



INFRASTRUCTURE, GOVERNMENT &  
HEALTHCARE

# National Waiting Times Centre Board

Annual audit report to the  
National Waiting Times Centre  
Board and the Auditor General  
for Scotland  
2006-07

21 June 2007

AUDIT



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## Notice: About this report

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# Executive summary

This report summarises our work for the 2006-07 year and our findings in relation to our audit of the financial statements, corporate governance, and performance management arrangements.

## Financial statements

On 21 June 2007 we issued an audit report giving our unqualified opinion on the financial statements of the Board for the year ended 31 March 2007 and on the regularity of transactions reflected in them. There were no significant issues arising from the financial statements audit.

## Corporate governance

The internal auditors have provided assurance to management over the systems key processes, including financial, clinical and staff governance, the control environment, information and communication, and monitoring. Management also collated evidence to support their assessment of the operation of the system of internal control, which is reported to the risk management committee.

Management has participated in the National Fraud Initiative for the first time; an internal group was established to consider data matches and they reported progress to the audit committee in February and May 2007. Work continues to resolve data matches. While management has accessed the NFI database in recent months, electronic records have not been updated with the results of work to resolve data matches. This is important given the scrutiny of progress.

The Board achieved all three of its financial targets for 2006-07.

## Performance management

A performance management framework, including the performance and planning committee, was established in February 2007. Embedding the new framework at an operational level will ensure benefits are obtained from 2007-08 onwards.

Implementation of the pay modernisation agenda, particularly *Agenda for Change* and the knowledge and skills framework, was considered a priority in 2006-07 and will continue into 2007-08. This is essential to maintain staff morale and demonstrate benefit realisation from this significant, and continued, additional investment.

The Board's role in supporting NHS boards to meet waiting times targets requires robust working relationships with colleagues across Scotland. Progress continues to be made, but management recognise that additional work is required to maximise efficiency and avoid wasted capacity and are in discussions with the Scottish Executive Health Department in relation to new initiatives for 2007-08 to address this.

A number of appointments have been made in e-health to strengthen the department, including appointing a head of e-health, reporting through the director of finance. The e-health strategy was approved in September 2006 and is now being implemented through the e-health steering group.

# Introduction

## **Audit framework**

This was the first year of our five-year appointment as external auditors of the National Waiting Times Centre Board ("the Board"). This report outlines our opinion and conclusions and highlights significant issues arising from our work.

In accordance with Audit Scotland's *Code of Audit Practice* ("the Code"), the scope of the audit was to:

- provide an opinion on the Board's financial statements and, as required by relevant authorities, the regularity of transactions;
- review and report on (as required by relevant legislation, the Code and any guidance issued by Audit Scotland):
  - the Board's corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; and its financial position
  - the Board's arrangements to achieve Best Value
  - other aspects of the Board's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources.

The framework under which we operate under appointment by Audit Scotland was outlined in the audit plan for the year discussed with the Board's audit committee.

## **Priorities and risks**

To assist in the development of a consistent approach to the audit across bodies, Audit Scotland published a *Priorities and Risks Framework* setting out seven areas for consideration. We built on this and considered the Board's processes and management arrangements in these areas in focusing our audit effort. In addition, we identified a number of other areas for specific attention.

## **Responsibilities of the Board and its auditors**

External auditors do not act as a substitute for the Board's own responsibilities for putting in place proper arrangements to account for its stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through accountable officers, to make arrangements to secure Best Value.

## **Acknowledgement**

We wish to place on record our appreciation of the co-operation and assistance extended to us by staff during the first year of our work in the discharge of our responsibilities.

# Financial statements audit

## Audit opinion

On 21 June 2007 we issued an audit report expressing an unqualified opinion on the financial statements of the Board for the year ended 31 March 2007 and on the regularity of transactions reflected in those financial statements.

We wish to bring the following issues to the Board's attention.

### Fixed assets

The previous external auditors identified inconsistencies between the fixed asset register and the physical assets held by the hotel and between the capitalisation thresholds for hotel and hospital assets. During 2006-07 management reviewed the physical assets and raised the capitalisation threshold to £5,000, consistent with the extant policy for hospital assets. The result of this change in estimation technique is additional depreciation of £129,000 recognised in the operating cost statement. We are satisfied that the identified inconsistencies have now been eliminated and that depreciation is calculated on a consistent basis.

It was also identified that a number of lease agreements signed during 2005-06, and accounted for as operating leases, may meet the criteria for treatment as finance leases and therefore be required to be accounted for on the balance sheet. During 2006-07 management engaged third party experts to review the lease agreements and provide an opinion on the accounting treatment. Management considered this opinion and concluded that all relevant leases are correctly accounted for as operating leases. We have reviewed management's work and concluded this is no longer an issue.

### VAT

In 2002-03 management recognised a debtor for VAT recoverable from HM Revenue & Customs for, among other things, the treatment of private patients and change in status following the transfer of the hospital from the private sector in 2002. A £144,000 debtor and a provision for non-recovery was created during 2004-05. There is a risk that the claim is no longer valid due to the time elapsed. Management has recently appointed new VAT advisors and are discussing remaining possibilities as a matter of priority. Management should ensure that appropriate processes are in place to ensure timely submission of claims to avoid the risk of future loss of income.

### Equal pay

Article 141 of the Treaty of Rome requires member states to ensure and maintain "the application of the principle that men and women should receive equal pay for equal work". This was expanded on in the Equal Pay Directive which made it clear that all such discrimination should be eliminated from all aspects of remuneration. The National Health Service in Scotland has received a number of claims for backdated pay increases, arising from this requirement.

No equal pay claims have been lodged with the Board and management are not aware of any intentions for submission in the foreseeable future. Management are closely monitoring any national claims and will take action if appropriate. We would encourage management, working with the Scottish Executive Health Department, to continue to monitor this situation.

# Corporate governance

## Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Through its chief executive, the Board is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on the Board's corporate governance arrangements as they relate to:

- the Board's reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity;
- standards of conduct and arrangements for the prevention and detection of corruption; and
- its financial position.

## Systems of internal control

### Statement on internal control ("SIC")

The SIC for 2006-07 gives details of the processes and controls established by management. It highlights that processes and strategies will continue to be developed and actions in response to recommendations implemented in 2007-08, including development of the performance management process implemented in March 2007. The internal auditors reviewed the SIC and concluded that "*the chief executive can approve the statement of internal control on the basis that the assurance framework was in place throughout the year in accordance with the requirement of Scottish Executive Health Department guidance*". Internal audit's report provides evidence to management of the systems in place and documents the source of assurance over key processes, including financial, clinical and staff governance, the control environment, information and communication, and monitoring.

In addition, management have collated evidence to support their assessment of the operation of the system of internal control. This process is formally reported to the risk management committee, but the committee meeting in 2006-07 will be after the Board approves and signs the financial statements. The timing of risk management committees should come at a sufficiently early stage to allow its conclusions to be reflected in the reporting process for 2007-08.

### Governance arrangements and risk management

In May 2006 the Board held a corporate risk workshop, facilitated by the internal auditors, to identify and prioritise risks impacting on the Board's corporate priorities. Consequently, the Board updated its corporate risk register, identified and assessed business risks at a directorate level and established an appropriate mechanism to take action and report on the risks identified. The internal audit report on the SIC recommends continued development of directorate risk registers to ensure that all risks are identified and appropriately escalated to the corporate risk register in a timely manner.

### Internal audit

The approved internal audit programme for 2006-07 has been completed and the internal auditors have reported that their work did not identify any critical control weaknesses considered pervasive in their effects in the system of internal control. Accordingly, based on the programme of work undertaken during the year, the internal auditors have given "high assurance" on the adequacy and effectiveness of the system of internal control. The only exception to this is in relation to the Board's estates arrangements, which have been assigned "moderate assurance". This has arisen because a number of estates projects with a value greater than a threshold of £20,000 were not formally tendered in accordance with the Board's standing financial instructions.

### Internal controls

Our testing of the design and operation of controls over significant risk points confirms that, subject to the minor weaknesses reported, controls are designed appropriately and operating effectively. However, we made some recommendations, including one relating to the employee code of conduct and one on the service level agreement with NHS Greater Glasgow and Clyde for the provision of payroll processing services aimed at reducing the potential risk of fraud or error.

### Endowments

At 31 March 2007 the Board had received £21,000 of donations and other receipts earmarked as "endowments". The value of endowments will potentially increase during 2007-08 when endowments associated with cardiothoracic wards are transferred to the West of Scotland regional heart and lung centre. Endowments are charitable funds and should be dealt with in accordance with the Charities and Trustee Investment (Scotland) Act 2005. Given the potential importance of this area, management should establish a framework for the proper management and reporting of endowment funds.

## Prevention and detection of fraud and irregularity

### Fraud policy

The fraud policy, including a fraud response plan, was approved in November 2003. The policy describes fraud indicators, which may either be indicative of fraud or may highlight areas where there is a heightened risk of fraud. The content of the policy meets the requirements and identifies specific responsibilities for the prevention and detection of fraud, but we recommended in our interim management report that the policy should be reviewed and updated on a regular basis.

### National Fraud Initiative

In 2006-07 the Board took part in the National Fraud Initiative (NFI) in Scotland. The Scottish Executive Health Department and NHS Counter Fraud Services have strongly supported the involvement of health bodies in the exercise, which is undertaken as part of the audits of the participating bodies. NFI brings together data from health bodies, councils, police and fire and rescue boards, and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. Health bodies provided payroll data for the exercise. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005), but if fraud or overpayments are not identified, assurances may be taken about internal arrangements for preventing and detecting fraud.

The NFI 2006-07 results (data matches) were made available to health bodies on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and



record the outcomes of their investigations in the application. We monitored the Board's involvement in NFI 2006-07 during the course of the audit.

For the Board, an internal group was established to facilitate the review and reporting of the work being performed. Membership of the group comprised representatives from finance, human resources, hotel and staff representatives. The group focuses on the matches that require to be reviewed internally and formally reported progress to the audit committee in February and May 2007. These reports have not identified any significant issues requiring specific attention. Management has accessed the NFI database in recent months, but has not updated the electronic records with the results of internal work to resolve data matches. The fraud liaison officer is named as the NFI key contact, ensuring clarity in internal responsibilities for the prevention and detection of fraud.

### Standards of conduct

The Board approved a code of conduct for board members in September 2003, which outlines their responsibilities in fulfilling their duties and the requirements of the Ethical Standards in Public Life etc. (Scotland) Act 2000. We recommended in our interim management report that the code of conduct should be reviewed and updated on a regular basis.

Staff are currently provided with the 'Golden Jubilee National Hospital standards of business conduct for NHS staff', which refers to guidance issued in 1989 and 1994. There was no evidence that this document has been reviewed or updated to comply with current guidance. We recommended in our interim management report that this policy should be updated to reflect current guidance.

### Financial position

The Board achieved all three of its financial targets for 2006-07. The 2006-07 financial plan was updated in December 2006 and reported a revised cumulative surplus outturn of £5.5 million. The actual outturn against the revenue resource limit was a cumulative surplus of £5.2 million, reflecting additional activity offered to territorial NHS boards at no charge in February and March 2007.

A three year financial plan was submitted in line with the Scottish Executive Health Department timetable in February 2007. The table below summarises the forecast financial performance reported to the board in February 2007.

	<b>2007-08</b> <b>£'000</b>	<b>2008-09</b> <b>£'000</b>	<b>2009-10</b> <b>£'000</b>
In-year surplus	1,004	450	-
Funding carried forward to support development of the West of Scotland regional heart and lung centre	5,146	2,839	532
<b>Cumulative surplus against the revenue resource limit</b>	<b>6,150</b>	<b>3,289</b>	<b>533</b>

Source: National Waiting Times Centre Board financial plan (February 2007)

The business case for the West of Scotland regional heart and lung centre was approved by the Minister for Health in January 2006 and building work commenced in June of that year. The centre is due to become operational in autumn 2007. The three year financial plan is based on the income and expenditure assumptions in the approved full business case. £25.5 million of resource funding will transfer to the Board from Greater Glasgow & Clyde and Lanarkshire NHS Boards to fund the cardiothoracic and cardiology services transferring from these NHS boards. The Board is working in partnership with both NHS Boards to minimise disruption to patients and staff, while continuing to meet

waiting times guarantees. In addition, £4.7 million non-recurring funding, to be received over 2007-08 to 2009-10, has been agreed with the National Waiting Times Unit of the Scottish Executive.

The financial implications of the business case for a further two additional orthopaedic theatres have also been incorporated within the three year financial plan. This will increase the number of orthopaedic theatres from two to four with additional orthopaedic consultants, anaesthetists, nursing and other staff being recruited to utilise the additional capacity.

Within the Board, the recent changes in organisational structure and the creation of three directorates has resulted in a move towards increased ownership of financial management and budgeting at an operational level. In future, management should benefit from the increased scrutiny and accountability.

The financial position is currently that of an underlying recurring surplus, which will reduce in future years following development of the above initiatives. The forecast financial outturn of a cumulative surplus of £0.5 million in 2009-10 is 1% of the 2006-07 revenue resource limit. The underlying financial position in 2006-07 and the forecast position in 2007-08 are shown below.

	<b>2006-07</b>	<b>2007-08</b>
	<b>£'000</b>	<b>£'000</b>
Recurring income	56,026	79,071
Recurring expenditure	54,320	74,982
<b>Underlying recurring surplus</b>	<b>1,706</b>	<b>4,089</b>
Non-recurring income	3,451	1,885
Non-recurring expenditure	1,186	1,885
<i>Balance of non-recurring</i>	<i>2,265</i>	<i>-</i>
<b>Difference</b>	<b>3,971</b>	<b>4,089</b>
Other income sources	444	465
Non-recurring SEHD income/year-end support	-	-
Corporate savings programme	708	1,596
<i>Total other income</i>	<i>1,152</i>	<i>2,061</i>
<b>Financial surplus</b>	<b>5,123</b>	<b>6,150</b>

Source: National Waiting Times Centre Board minimum dataset (June 2007)

The underlying recurring surplus of £4 million includes the bridging funding for the West of Scotland regional heart and lung centre as included in the three year financial plan. If this income and associated costs had not been included, 2007-08 would show a recurring surplus of £1 million as per the approved financial plan.

# Performance management

## Priorities and risks

Audit Scotland's priorities and risks framework set out seven areas for consideration during the audit, building on the work undertaken in each of these in earlier years. Consideration of these areas identified the need to:

- consider the impact, and subsequent accounting treatment, of the Board's decisions surrounding service redesign during the financial statements audit, particularly in relation to capital expenditure;
- review the Board's budgeting process;
- review the system of controls over full implementation of *Agenda for Change*, including the requirement to backdate pay to October 2004;
- consider the completeness and existence of transactions with NHS boards and the agreement of year end balances; and
- consider key information management strategies, policies and procedures.

We have considered these issues and did not identify any significant weaknesses. However, a number of significant areas for improvement are summarised in this report.

## Action taken during 2006-07

The previous external auditors made a number of recommendations arising from their work on the priorities and risks facing the Board, particularly in relation to governance arrangements. During 2006-07 these arrangements have been progressed, including the creation of the directorate structure and development of risk management processes, and there are no significant matters remaining to be addressed.

## Significant areas requiring ongoing attention

Implementation of *Agenda for Change* has progressed and £326,000 was paid in back pay during the year. An additional £252,000 was accrued to reflect back pay to be settled during 2007-08. Hotel staff were transferred to NHS terms and conditions during March 2007 and wages and salaries are now processed on the Scottish standard payroll system. Accrued liabilities at 31 March 2007 include an amount to reflect potential claims resulting from alleged inequalities in pay scales and additional allowances between hotel and hospital staff in recent years. Management are committed to resolving these issues, in conjunction with staff representatives, and are confident that resolution will be achieved during 2007-08.

Implementation of the pay modernisation agenda, particularly *Agenda for Change* and the knowledge and skills framework, was considered a priority in 2006-07. Work will now continue into 2007-08 to maintain staff morale and demonstrate benefit realisation from the significant, and continued, additional investment. The pay modernisation benefits realisation plan was updated at 28 February 2007 and discussed during the March 2007 board meeting.

A performance and planning committee was established in February 2007, to implement a formal and consistent system of performance monitoring and reporting. The Board is required to comply with the Scottish Executive Health Department requirements to report performance against health improvement, efficiency, access and treatment ("HEAT") targets through an annual local delivery plan, subject to

agreed variations to reflect the nature of the Board's services. A planning and performance committee was established in February 2007. Operational responsibility and accountability for performance management will rest within the recently created directorate structure. Management should ensure that a consistent and formal process is implemented to obtain benefits from 2007-08 onwards.

The Board's role in supporting NHS boards to meet waiting times targets requires robust working relationships with colleagues across Scotland. Progress continues to be made, but additional work is required to maximise efficiency and avoid wasted capacity and management are in discussion with the Scottish Executive Health Department in relation to new initiatives for 2007-08 to address this. Activity figures to 31 March 2007 show that there was a net positive variance of 882 procedures against planned activity of 14,726.

A number of appointments have been made in e-health to strengthen the department. This includes a head of e-health, reporting through the director of finance, who is responsible for information management, the information technology infrastructure and information governance, incorporating the requirements of Caldicott guidance and the Freedom of Information (Scotland) Act 2002. An e-health strategy was approved in September 2006 and recently updated.

NHS boards are required to develop an e-health strategic plan to support local information requirements and to integrate these with the national strategy. Plans should ensure that national information requirements and national data standards are met. The e-health steering group is responsible for identifying and developing issues and initiatives. Updates on progress are provided to the senior management team on a regular basis.

### **Best Value**

The Board did not participate in Audit Scotland's 2005-06 baseline review of Best Value arrangements in the NHS. However, management is in the process of developing arrangements to monitor Best Value and a full review of these arrangements will be performed during 2007-08, including consideration of the 10 characteristics which formed the basis of the Audit Scotland baseline review.

### **Efficient government**

The efficient government initiative is a five-year programme with the aim of tackling waste, bureaucracy and duplication in Scotland's public sector. NHS boards need to embrace the efficient government agenda and establish a clear programme for delivering efficiency savings.

Efficiency savings of £708,000 were achieved during the year, arising from a review of medical staffing and savings in procurement and energy costs. The efficiency target of £1.5 million for 2007-08 has been built into the three year financial plan and will include service redesign and a review of non-clinical support services, in addition to continuing savings from initiatives implemented in 2006-07.

### **National shared support services**

During the period to January 2007 NHS Scotland has been developing proposals for shared support services in financial and related services in the form of a "hub and spoke" model. The response to the proposals, including that from the Board, was characterised by reservations over the risks inherent in the proposed scheme, the impact on staff and the deliverability of savings. The project has recently been re-launched as the shared support services programme, involving a two-tier approach which seeks to build confidence in new ways of working, using common processes and systems, leading to a single services model based on a common finance system. The approach involves a "foundation" level of involvement around common ledger arrangements, or a "pathfinder" approach which seeks to develop

more advanced elements. It is envisaged that a national business case for the revised approach will not be available until mid to late 2008. The Board has submitted an expression of interest for participation in the pathfinder process in a number of identified areas.

### **Beardmore Hotel**

During 2006-07 the Minister for Health approved the Board's Beardmore Hotel strategy to increase utilisation of the facility, which aims to become "*the centre of choice for conference, training and accommodation requirements of NHS Scotland*". Management report performance against key performance indicators to all board meetings, including improved occupancy rates and conference activity analysed by source from the public and private sectors. The Minister for Health has been actively encouraging the use of the conference facilities in the NHS and wider public sector. 2007-08 will provide an opportunity for the Board to measure the success of the revised strategy.

### **External inspections / reviews**

The national standards for clinical governance and risk management: achieving safe, effective, patient-focused care and services were published by NHS Quality Improvement Scotland in October 2005. These standards are being used to assess the quality of services provided by NHSScotland nationwide. The results of the peer review of the Board were published in February 2007 and concluded that "*the NHS Board is implementing its policies, strategies, systems and processes:*

- *to control risk, continually monitor care and services and work in partnership with staff, patients and members of public;*
- *to provide care and services that take into account individual needs, preferences and choices; and*
- *to promote public confidence about the safety and quality of the care and services it provides."*

## Appendix – action plan

Priority rating for performance improvement observations raised		
<p><b>Grade one</b> (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Board or systems under consideration. The weakness may therefore give rise to loss or error.</p>	<p><b>Grade two</b> (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.</p>	<p><b>Grade three</b> (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
1	<p>No equal pay claims have been lodged with the Board and management are not aware of any intentions for submission in the foreseeable future. We would encourage management, working with the Scottish Executive Health Department, to continue to monitor the potential financial impact of this situation.</p> <p><i>Grade two</i></p>	<p>Management are closely monitoring any national claims and will take action if appropriate.</p>	<p>Director of finance</p> <p>Ongoing</p>
2	<p>At 31 March 2007 the Board had received £21,000 of 'endowments'. We understand that the value of endowments will potentially increase during 2007-08.</p> <p>Management should consider the implications of managing and reporting endowment funds in compliance with charity legislation.</p> <p><i>Grade two</i></p>	<p>We are currently in discussion with Greater Glasgow and Clyde NHS Board to review management of endowments.</p>	<p>Director of finance</p> <p>30 September 2007</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
3	<p>In 2002-03 management recognised a debtor for VAT recoverable from the treatment of private patients and change in status following the transfer of the hospital from the private sector in 2002. A £144,000 debtor and a provision for non-recovery was created during 2004-05 and this should be resolved by management.</p> <p>Management should ensure that appropriate processes are in place to ensure timely submission of claims to avoid the risk of future loss of income.</p> <p><i>Grade two</i></p>	<p>New VAT advisors were appointed during 2006-07. Management are working with them to agree an action plan to maximise VAT recovery.</p>	<p>Director of finance 31 March 2008</p>
4	<p>The Board is required to comply with the Scottish Executive Health Department requirements to report performance against health improvement, efficiency, access and treatment targets through an annual local delivery plan.</p> <p>Operational responsibility for performance management will be established within the recently created directorate structure, for which management should ensure that a consistent and formal process is implemented to obtain benefits from 2007-08 onwards.</p> <p><i>Grade two</i></p>	<p>A performance management framework was approved during 2006-07 and will be implemented during 2007-08. A key feature of this is to ensure performance management is embedded within the directorate structure. The general managers are accountable for performance through the performance and planning committee.</p>	<p>Chief executive 31 March 2008</p>
5	<p>Management formally report on the process of preparing the statement of internal control to the risk management committee, but the committee meeting in 2006-07 will be after the Board approves and signs the financial statements.</p> <p>The timing of risk management committee meetings should be considered when setting the financial statement preparation timetable in 2007-08.</p> <p><i>Grade three</i></p>	<p>Meeting dates will be reviewed to ensure that the risk management committee formally approves the statement on internal control prior to the audit committee in future years.</p>	<p>Director of finance 31 March 2008</p>

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