease term and what the asset's residual value is at the end of the lease. Our initial assessment against the criteria is outlined in **Appendix 2**. Based on this consideration of the quantitative and qualitative criteria the results indicate that these leases may be more appropriately classified as finance leases and included as fixed assets in the Board's balance sheet.
- 4.12 The Board's new Director of Finance agrees with us that there is a possibility that these leases may be classified as finance leases as opposed to operating leases although further detailed work is required to confirm this. The effect of treating these as finance leases would be that the Board would need to incorporate appropriate asset values in its fixed asset balance, create a creditor to reflect amounts owed to GE Finance and charge depreciation through its Operating Cost Statement each year until 2008/09.

- 4.13 As a result the Director of Finance has agreed to instigate a detailed review of all such lease agreements within the Board (totalling over 25) to ascertain the method of agreement and approval and whether these should be treated from 2006/07 as finance leases as opposed to operating leases.

**Action Point 4**

**Creditor Payment days**

- 4.14 Disclosed within the Director's report is the average time that it has taken for the Board to pay creditors during 2005/06. Average creditor days were 32.6 during 2005/06 compared with 30 days (2004/05) and 29 days (2003/04). The recommended time taken to pay creditors is no more than 28 days.

**Action Point 5**

# 5. Systems of Internal Control

## Statement on Internal Control

- 5.1 We do not disagree with the Board's disclosures contained in the Statement on Internal Control. The Board has used the format prescribed in the Manual for Accounts and has outlined its processes to identify and evaluate risks. In addition, key elements of the Board's control framework have been highlighted including internal and external audit, risk management, and clinical governance. During 2006 the Board has continued to review and strengthen its risk management arrangements by for example the participation of Executive Directors in a risk workshop (facilitated by PwC) to allow management to update the corporate risk register.

## Follow Up Report on previous control matters

- 5.2 The follow up report on our 2004/05 control recommendations from previous audit years was issued to the Audit Committee in January 2006. Of the 40 agreed recommendations still requiring action, 28 actions were implemented fully, 10 actions were still in progress and 2 actions had little action taken to date. We are pleased to report that the Board has taken positive steps to improve its response times to audit recommendations. This has been achieved by implementing a database of audit recommendations which allows the Board to monitor progress closely. In addition regular reports of progress have been made to the Audit Committee. These changes are evident in the improvement shown in this years follow up status whereby there were only two recommendations where little action had been taken at the time of our review. Since this date Management has actioned these outstanding recommendations and are awaiting final Scottish Executive approval before fully implementing the two recommendations during 2006/07.

Action Point 6

## Financial Systems and our 2005/06 Internal Controls Report

- 5.3 An Internal Controls Report was issued to the Audit Committee in April 2006. The Board has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. None of the recommendations raised in this report were considered to be business critical and as at June 2006 had been fully implemented by Management.

Action Point 7

### **Internal Audit's Report on the Board's Internal Controls**

5.4 The extract of the Internal Auditor's opinion for 2005/06 is reproduced below:

*"On the basis of work undertaken in the year ended 31 March 2006 we consider that the Board generally has an adequate framework of control over the systems we examined as summarised. In providing such an assessment we would draw your attention to our summary findings as presented in our individual reports issued throughout the year especially the priority one recommendations highlighted".*



# 6. Governance Arrangements

- 6.1 Through good governance, NHS boards are able to improve services for patients and the working lives of staff that care for them. Governance means setting the strategic direction within the parameters laid down by the Scottish Executive Health Department’s policies, providing leadership, setting the tone for the whole organisation, overseeing the control of the board’s work and reporting activities and progress to stakeholders. NHS board members are, therefore, collectively responsible for the success of their organisation.
- 6.2 Governance within the NHS can be considered under 4 main headings:

Financial and Performance Governance	The proper management of resources and a sound financial standing will enable the organisation to achieve its aims and objectives to meet its obligations as and when they fall due.
Clinical Governance	The Board should have an established clinical governance framework which supports and monitors standards for care, creates an environment for the continuous improvement of services, supports strategic planning and facilitates service delivery.
Risk Management	Responsibility is placed on the Board and primarily the Accountable Officer in the Statement of Internal Control to maintain a sound system of internal control and comply with all applicable laws and regulations.
Staff Governance	NHS employers are expected to have systems in place to identify areas that require improvement and to develop action plans that describe how improvements will be made. The underlying principal is that NHS Boards should recognise that investing in staff will allow them to deliver services to the best of their ability in modern healthcare settings.

## Financial and performance

- 6.3 The Board has established Board and Committee structures which have been developed over a number of years. Going forward, during 2006/07 the governance structure will be revised to reflect 4 Clinical Directorates – Cardiac, Surgical, Theatres and Anaesthetics, Clinical Services, and a Corporate Function.

- 6.4 The key governance Committee's established by the Board include – Board, Audit, Clinical Governance, Risk Management, Remuneration and Staff Governance Committee's. In particular:
- The Board meetings are chaired by a Non-Executive Member and the Committee structure is made up of six Non-Executive Members, the Chief Executive and five Board Directors. The Board meet 10 times a year and receive and discuss both financial and non-financial information for example financial position compared with budget, patient activity and skill mix, HR reports around performance including sickness and absence and agency costs and business reports including the Local Health Plan;
  - Standing orders have been established, which are updated on an annual basis and are at present being reviewed for 2006/07, and are supported by a scheme of delegation. All established committees are supported by detailed terms of reference; and
  - During the financial year the Board appointed a new Director of Finance and IM&T which will allow the Board to further strengthen its governance arrangements going forward.
- 6.5 Overall, the Board is in a period of consolidating its main governance structures and going forward management will consider any areas of additional best practice that can be developed to strengthen its governance arrangements further.

#### **Clinical Governance**

- 6.6 NHS QIS reported in January 2005 that at the time of its review the Board did not have in place a dedicated clinical support function which was hindering the development of organisational wide clinical governance. To address this issue, the Board appointed a clinical governance manager in August 2005. As a result during 2005/06 the current clinical governance arrangements have been improved and a number of strategies updated.
- 6.7 The clinical governance committee meets on a quarterly basis, with standing agenda items include clinical effectiveness, risk management including complaints and infection control.
- 6.8 The "Framework for delivering clinical governance in Golden Jubilee Hospital" was approved and is the Board's foundation to deliver clinical governance. In December the clinical governance strategy was revised and approved by the clinical governance committee; this strategy consists of three key principal elements:
- Clinical effectiveness;
  - Risk and quality management; and
  - Patient focus and public involvement.

- 6.9 Clinical effectiveness includes the remit of clinical audit and its aims and objectives will be established within the updated Clinical Effectiveness Strategy. The Clinical Governance Manager also has plans to expand the role of clinical audit through the development of a formal clinical governance plan with the aim of capturing all audit information and sharing learning and development throughout the Board. This will allow the data collected to be linked into the Board's risk management arrangements.
- 6.10 Overall, the Board has taken positive steps during 2005/06 to address the initial QIS findings reported in January 2005 with improvements in the clinical governance arrangements already having been achieved. NHS QIS are due to re-visit the Board in November 2006.

### **Risk Management**

- 6.11 Risk management is defined as “a systematic process for identifying, assessing, controlling, monitoring, reviewing and auditing risk.” Effective risk management is of critical importance to the health service as adverse consequences of risk could place limitations on the quality of health care delivery, and put a strain on staff and financial resources. To fulfil this requirement the Board is required to implement a robust and effective framework for the management and understanding of risk. The framework should be developed by building on existing good practice and should be used to facilitate the organisation's planning and decision making process.
- 6.12 The Board has in place:
- Departmental risk registers which group risks where possible to prevent duplication and allow for ease of management;
  - Action plans have been developed for risks identified and lead officers allocated responsibility for individual risks;
  - During 2005/06 the Board procured a site licence for a new risk management system (DATIX) to record all risks and action, which will be available to all staff, controlled by password access.
- 6.13 In May 2006 the Board held a corporate risk workshop that was facilitated by PricewaterhouseCoopers. The purpose of this workshop was to update the corporate risk register considering any new risks that are emerging e.g. cardiothoracic developments. In addition, the Board are in the process of reviewing and updating its risk management strategy.

## Staff Governance

- 6.14 The NHS Scotland Staff Governance Standard was launched in January 2002. It was developed by a partnership of management, trade unions and professional organisations through the Scottish Partnership Forum (SPF). Under the auspices of NHS Reform (Scotland) Act it is now a legal requirement for Health Board's to have in place arrangements for good governance of staff. Such arrangements will allow for staff governance to be monitored and improved. The Act introduces this requirement by the way of amendment to the National Health Service (Scotland) Act 1978. It is the duty of every Health Body to put and keep in place arrangements for the purposes of –
- Improving the management of the officers employed by it;
  - Monitoring such management; and
  - Workforce planning.
- 6.15 During February 2005 we reviewed the Board's performance against staff governance standards as part of our external audit arrangements. Our work concluded that "There has been a commitment by the organisation to promote staff governance, which resulted in many positive actions taking place. In addition, appropriate documentation was retained as evidence to ensure that the 2004/05 self assessment process was robust". Of the 26 Actions in the 2005/06 Hospital action plan 15 are fully implemented, 11 partially and none not yet implemented. The Hotel action plan has a total of 17 actions of which 14 are fully implemented and 3 partially implemented, no recommendations have yet to be implemented. The 2005/06 Action plan is approved and reviewed on an ongoing basis by the Staff Governance Partnership Forum.
- 6.16 The key elements of Corporate Governance – Financial and Performance, Clinical, Risk Management and Staff Governance have been reviewed and our findings presented in our Priorities and Risks Framework Report issued in April 2006. Management should ensure that action is ongoing to address the areas for improvement identified within this report.

## Action Point 8

### Audit Committee Membership

- 6.17 The NHS Scotland Audit Committee Handbook set out the key requirements of an Audit Committee. The Handbook highlights that an audit committee should be composed of, as a minimum three Non-Executive Directors, with a quorum of two and in particular the duties and experience of audit committee non-executive members:
- "At least one non-executive director of the Committee should have significant, recent and relevant financial experience, for example as an auditor or finance director. All members of the committee, whatever their background should have an understanding of Board objectives and significant issues, Board structure and culture, relevant legislation and rules, major initiatives and accountability. The Committee as a whole should have knowledge/skills/experience in accounting, risk management and audit."*
- 6.18 We are pleased to report that at present the Audit Committee does have individuals with financial experience, although not in the role of auditor or finance director.

# 7. Prevention and Detection of Fraud and Irregularities

## **Fraud and Corruption Reviews**

- 7.1 As part of our rotational plan to review the key systems and methods for the prevention and detection of fraud and corruption we have conducted a review of certain of the Board's overall arrangements and policies. Only one issue was noted during the course of our review in relation to the need to update the Board's register of interests. This matter has been reported in our internal controls report and corrective action taken by Management.

## **Fraud Guidance**

- 7.2 We have reviewed the fraud and irregularities guidance issued by Audit Scotland during 2005/06 and certain HDL's issued by SEHD, and undertaken work accordingly. There were no matters arising from this work.

## **Fraud Submission**

- 7.3 A return has been made to Audit Scotland of the reported frauds that have occurred within the Board during the year. This return was a nil return.

## **Termination Packages**

- 7.4 The Board had no reported settlements for senior/board level officers during the year.

# 8. Financial Reporting

- 8.1 During the year the Board introduced a number of improvements to its current financial reporting arrangements. Difficulties had been experienced in the past by management in understanding where savings had been generated to achieve an underspend in year. To address this matter, financial reporting arrangements were reviewed during 2005/06 in particular improvements were made to the level of financial information presented to Board Members, for example narrative is provided to support all large and unusual variances and underspends are separated from savings gained through efficiencies.
- 8.2 The Cedar e-financials and procurement system was implemented on 1 April 2006 and it is hoped this will provide the Board with additional, more robust detailed budget information. The financial system used during 2005/06 was SAGE and management found it difficult to get the required level of management information from the system, whereas Cedar has greater reporting facilities.
- 8.3 For 2006/07 a local budget setting process was established in particular considering and identifying cost pressures and any significant in year developments which would impact on the Board's financial performance. In addition, efficiency targets and plans are being developed through communication and discussion with local budget holders. These arrangements will be further enhanced with the introduction of directorates in 2006/07.
- 8.4 Overall, the following have been built into the 2006/07 budgets, where applicable:
- anticipated activity fluctuations based on prior year comparators and known events;
  - legislative changes e.g. impact of agenda for change;
  - planned case mix; and
  - results from any internal efficiency reviews that can be quantified.

**Action Point 9**

# 9. Performance relative to patient numbers and mix

9.1 Actual procedures performed against targets agreed with the National Waiting Times Unit are provided below:

	<b>2004/05 Actual</b>	<b>2005/06 Planned</b>	<b>2005/06 Actual</b>	<b>2005/06 Variance</b>	<b>%</b>
Cardiac Surgery	397	357	297	(60)	(20.2)
Cardiology – Diagnostic	788	982	891	(91)	(10.2)
Cardiology – Interventional	336	427	419	(8)	(1.9)
Ortho – Joints	1,045	1,262	1,188	(74)	(6.2)
Ortho – Other	490	457	497	40	8.0
General Surgery	1,663	1,752	1,967	215	10.9
ENT	722	731	803	72	9.0
Plastics	615	709	756	47	6.2
Scopes	1,582	2,447	2,575	128	5.0
Ophthalmology	1,386	2,297	2,364	67	2.8
Minor Procedures	682	1,143	1,259	116	9.2
<b>Total Procedures</b>	<b>9,706</b>	<b>12,564</b>	<b>13,016</b>	<b>452</b>	<b>3.5</b>
<b>Total Imaging</b>	<b><u>8,803</u></b>	<b><u>12,436</u></b>	<b><u>15,620</u></b>	<b><u>3,184</u></b>	<b><u>20.4</u></b>
<b>Total</b>	<b>18,509</b>	<b>25,000</b>	<b>28,636</b>	<b>3,636</b>	

Shortfall on certain planned major procedures in particular cardiac surgery and cardiology

Greater than planned less complex procedures

- 9.2 In 2005/06 NWTC delivered a significant increase in performance of 28,636 procedures compared with its 18,509 procedures in 2004/05; represents an increase of 55%. In comparison to 2004/05:
- 34% performance increase for in-patients and day cases (452 procedures over target);
  - 77% increase for diagnostic imaging examinations (3,184 examinations over target); and
  - 55% increase for total in-patients, day cases and diagnostic imaging procedures (3,636 over target).
- 9.3 Overall, the in-year position delivered a significant over performance in increased activity in all specialities with the exception of cardiac surgery, cardiology and orthopaedic joints. Cardiac surgery was 60 procedures below target during 2005/06 and 100 procedures less compared with the prior year. The reason for this decrease is that greater than anticipated local health board delivery took place which could not have been predicated at the start of the year. Orthopaedics procedures were less than anticipated by 74 procedures due to senior consultant absences. Activity for 2006/07 is projected at 30,740 procedures, which represents an increase of 23% compared with the 2005/06 target of 25,000 procedures. Managements should continue to review patient activity and case mix on an ongoing basis throughout 2006/07 and take the appropriate actions where necessary.

**Action Point 10**



# 10. Other Business Matters

## **Agenda for Change**

- 10.1 Agenda for Change is a major change programme in the NHS, designed to modernise pay structures, assist service delivery of patient care, aid recruitment and retention and allow for personal development of staff. The new pay structure will consist of nine pay bands and several pay points within each pay band. Individual posts will be placed in the correct pay band by either matching the job to the national profile or a local job evaluation. The Board was one of the four Scottish Preparatory project sites identified to test the new grade and pay system.
- 10.2 The national timetable for completing the assimilation of all staff to the Agenda for Change pay band structure is September 2006, with the payment of arrears by 31 December 2006. In line with national priorities the first two groups of staff to be assimilated at the Board will be nursing and allied health professionals. In nursing a total of 61 posts have to be assimilated representing 260 staff and allied health professionals to have 28 posts assimilated representing 38 staff.
- 10.3 In 2005/06 the estimated cost of backdated pay due to the implementation of Agenda for Change was £0.824 million.

## **Hotel Staff Pay**

- 10.4 This relates to an ongoing claim by the hotel staff that they should be paid in line with minimum NHS wage levels. Currently the hotel staff are being paid in line with hotel terms and conditions and therefore increasing to the minimum NHS wage would raise costs. As this wage rise would increase the costs of hotel staff above the average in the hotel sector, the Board applied for and were awarded a variation order from the Scottish Executive to enable the Board to continue to pay in line with hotel terms and conditions, until any future strategy for the hotel was implemented. The Board has subsequently received a variation extension to 31 March 2007 and the Board anticipates settling this matter during 2006/07.
- 10.5 As there is a possibility that the Board may require to meet this claim, the costs for this have been provided for within the 2005/06 financial statements.

## **Beardmore Hotel**

- 10.6 In 2005/06 the hotel made a profit of £0.207 million, compared with a forecast financial position of £0.242 million. Therefore profits were lower than budgeted by £35,000. The principal reason for this decline in profit is due to room sales being lower than anticipated throughout 2005/06.
- 10.7 During 2005/06 the Board has undertaken a detailed option appraisal exercise reviewing potential future uses for the hotel. As at June 2006 the Board had submitted their detailed proposals to the Scottish Executive Health Department and are awaiting final approval.

### **West of Scotland Regional Heart and Lung Centre**

- 10.8 In May 2006 the Board had its full business case approved for the West of Scotland Regional Heart and Lung Centre which will result in the:
- Transfer of adult cardiothoracic surgical services currently provided at the Western Infirmary Glasgow and Glasgow Royal Infirmary and adult thoracic surgical services that are currently provided at Hairmyres Hospital (NHS Lanarkshire) to the Golden Jubilee National Hospital;
  - Transfer of the Scottish National Advanced Heart Failure Service, the Scottish Pulmonary Vascular Unit and the Grown up Congenital Heart Service currently provided by NHS Glasgow to the Golden Jubilee National Hospital; and
  - Co-locate interventional cardiology undertaken in Glasgow, including cardiac catheterisation laboratory activity in Glasgow.
- 10.9 This project will create one of the largest cardiothoracic centres within the UK, providing the physical capacity to expand the NHS Scotland cardiothoracic programme to support known improvements in Cardiac and heart disease waiting time guarantees. The co-location of thoracic and cardiac surgery on levels 3 and 4 will provide the opportunity to use the facility flexibly according to the dependency of patients and their needs.

# 11. Efficient Government Initiative

- 11.1 The Efficient Government initiative is a five year programme with the aim of attacking 'waste, bureaucracy and duplication in Scotland's public sector'. A key feature of the initiative is that it focuses on the public sector as a whole, rather than individual organisations, with the intention of realising efficiencies through joining up – in purchasing, in accommodation, and in support services. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money.
- 11.2 The Efficient Government Plan sets targets to achieve £745 million (rising to £900 million) of cash-releasing savings, and £300 million (rising to £600 million) of time-releasing savings, by 2007-08.
- 11.3 Audit Scotland required all auditors to complete, together with their audited bodies, an "Efficient Government Diagnostic" – a self assessment tool covering the key themes of the Efficient Government agenda: -
- Asset Management;
  - Managing Absence;
  - Procurement;
  - Shared Support Services; and
  - Streamlining Bureaucracy.
- 11.4 The Board is in the process of developing its financial and performance systems, in particular through the introduction of a new performance management database (2006/07) and the implementation of Cedar as at 1 April 2006. The key findings within the diagnostic return submitted to Audit Scotland can be summarised as follows:-
- Asset Management**
- 11.5 The Board is in the process of devising an asset management strategy which will take into account developments in relation to the cardiothoracic centre and link into the proposed capital spend outlined in the Board's five year financial plan. As part of this strategy review the Board will consider the current accommodation within the hospital and hotel that is rented out to other internal and external organisations and review its internal decision making processes in relation to entering into lease agreements compared with the option of purchasing the asset.

### **Managing absence**

- 11.6 The Board has a sickness absence policy that has been made available to all staff and a means of recording sickness absence within the organisation. The Board is working towards achieving a 4% absence rate. However, as the Board is not a high user of agency staff or overtime savings generated in this area are not anticipated to be significant.

### **Procurement**

- 11.7 In April 2006 the Board implemented Cedar's e-financials and the e-procurement module is to be implemented during 2006/07 and as part of this implementation the Board will devise an e-procurement strategy.

### **Shared Support Services and Streamlining Bureaucracy**

- 11.8 The Board at present has a shared payroll agreement with NHS Glasgow where all the Board's payroll is processed by NHS Glasgow and as at 1 April 2006 NHS Glasgow will process all expenses. In addition the Board worked closely with NHS Glasgow during 2005/06 to jointly procure an internal audit service. However, at present the Board cannot quantify the time and cash releasing efficiency savings that are to be achieved. This is an area for greater review during 2006/07.

### **Efficiency Savings 2006/07 and beyond**

- 11.9 The Board has set efficiency saving target of around 2% for 2006/07, represented by a number of targeted schemes. At present, the Board is developing those anticipated savings, on a cash and time releasing basis that will be generated in line with the five key areas of the efficient government agenda. Management will quantify the savings anticipated and their nature during 2006/07.

### **Action Point 11**

# Appendix 1: Action Plan

Report Reference	Issue	Risk	Recommendation	Management Response	Responsible Officer/Due Date
Action Point 1	During 2005/06 the Board had a number of staff vacancies resulting in an underspend of £0.595 million.	Staff vacancies may impact on the Board being able to achieve its business objectives.	Management should continue to review current un-filled vacancies which are included in departmental budgets and determine whether the vacancy needs to be filled in order to meet and deliver business objectives.	Agreed, this current review process will continue.	Director of Finance  Throughout 2006/07
Action Point 2	The Board are facing a number of financial pressures during 2006/07 in particular reduction of income from rented space, agenda for change implementation and national shared services.	Financial pressures may not be adequately monitored throughout the financial year.	Management should continue to monitor financial pressures and take the necessary actions where appropriate.	Agreed.	Director of Finance  Throughout 2006/07
Action Point 3	The fixed asset verification exercise identified a number of assets within the hotel that were either not on the fixed asset register or assets that could not be physically located.	Hotel fixed assets may not be fully reflected or recorded within the financial statements or the fixed asset register.	Once the future use of the hotel is determined all the necessary fixed asset adjustments should be made both within the fixed asset register and within the financial statements.	Agreed.	Deputy Director of Finance  August 2006

Report Reference	Issue	Risk	Recommendation	Management Response	Responsible Officer/Due Date
Action Point 4	A number of leases entered into during 2004/05 may meet the criteria of a finance lease and therefore the treatment within the financial statements should be amended to reflect this treatment if required.	Leases may be incorrectly treated within the financial statements.	A review should be undertaken as soon as possible for all lease agreements entered into (25 in total) and assessed against the criteria outlined in Appendix 2, to determine if the leases are finance leases. Should the leases be considered finance leases then the appropriate accounting entries should be made in the 2006/07 financial statements.	Agreed.	Director of Finance  December 2006
Action Point 5	During 2005/06 time taken to pay creditors increased from 30 days (2004/05) to 32.5 days (2005/06).	Creditors may not be being paid on a prompt and timely basis.	The time taken to pay creditors should be monitored throughout the year to ensure that the time taken to pay creditors does not exceed 28 days.	Agreed.	Financial Accountant  Throughout 2006/07
Action Point 6	The two outstanding recommendations from our 2004/05 follow up should be implemented during 2006/07.	Agreed actions may not be implemented by Management in accordance with agreed timescales.	Management should ensure that all our outstanding previously agreed action points raised in our 2004/05 follow up are implemented.	Now actioned.	Chief Executive  Not Applicable
Action Point 7	Those control matters contained in our 2005/06 Internal Control Report should be completed in accordance with the agreed action plan.	Agreed actions are not taken.	Management should ensure action plan is completed in agreed timescales.	Agreed.	Deputy Director of Finance  Throughout 2006/07

Report Reference	Issue	Risk	Recommendation	Management Response	Responsible Officer/Due Date
Action Point 8	A number of risk areas were reviewed as part of our 2005/06 Priorities and Risks Framework Report and a number of areas for improvement highlighted.	Agreed actions may not be implemented in accordance with agreed timescales.	Management should ensure that all our outstanding recommendations are implemented in accordance with the agreed action plan.	Agreed, recommendations will be followed up as part of Finance's own follow up procedures.	Deputy Director of Finance  Throughout 2006/07
Action Point 9	Current financial reporting arrangements are anticipated to be further improved during 2006/07 with the introduction of Cedar as at 1 April 2006.	Financial reporting to Board Members may be unclear.	Financial reporting arrangements and information should be reviewed once Cedar is implemented and additional improvements made where required.	Agreed.	Director of Finance  31 December 2006
Action Point 10	During 2005/06 the Board exceeded patient targets by 8.7% carry out 28,636 procedures compared with the planned 25,000. However procedures for cardiac surgery, cardiology and orthopaedic were less than forecast.	Patient activity and case mix may not be as initially planned during 2006/07 resulting in reduced income.	The Board should continue to review patient activity and complexity during 2006/07 and take any necessary action.	Agreed.	Director of Business Services  30 June 2006
Action Point 11	Management completed an efficient government diagnostic during 2005/06 which was submitted to Audit Scotland. However, anticipated savings and their nature e.g. time or cash releasing could not be quantified.	Savings may not be quantifiable.	During 2006/07 Management should review the 5 areas of efficient government and attempt to quantify their planned efficiency savings and ensure appropriate arrangements are in place to monitor achievement of the savings identified.	Agreed.	Director of Finance  30 September 2006

# Appendix 2: Accounting Treatment of Leases

This appendix sets out the main accounting requirements of SSAP 21 – Accounting for Leases (which accords with the NHS Capital Accounting Manual) and supports the information reported within Section 4 – The Audit process and Accounting Adjustments.

SSAP 21 defines a finance lease as “a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee”. When considering whether a lease meets finance lease criteria and therefore should be accounted for as a finance lease SSAP 21 sets out a quantitative test and certain qualitative assessment criteria that need to be met.

**Quantitative Test:** This test compares the Board’s total lease payments over 5 years compared with the total cost of the asset if purchased. The actual lease payments are discounted at a discount rate implicit within the lease to calculate the present value of payments. Should the total lease payments represent 90% or more of the total cost of the asset this could point to the leases being finance leases (SSAP 21). Using the estimated capital cost of the assets (if purchased outright) as provided by GE Finance and a discount rate of 6% which is implicit within the lease agreements the percentages obtained sit just below 90%. However, we have some concerns over the asset values used in the calculation supplied by GE Finance as the actual cost to purchase the assets outright may be lower than the values provided by GE Finance. We have received advice to this effect from the specialist medical equipment manager at the Board and from an independent review of what another NHS Body has paid for similar assets. Any reduction to these capital costs within the calculation would increase the percentage for all 5 leases to over 90% indicating that they are finance leases.

**Qualitative assessment:** There are 5 qualitative considerations built into SSAP 21:

1. The lease transfers ownership of the asset to the Board at the end of the lease term.
2. The lessee has the option to purchase the asset at a price which is less than its fair value when the lease expires.
3. The lease term is a major part of the economic life of the asset.
4. The leased assets are of a specialised nature that only the lessee can use them without major modifications.
5. If the lessee can cancel the lease, will the lessee bear any losses associated with the cancellation.



Another area of important consideration is Financial Reporting Standard (FRS 5) – substance over form and the consideration of whether the risks and rewards of ownership of the assets actually rest in practical terms with the Board as opposed to GE Finance. For all 5 lease agreements the Board is responsible for insuring the asset against theft, loss or misappropriation and is responsible for maintaining the assets to an appropriate standard.

Based on the copy lease agreements provided to us it does appear that certain of these considerations indicate finance lease although more detailed review of the original contract documentation needs to be undertaken by the Board.

# Appendix 3: Responsibilities of External Audit and the Board and its Management

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within the Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of the Board and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility we evaluate significant financial systems and associated internal controls and where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist the Board regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with the Board and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to the Board or any other party.

The prime responsibility for the prevention and detection of fraud and irregularities rests with the Board. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach we consider these arrangements, but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of the Board and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of the Board to put in place proper arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct, and the prevention and detection of fraud and corruption.

It is the responsibility of the Board to put in place proper arrangements to manage its performance, to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that the Board has put in place to secure economy, efficiency and effectiveness in its use of resources. We also have a responsibility to undertake reviews arising from national studies commissioned by Audit Scotland where these have been designated as mandatory studies.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to the Board during the year as listed at **Appendix 5**.

# Appendix 4: Audit Opinion

## **Independent Auditor's report to the members of National Waiting Times Centre Board, the Scottish Parliament and the Auditor General for Scotland**

We have audited the financial statements of National Waiting Times Centre Board ("the Board") for the year ended 31 March 2006 prepared under the National Health Service (Scotland) Act 1978. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland and for no other purpose as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

## **Respective responsibilities of the Board, Accountable Officer and auditor**

The Board and Accountable Officer are responsible for preparing the annual report and the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. The Accountable Officer is also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of the Chief Executive's Responsibilities as the Accountable Officer of the Board.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited, which solely concerns Board Members and Senior Employees remuneration, have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. We also report whether in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. We also report if, in our opinion, the Directors' Report is not consistent with the financial statements, if the body has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

We review whether the Statement on Internal Control reflects the Board's compliance with the Scottish Executive Health Department's guidance. We report if, in our opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Board and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the body's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

### **Opinion**

#### *Financial statements*

In our opinion

- 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 affairs of the Board as at 31 March 2006 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

*Regularity*

In our opinion in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

PricewaterhouseCoopers LLP  
Glasgow

22 June 2006

# Appendix 5: Other formal reports submitted during the 2005/06 process

	Financial Statements	Governance & Business Control	Performance
• Annual Service Plan	3	3	3
• Follow Up of 2004/05 Audit Recommendations	3	3	
• Internal Controls Report 2005/06	3	3	
• Priorities and Risk Framework Report		3	3
• Fixed Asset Verification Exercise	3	3	

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