



National Waiting Times Centre Board

**Annual Report to the Board and the Auditor
General for Scotland
2011/12**

June 2012



National Waiting Times Centre Board

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Executive summary

Financial statements

The NHS National Waiting Times Centre Board (“the Board”) annual accounts are due to be approved by the Board on 21 June 2012. We expect to report, within our independent auditors’ report unqualified opinions on the financial statements of the Board for the year ended 31 March 2012 and on the regularity of transactions reflected in those financial statements.

Arrangements are in place to enable the annual accounts to be submitted to the Scottish Government Health and Social Care Directorates (SGHSCD) and the Auditor General for Scotland prior to the 30 June 2012 deadline. We received draft annual accounts and supporting papers of a high standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to the finance team for their assistance with our work.

Balances with other health boards

Arrangements are in place to agree year end balances with Health Boards through SFR30 letters. However, it has been identified that internal communication within the finance team did not correlate changes highlighted during the audit to a final and revised SFR30 letter with NHS Greater Glasgow and Clyde (NHS GG&C). The differences relate to payments already made by the Board to NHS GG&C and accruals recognised by the Board. There is therefore no risk in payment of the outstanding accruals.

Revaluation reserve valuations

During 2011/12, the Board transferred £539,000 from the revaluation reserve to the general fund to reflect the increased level of depreciation charged due to revaluation on an annual basis. The in year transfer represented three years worth of transfers which had not been previously recognised. The Board should undertake a comprehensive evaluation of revaluation reserve balances to ensure that reserve balances are appropriately valued in the accounts.

Use of resources

Financial performance

The Board met all of its key financial targets for 2011/12. The Board achieved a surplus against its Revenue Resource Limit (RRL) of £1,000. The financial performance included delivery of efficiency savings of £3.488 million, £228,000 above planned. Delivery of these efficiencies enabled the Board to return £500,000 of the initial RRL allocation to the Scottish Government during the year, which will be carried forward within the 2012/13 allocation.

The Board has robust financial management arrangements in place. A comprehensive exercise has been undertaken to identify areas where efficiency savings can be generated across the Board.

Savings plans are embedded within budget allocations and subject to detailed scrutiny across each directorate.

Best value

The Board is committed to delivering best value through effective people management. Through completion of the Audit Scotland people management toolkit, management has identified a number of areas in which the Board meets or exceeds the criteria for better practice. There are a number of areas where people management arrangements could be enhanced including development of the visions and values work which has commenced and implementation of the HR systems investment. We encourage the Board to look to further develop and enhance people management through implementing the recommendations and move the Board status from better practice to advanced practice.

Performance

The Board has in place a robust performance management framework. Divisions prepare comprehensive performance information to management on a monthly basis covering all performance indicators included within the Board's Local Delivery Plan. These reflect both the core HEAT (Health, Efficiency, Access and Treatment) targets and local performance targets.

Carbon emissions and energy consumption are two key targets that the Board continue to find challenging to meet. The Board has taken steps to meet these targets, however given that operational activity has increased significantly since the initial targets were set, the Board will find it challenging to meet these going forward. If these targets do not represent a realistic and achievable target for the Board then potentially they should be reviewed and adjusted.

Governance

Our work on corporate governance focussed on reviewing the Board's arrangements to ensure effective systems are in place for internal control, prevention and detection of fraud and irregularity, standards of conduct and the prevention and detection of bribery and corruption. We are pleased to report that our audit identified no issues of concern in relation to governance.

Looking forward

The Board's 2012-15 Local Delivery Plan outlines the Board's key targets over the next three years. To deliver a balanced budget the Board has identified the need for £2.306 million of real cash savings for 2012/13. Ensuring that planned efficiencies do not impact on frontline service delivery increasing will be a key challenge to the Board over the coming years.

Conclusion

This report concludes our audit of the Board for 2011/12. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards. This report has been discussed and agreed with the Chief

Executive and Director of Finance and we would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff

June 2012

Introduction

1. This report summarises the findings from our 2011/12 audit of the NHS National Waiting Times Centre Board (“the Board”). The scope of our audit was set out in our External Audit Strategy and Plan, which was presented to the Audit Committee at the outset of our audit.
2. The main elements of our audit work in 2011/12 have been:
 - Audit of the financial statements, including a review of the Governance Statement
 - Review of governance arrangements, internal controls and financial systems
 - Targeted follow up of Audit Scotland’s national reports on *Use of Locums* and *The Role of Boards*
 - Review of best value arrangements at the Board
 - Review of the Board’s involvement in the National Fraud Initiative (NFI)
3. In addition to this annual report, we have delivered the following outputs during 2011/12:
 - External audit plan
 - Interim management report
 - Targeted follow up of Audit Scotland’s *Use of Locums* and *The Role of Boards* reportsThe key issues from these outputs are summarised in this annual report.
4. As part of our audit, we have also made use of the work of other inspection bodies including the Board’s internal audit service and Audit Scotland’s Public Reporting Group.
5. This report is addressed to both the Board and to the Auditor General for Scotland and will be published on Audit Scotland’s website, www.audit-scotland.gov.uk.

Financial statements

Introduction

6. The annual financial statements are the principal means of accounting for the stewardship of the resources made available to the Board. In this section we summarise the issues arising from our audit of the 2011/12 financial statements.

Management responsibilities

7. It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made there under. This means:
- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
 - maintaining proper accounting records;
 - preparing financial statements timeously which give a true and fair view of the financial position of the Board and its expenditure and income for the period ended 31 March 2012; and
 - preparing a Directors' Report, an Operating and Financial Review, a Governance Statement and a Remuneration Report.

Auditor responsibilities

8. We audit the financial statements and the part of the Remuneration Report to be audited and give an opinion on:
- whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question;
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - whether the information which comprises the annual report included with the financial statements is consistent with the financial statements; and
 - whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).
9. We also review the Board's Governance Statement by:
- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and

- assessing whether disclosures in the statement are consistent with our knowledge of the Board.

Confirmation of auditor independence

10. Ethical Standard 1 – *Integrity, objectivity and independence*, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Audit Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.
11. We confirm that we have complied with APB Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:
 - a) There are and have been no relationships between Scott-Moncrieff and the Board, its directors and senior management that may reasonably be thought to bear on our objectivity and independence,
 - b) Scott-Moncrieff has not provided any consultancy or non-audit services to the Board.

Overall conclusion

An unqualified audit opinion on the financial statements

12. The Board's annual accounts are due to be approved by the Board on 21 June 2012. We expect to report, within our independent auditors' report, unqualified opinions on the financial statements for the year ended 31 March 2012 and on the regularity of transactions reflected in those financial statements.
13. We are satisfied that the governance statement complies with the Scottish Ministers' guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work. The Board has a good overall framework in place to support an effective internal control environment.

An unqualified audit opinion on the regularity of transactions

14. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have issued an unqualified opinion on the regularity of transactions in the Board's accounts.
15. We have also concluded that the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with guidance issued by Scottish Ministers, and that information in the management commentary which is included within the Annual Report is consistent with the financial statements.

Good administrative processes were in place

16. We received draft annual accounts and supporting papers of a high standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to the finance team for their assistance with our work.
17. Arrangements are in place to enable the annual accounts to be submitted to the Scottish Government Health and Social Care Directorates (SGHSCD) and the Auditor General for Scotland prior to the 30 June 2012 deadline.

Audit and accounting adjustments

18. There were no adjustments to the draft financial statements that have had an impact on the outturn against the Revenue Resource Limit (RRL).
19. We also identified some disclosure and presentational adjustments and are pleased to report that these are reflected in the updated financial statements. A small number of audit adjustments were made to adjust between balance sheet lines, as set out below.

Table 1 – Balance sheet adjustments

	£000	£000
	DR	CR
Revaluation reserve	582	
General fund		582
<i>Being release from revaluation reserve in respect of the excess of revalued depreciation over historic cost.</i>		
Other payables	970	
Amounts due to other Boards		970
<i>Being adjustment to re-allocate payables at 31 March. This does effect the financial outturn.</i>		

Unadjusted differences

20. We identified one issue within the accounts in relation to outstanding balances due to NHS Greater Glasgow and Clyde (NHS GG&C). The NHS Manual for Accounts requires boards to agree amounts with other NHS bodies. Arrangements are in place to agree year end balances with Health Boards through SFR30 letters. However, it has been identified that internal communication within the finance team did not correlate changes highlighted during the audit to a final and revised SFR30 letter with GG&C. The differences relate to payments already made

by the Board to GG&C and accruals signed by GG&C managers. There is therefore no risk in payment of the outstanding accruals.

Balances with other boards

21. On an annual basis, boards should agree transactions throughout the year and outstanding balances at 31 March with other NHS Scotland bodies, including funding bodies. These agreements form the basis for SFR 30 returns included within the annual accounts template submitted to the SGHSCD.
22. While the SFR 30 note is not a statutory disclosure, the NHS Manual for Accounts outlines that the amounts shown in the note must agree with NHS receivables, payables and income reported in the accounts. Excluding amounts due to NHS GG&C, amounts due to and from other NHS bodies in the accounts agreed to the SFR 30 and subsequent inter-board agreements. However, income did not agree. On further investigation management identified that the draft accounts included a misallocation of income which was adjusted in table 1 above.
23. The Board should ensure that future inter-board agreements are based on income figures used to populate the accounts. These agreements should then form the basis of the SFR 30 note.

Action plan point 1

Key areas of audit focus and significant findings

24. We are required by international auditing standards to report to the Board the main issues arising from our audit of the financial statements. The most significant issues are noted below.

The Beardmore Hotel and Conference Centre

25. The Beardmore Hotel and Conference Centre (“the Beardmore”) continues to be self financing. The Beardmore has responded to a challenging economic environment and both rooms and conference facilities continue to operate at a profit.
26. Going forward, the Beardmore continues to face a challenging financial environment. Along with increasing pay and utility costs, the Beardmore is currently involved in a legal dispute with union representatives surrounding the terms and conditions of casual workers. During our audit, we confirmed with management that no formal decision has been made in relation to the dispute. If there were to be a tribunal established and the outcome went against the Beardmore then this could impact on future affordability and sustainability.
27. Management has undertaken scenario planning to establish an appropriate course of action should the outcome of any tribunal not be in favour of the Beardmore. It is likely that this would have a significant impact on services offered. It will be important for management to ensure that robust plans are put in place when the outcome of the tribunal is known to minimise the impact on the Beardmore.

HMRC

28. The Board is currently subject to an inspection from Her Majesty's Revenue and Customs (HMRC), relating to payments made to consultants. At the time of our audit no formal outcome of the investigation had been received by the Board.
29. The Board recognise that it is likely to be liable for unpaid employers and employees national insurance and PAYE contributions. The Board has taken independent tax advice on the most likely outcome of the ongoing investigation and has recognised an accrual within the financial statements.
30. We have reviewed the accrual within the accounts and are satisfied that this is based on best available evidence of the likely amount due.

Property, plant and equipment records

31. All items of property, plant and equipment are held on the Real Asset Management (RAM) system. The RAM maintains a comprehensive record of individual assets including its original cost and subsequent valuation.
32. The NHS Manual for Accounts requires an annual transfer from the revaluation reserve to the general fund to reflect the increased level of depreciation charged due to revaluation. In effect, this amortises any revaluation gain across the life of the asset through the general fund. The basis for the annual release is the difference between historical cost depreciation and the depreciation charge based on revalued amounts which is calculated using the RAM system. During our audit we found that the Board had not released an amount from the revaluation reserve to the general fund during the year, or the past two financial years.
33. The financial statements have been amended to reflect the transfer between reserves and we recommend that the Board ensures that a comprehensive review of revaluation reserve balances is undertaken to ensure that reserve balances are appropriately valued in the accounts.

Action plan point 2

Use of resources

34. This section of the report sets out the main findings from our review of how the Board manages its key resources in terms of financial performance and management of assets.

The Board's financial performance in 2011/12

The Board has met its key targets in the year

35. The Board is required to work within the resource limits and cash requirements set by SGHSCD. As shown in Table 2 below, the Board has met all of its financial targets.

Table 2 – Performance against financial targets

Financial Target	Target £000	Actual £000	Underspend £000	Target achieved
Revenue Resource Limit – Core	51,207	51,206	1	Yes
Revenue Resource Limit – Non-core	5,754	5,754	-	Yes
Capital Resource Limit	2,508	2,508	-	Yes
Cash Requirement	52,000	51,684	316	Yes

(Source: 2011/12 Annual Accounts)

36. The Board achieved a surplus against its Revenue Resource Limit (RRL) of £1,000. The outturn position against RRL includes a reduction in the target RRL for 2011/12 of £500,000 which the Board has agreed with the Scottish Government to be carried forward for 2012/13.
37. To meet the RRL, the Board has had to deliver £3.488 million of efficiency savings in the current year, £228,000 more than initially forecast within the Board's 2012-15 financial plan.
38. We have analysed the Board's 2012/13 outturn into recurring and non-recurring items, as shown in Table 3.

Table 3 – Achievement of 2011/12 surplus

	£000
Recurring income	118,331
Recurring expenditure	(121,695)
Recurring savings	<u>3,364</u>
Underlying recurring surplus	1
Non-recurring income	2,989
Non-recurring expenditure	(3,112)
Non-recurring savings	<u>124</u>
Non-recurring surplus/(deficit)	-
Financial surplus/(deficit)	1

(Source: March 2012 MMR / Financial statements)

39. Table 3 shows that the Board is maintaining underlying recurring financial balance and that cash releasing efficiency savings of 2.8% were achieved in 2011/12. In our opinion the Board has effective financial management arrangements in place.

Capital Resource Limit

The Board delivered a breakeven position against CRL for 2011/12

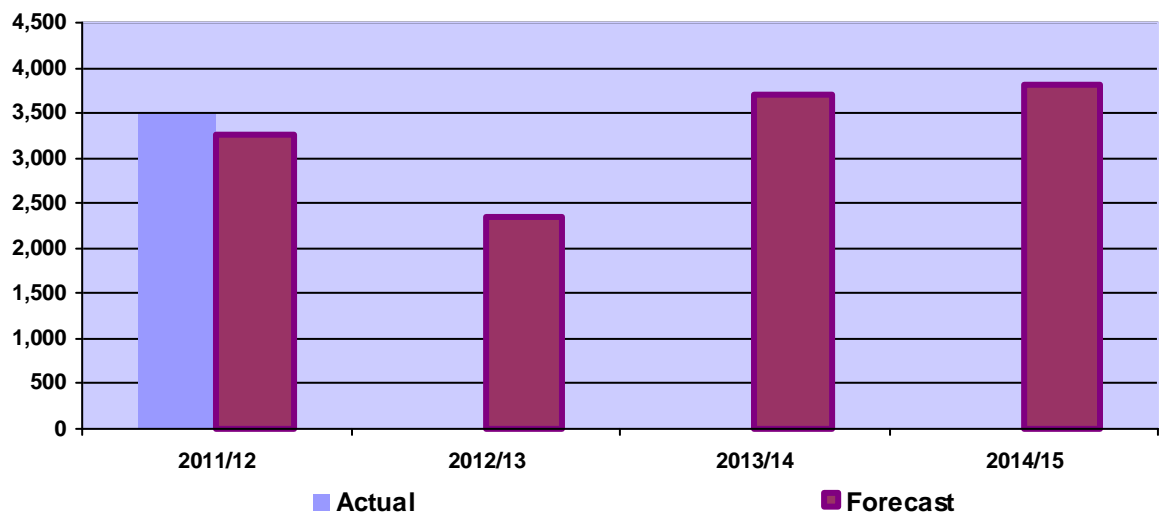
40. The Board generated a breakeven position against CRL in 2011/12 with total capital expenditure of £2.508 million. This was significantly lower than the Board's 2011/12 capital plan of £5.25 million. Following a detailed review of the capital plan during the year the Board agreed to return £2.742 million to the Scottish Government as it was unlikely to incur capital costs in the year. The capital expenditure predominantly related to plant and machinery including capital costs associated with a replacement MRI scanner.

Financial plans

The 5 year financial plan reflects the increasingly challenging financial climate

41. Diagram 1 shows the significant level of further efficiencies required to maintain a balanced budget as set out in the Board's 2012-15 financial plans. The financial plans are continually revised, in collaboration with SGHSCD, to achieve a sustainable position. The Board is clear that further cash savings have still to be identified in response to this situation.

Diagram 1 – Efficiency savings



(Source: 2012 – 15 Financial Plan)

Funding

42. The Board's 2012-15 financial plan assumes future increases of approximately 1% (2012/13: 0.83%) per annum in RRL allocations. The Board's financial plan also assumes consistent year on year non-core funding including depreciation and impairment funding of £6.2 million.
43. The Board has agreed to carry forward £500,000 from the 2011/12 RRL allocation to be utilised in 2012/13. It is envisaged that this will help support the Board deliver a balanced budget and manage increasing cost pressures.
44. The Board has agreed these financial projections with the Scottish Government.

Cost pressures

Cost increases exceed funding increases

45. The Board faces very significant financial challenges in the coming years. The Board's 2012-15 Financial Plan is an integral part of the Local Delivery Plan. The Board must manage a wide variety of challenges such as demographic changes, pay modernisation, price and prescribing increases and more general health improvement initiative costs. The financial plan has been constructed on the basis of the financial assumptions shown in Table 4.

Table 4 - Price increase assumptions

Assumptions	2012/13
Supplies	4.00%
Pay – general*	0.30%
Drugs - Hospital	6.00%
SLA Expenditure (Net)**	0.00%
Resources	0.80%

* Assumes impact of grading changes etc

**Assumed match funding of increased SLA activity expenditure

(Source: 2012/15 Financial Plan)

46. Cumulatively the difference between additional funding received and cost pressures, pay increases etc is a shortfall of £2.3m for 2012/13. The Board is committed to delivering a balanced budget for 2012/13 and has agreed savings plans in place.

Savings plans

Savings targets were met in 2011/12

47. Table 5 sets out the cash savings programme delivered during 2011/12. The savings delivered were identified through a mixture of specific efficiencies highlighted at the start of the financial year and “in-year” programmes.

Table 5 – Savings plans 2011/12

Source of savings	2011/12 Savings target £000s	2011/12 Actual savings £000s	Variance £000s
Clinical productivity	755	731	(24)
Workforce	10	13	3
Drugs and prescribing	36	92	56
Procurement	1,206	1,472	266
Support services	1,053	1,142	89
Estates and facilities	200	38	(162)
Total	3,260	3,488	228

(Source: MMR March 2012 / LDP)

48. Actual savings delivered were above the initial targets established at the start of the financial year. Management monitor delivery against savings plans throughout the year and these are incorporated into budget reporting arrangements.
49. 84 savings initiatives have been identified to deliver the level of required savings over the coming years and there appears to be a positive culture within the organisation to deliver these. While senior management take a lead role in driving efficiencies, savings programmes involve management and staff across the organisation with a focus on challenging how services are currently delivered to identify improvements in effectiveness and efficiency rather than focusing on cuts.

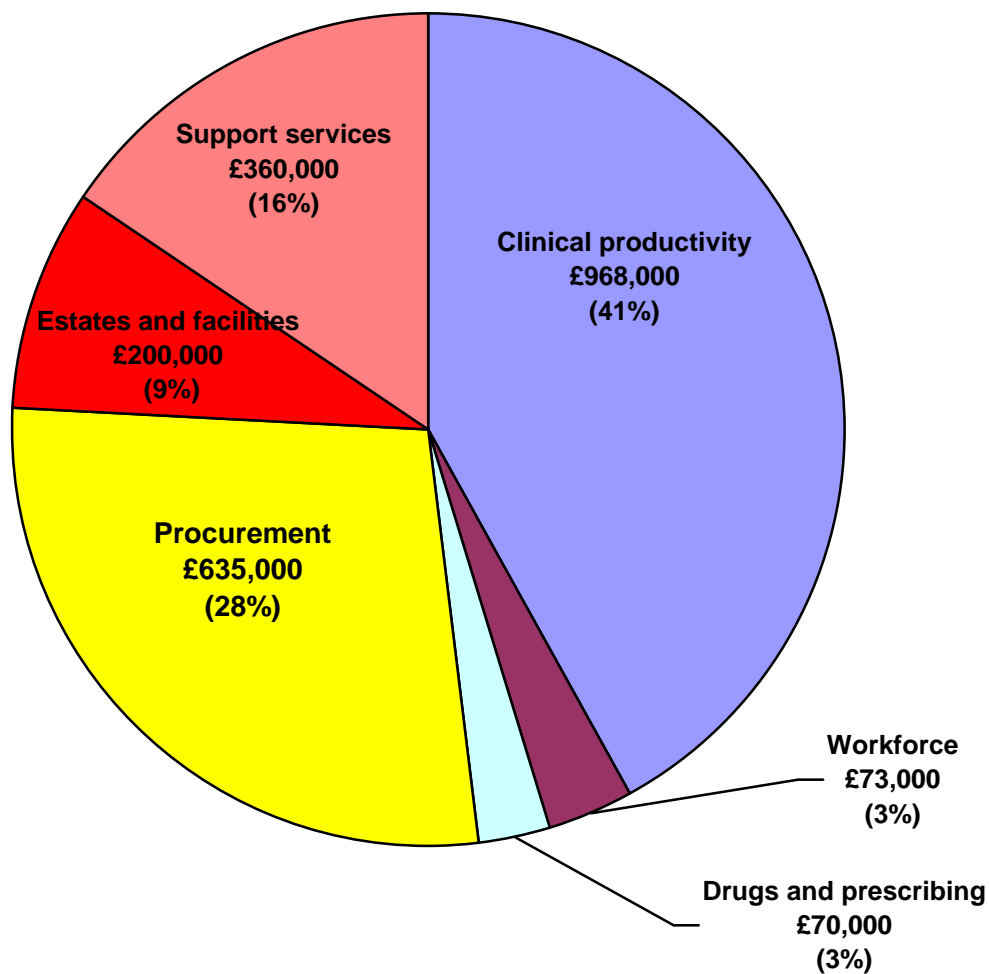
Robust budget monitoring arrangements are in place

50. The financial implications of specific savings plans are reflected in the relevant budget areas. Previously efficiency savings targets were allocated universally across budget codes. The revised arrangement ensures that there is a clear expectation at the start of the year as to where efficiencies will be achieved and enables robust monitoring of delivery against these.
51. Budget monitoring reports are considered in detail at a directorate level with individual budget codes subject to regular challenge on delivery against financial targets. There is a focus on continuous improvement. Budget areas which have failed to meet previous years' targets are expected to deliver these, along with any current year savings, within the new financial year.

Further savings will be required over the coming years

52. The Board has undertaken a comprehensive review of the savings required between 2012 - 15. On an annual basis the required savings are evaluated in detail as part of the budget setting process and formally agreed with SGHSCD. To deliver a balanced budget for 2012/13 the Board has identified required savings of £2.306 million. The plan is summarised below.

Diagram 2 – Savings plan



(Source: Board Financial Plan 2012/13 – May 2012)

53. The Board has historically been able to meet its saving targets and management is confident that, based on existing funding assumptions, these will continue to be delivered. The Board's financial plan includes a number of key risks to the delivery of the plan, including:

- Failure to deliver efficiency savings;
- Heart and lung costs are higher than forecast;

- Cost of Agenda for Change higher than anticipated;
 - Unsustainable referrals to support national waiting times targets and financial impact of waiting times initiatives;
 - Funding levels for the heart and lung facility not in line with strategy; and
 - Failure to deliver the Beardmore strategy.
54. The Board's activity is coordinated with local area health boards. Given the level of efficiencies being implemented across NHS Scotland it will be essential over the coming years to work ever more closely with health boards to forecast and manage changes in referral patterns and activity levels to ensure the facilities and resources at the Golden Jubilee Hospital and Beardmore Hotel continue to be used effectively.

Best value review – People Management

The Board is committed to delivering effective people management

55. Best value is defined as the continuous improvement in the performance of functions. The positive impact of the best value concept in local government led Scottish Ministers to introduce a non-statutory best value duty on all public sector accountable officers (across health and central government) in 2002. The *Scottish Public Finance Manual* now places a duty on the Chief Executive, as Accountable Officer, to make arrangements to secure best value.
56. Audit Scotland has developed an approach to the audit of best value to ensure consistency in undertaking reviews across the NHS, via a series of toolkits. During 2011/12, we worked with the Board to apply the People Management best value toolkit.
57. The review concluded that the Board is committed to delivering best value through effective people management. Management has identified a number of areas in which it believes it meets or exceeds the criteria for better practice. In particular, the board adheres to the NHS Scotland Staff Governance Standard and has a Staff Governance Action Plan to inform and support its People Management Agenda. National and local policies are in place to support the delivery of this agenda and the knowledge skills framework (KSF) and Personal Development Review (PDR) process is used to ensure that all staff know what is expected of them. The Workforce Planning Group regularly reviews the skill mix of the current workforce and considers this against future needs.
58. The Human Resources (HR) team has recently been restructured to ensure it is aligned to the needs of the organisation. A new Business Partner model has been developed to ensure that all staff have a clear point of HR contact and support. The board has also introduced the use of Twitter and Facebook, in addition to more traditional methods of communication, to ensure that there are positive connections in place between staff and the public. The board is also looking to develop areas which will increase its ability to demonstrate advanced practice. In particular, the board has recently developed a values statement to help promote and embed shared values

across the organisation. The board has achieved Investors in Volunteers status and is working towards achieving the status of Investors in Diversity.

Areas for improvement in people management

59. There are some opportunities for the Board to enhance and strengthen its people management arrangements including development of the visions and values work which has commenced and implementation of the HR systems investment. Similarly, it should try to evidence the extent to which workforce planning and joint working has improved the efficiency and organisation of key activities and resulted in better succession planning. By addressing the outstanding areas of best practice contained within the toolkit, the board will be in a position to demonstrate that it achieves advanced practice in best value in all of its people management activity.

Action plan point 3

National reports follow up

Targeted follow-up of Audit Scotland national study reports

60. During 2011/12, we undertook a targeted follow up on the Audit Scotland national report on *The Role of Boards* (published September 2010) and *Use of Locum doctors in hospitals* (published June 2010). *The Role of Boards* looked at how boards across the Scottish public sector operate and how they are accountable to the Scottish Government. *Use of locum doctors in hospitals* examined how efficiently and how safely NHS boards are using locum doctors in hospitals.
61. We are working with management as part of our ongoing audit programme to monitor the Board's response and development to deliver continuous improvement in light of the findings of the Audit Scotland reports.

Overall conclusion on financial management and use of resources

62. The overall conclusion from our review of the Board's financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets is that the board has effective arrangements in place for financial management and the delivery of best value in the use of resources.
63. Notwithstanding this, there are substantial risks in this area in 2012/13 and beyond and achievement of future financial targets will be extremely demanding. Robust operational planning and performance monitoring arrangements remain essential to ensure delivery of financial plans without jeopardising the quality of patient care.

Performance

Introduction

64. This section of the report looks at performance management arrangements. An effective performance management system is a key component in the effective monitoring and management of public sector resources.

Conclusion

65. The Board has in place a robust performance management framework. Directorates provide comprehensive performance information to management on a monthly basis covering all performance indicators included within the Board's Local Delivery Plan. These reflect both the core HEAT (Health, Efficiency, Access and Treatment) targets and local performance targets.

HEAT and performance targets

66. Performance against HEAT and other targets for 2011/12 is reported on a monthly basis to the senior management team and to the Board through the performance corporate scorecards. At the time of our audit the Board was in line to achieve 90% of its targets, as shown in Table 6.

Table 6 – Overall progress against targets

Progress	Total	On target	Below target
Local targets and priorities	4	4	0
Efficiency and Governance Improvements	3	2	1
Recognising patients' need for quicker and easier use of NHS services	2	2	0
Treatment	1	1	0
Total	10	9	1

(Source: Board Performance Reports)

67. The target that was missed was to reduce carbon emissions by 3% per annum and to reduce energy consumption by 1% per annum. For the year to 31 December 2011 the Board's carbon emissions rose by 3% against 2009 target due to increased activity and service changes. Likewise, energy consumption also rose by 2.12%, against the 2009 target. The Board results demonstrate a year on year reduction against actual usage however it has missed the 2009 target levels.

68. An energy steering group has been established along with a carbon management plan to enable the board to deliver the targets set within the LDP. This target remains a significant challenge to the Board given a significant change in service levels and activities since the baseline data, on which performance is assessed, was collected in 2009. This is a nationally set target however the Board may wish to liaise with SGHSCD to revise the target and/ or the baseline to reflect the current level of activity. We will continue to monitor the progress made by the Board in managing its energy consumption and carbon emissions levels.

Governance

69. This section sets out the main findings arising from our review of the Board's governance arrangements as they relate to:

- systems of internal control;
- the prevention and detection of fraud and irregularity;
- standards of conduct; and
- prevention and detection of bribery and corruption

70. We are pleased to report that governance arrangements at the NHS National Waiting Times Centre Board are effective. The Board receives regular and detailed performance and financial information which provides a good basis to facilitate scrutiny and challenge. There is a strong link between strategic and operational planning and risk management with key risks being identified and managed throughout delivery of plans.

Systems of internal control

71. To comply with the requirements of International Standards on Auditing (ISAs) and to facilitate an efficient audit, we have considered the Board's key accounting systems and internal financial controls. As reported in our interim audit report, we have found the internal controls over the accounting systems to be generally well designed and operating effectively.

72. The governance statement included within the Board's 2011/12 annual accounts disclosed no material internal control weaknesses and our audit identified no issues which we consider require to be disclosed in the governance statement. This is in keeping with the findings of internal audit's annual review which found that the Board continues to operate effective governance arrangements.

Risk management arrangements are robust

73. An important feature of a robust system of internal control is a developed and integrated approach to risk management. Effective risk management will deliver an appropriate balance between risk and control, more effective decision making, better use of limited resources and greater innovation.

74. The Chief Executive has overall responsibility for risk management at the Board. Management of risks are delegated through the executive directors to senior management, lead nurses and heads of service. Operational risk registers feed into the corporate risk register which is the key tool used to monitor and manage risks facing the Board.

75. The Clinical Governance and Risk Management Group (CCRMG) monitor management of risks and ensure that controls in place over risks are operating effectively. CGRMG ensure that actions identified within the risk register are being implemented effectively within appropriate

timescales. At a strategic level the CGRMG reports risks regularly to the Clinical Governance Committee and subsequently the Board and Audit Committee. This includes quarterly reporting of the corporate risk register.

The Board's internal audit services are provided by PricewaterhouseCoopers

76. Internal audit is a key component of the Board's corporate governance arrangements. The Board's internal audit service is provided by PricewaterhouseCoopers (PwC).
77. In accordance with ISA 610 – Considering the work of internal audit, “the external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment.” Overall, we concluded that PwC provides a service which complies with Government Internal Audit Standards and which we can rely upon. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate and we are grateful to the PwC internal audit team for their assistance during the course of our audit work.

Prevention and detection of fraud and irregularity

78. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. As part of our governance work we reviewed the Board's arrangements to prevent and detect fraud and irregularity.
79. During 2011/12 there were three instances of timesheet fraud identified at the Board through a combination of internal identification and fraud reporting mechanisms. No frauds reported in the year resulted in a material loss to the Board. We are satisfied that the Board has sufficient controls in place to prevent and detect any material frauds during the year.
80. The Board's internal audit work has been focused on covering areas of potential risk to the Board, ensuring that there is an independent assessment of controls in operation to prevent and detect against fraud. This will include a review of cash handling controls in place at the Beardmore as part of the 2012/13 annual internal audit plan.
81. We did not find any indication of material fraud and irregularity and concluded that the Board's internal controls and financial procedures were adequate to prevent and detect material fraud and irregularity.

The Board has adequate arrangements in place to enable it to take part in the National Fraud Initiative (NFI)

82. We have confirmed that the Board appears to have adequate arrangements in place to ensure data will be provided by October 2012 for the 2012/13 NFI exercise. Relevant data is in the process of being collated for the submission.

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

83. We have reviewed the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct. We also considered controls over registers of interest and disposal of assets. We are pleased to report that our audit identified no significant issues of concern in relation to standards of conduct and the arrangements for prevention and detection of bribery and corruption.

84. Guidance is produced by the Scottish Government regularly throughout the year. The Board has appropriate systems in place to demonstrate and record how SGHSCD circulars have been implemented.

Looking forward

Finance and use of resources

85. The 2012-15 Local Delivery Plan outlines the Board's key targets over the next three years. Delivering financial targets over the next three years will be challenging and considerable real cash efficiency savings will be required. The Board has established a range of projects to deliver these, although a number require considerable review of staffing arrangements. Significant changes, if required, may be constrained through national policy issues.
86. Management is confident that, whilst the financial position remains challenging, there is sufficient scope within the Board to generate the savings required without impacting on front-line service delivery.
87. Key financial risks which may impact on the achievement of the projected financial outturns have been identified by the Board, and areas such as increasing hospital drug costs, staffing costs and new or changed national waiting time initiatives will create further pressures. It is vital that the Board monitors financial performance closely, in particular areas where efficiency savings are required, to enable the Board to be in a breakeven position next year.

NHS Superannuation Scheme

88. The Board participates in the NHS Superannuation Scheme for Scotland. This is a defined benefits scheme, where contributions are credited to the Exchequer and are deemed to be invested in a portfolio of Government securities. In common with other boards, the Board is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis and therefore accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the statement of comprehensive net expenditure represents the Board's contributions payable to the scheme in respect of the year. The most recently published actuarial valuation was for the year 31 March 2004. Given that the Scheme ought to be subject to a full actuarial valuation every five years, a more up to date valuation should have been received by now and reflected in the 2011/12 accounts. The periodic actuarial valuation is key to determining the adequacy of employer and employee contributions to the Scheme.
89. As a result of the delay in finalising the valuation of the NHS Superannuation Scheme, and in common with all health boards in Scotland, the net liability figure for the Scheme, as disclosed in Note 24 is out of date. There is a risk that the liability is understated and therefore the current level of contributions from employers and employees may not be adequate to meet the future commitments of the Scheme.

Action plan point 4

Performance

90. HEAT targets will come under increasing pressure in the current financial operating environment. The challenge will be to operate sustainably whilst minimising impact on performance and the quality of services.
91. The Board delivers a broad range of frontline services which require sufficient capacity to meet the changing needs of other boards and the Scottish Government. The Board must ensure that it has sufficient flexibility to respond to changing demand without jeopardising efficiency and effectiveness of operational delivery.
92. Delivering carbon emissions reductions and energy efficiency targets remains a significant challenge. It will be important for the Board to ensure that there is comprehensive monitoring of these targets to ensure that targets established within the LDP are achieved.

Governance

93. To help the Board address its pressures and challenges, both as a result of local and national issues, it is more important than ever that sufficient and appropriate leadership, scrutiny and challenge is in place to deliver the best outcomes for the public. Maintaining an effective governance framework will be key to the future success of the Board.
94. The Board is currently undertaking a review of the governance structures of the organisation to ensure that the standing committees of the Board continue to meet the requirements of the organisation and align with the requirements of the Quality Strategy.

Appendix 1 - Action Plan

Our annual report action plan details the more significant control weaknesses and opportunities for improvement that we have identified during our final audit visit in addition to any reportable matters arising from our review of performance and governance systems.

The action plans detail the officers responsible for implementing the recommendations and implementation dates. The Board should assess these recommendations for their wider implications before approving the action plan.

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

Grading

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been graded. The grading structure is summarised as follows:

- Grade 5 Very high risk exposure - Major concerns requiring Board attention.
- Grade 4 High risk exposure - Material observations requiring management attention.
- Grade 3 Moderate risk exposure - Significant observations requiring management attention.
- Grade 2 Limited risk exposure - Minor observations requiring management attention
- Grade 1 Efficiency / housekeeping point.

Issues arising from our 2011/12 audit

No.	Title	Issue identified	Risk and recommendation	Management comments
1	Balances with other boards (Para 23)	<p>The NHS Manual for Accounts requires that the amounts included within the SFR 30 note reported to SGHSCD must agree with NHS receivables, payables and income reported in the accounts. We found that while amounts due to and from other NHS bodies (excluding NHS GG&C) in the accounts agreed to the SFR 30 and subsequent inter-board agreements, income did not agree.</p> <p>We subsequently discovered that an internal communication issue within the finance team did not correlate changes highlighted during the audit to a final and revised SFR30 letter with GG&C, all other Health Boards SFR30 letters are reconciled. The differences relate to payments already made by NWTCB to GG&C and accruals signed by GG&C managers. The recommendation to improve internal processes is included within the action plan on appendix 1.</p>	<p>There is a risk that the Board does not use appropriate information when agreeing transactions and balances with other NHS bodies.</p> <p>The Board should ensure that future inter-board agreements are based on income figures used to populate the accounts. These agreements should then form the basis of the SFR 30 note</p> <p>Grade 3</p>	<p>This internal issue has been accepted and procedures are in place to ensure this will not occur again. The amount included within the accounts is accurate. The difference sits with GG&C which relates to an accrual they have previously approved there is therefore no risk to the Boards income.</p> <p>Responsible officer: This will be implemented by Lily Bryson, Assistant Director of Finance and overseen from a governance perspective by Julie Carter, Director of Finance</p> <p>Deadline: with immediate effect</p>

No.	Title	Issue identified	Risk and recommendation	Management comments
2	<p>Property, plant and equipment (Para 33)</p>	<p>The value of the hospital is based upon a revaluation undertaken annually and any movement in year is reflected in the revaluation reserve. As per capital accounting manual this movement should be reflected in the general fund.</p> <p>During our audit we identified that the Board had not reflected the transfer between reserves in the current year or the previous two years.</p>	<p>There is a risk that the Board do not appropriately reflect the true value of reserves within the financial statements.</p> <p>We recommend that the Board ensure that a comprehensive evaluation of revaluation reserve balances is undertaken to ensure that reserve balances are appropriately valued in the accounts.</p> <p>Grade 3</p>	<p>The value of the total reserves are accurate. The review will conclude if any transfers between reserves is required.</p> <p>This review will be actioned during 2012/13 for conclusion by end September 2012</p> <p>Responsible officer: This review will be undertaken by Karen Fee, Financial Accountant and overseen by Lily Bryson, Assistant Director of Finance</p> <p>Deadline: by end September 2012</p>
3	<p>Areas for improvement in people management (Para 59)</p>	<p>During the best value review of people management arrangements the Board identified a number of areas to enhance and strengthen its people management arrangements.</p>	<p>There are opportunities for the board to enhance and strengthen its people management arrangements.</p> <p>We recommend that the Board look to address the outstanding areas of best practice contained within the toolkit to enable the board to be in a position to demonstrate that it achieves best value in all of its people management activity.</p>	<p>The report has been agreed by the Board and an action plan put in place. This will be reviewed on an ongoing basis.</p> <p>Responsible officer: Lindsey Ferries, Director of HR</p> <p>Deadline: By end March 2013</p>

No.	Title	Issue identified	Risk and recommendation	Management comments
			Grade 2	
4	NHS Superannuation scheme (Para 89)	The most recent actuarial valuation was for the year 31 March 2004. Given that the Scheme ought to be subject to a full actuarial valuation every five years, we would have expected a more up to date valuation to have been reflected in the 2011/12 accounts	<p>There is a risk that, as the 2008 actuarial valuation has not been completed, it is uncertain whether the current level of contributions from employers and employees will meet the future commitments of the Scheme. The Board must work with the SGHSCD to ensure that the Scheme is subject to timely evaluation, and that the adequacy of the employer and employee contributions has been reviewed.</p> <p>The Board should work with SGHSCD and Scottish Public Pensions Authority on how this issue will be taken forward at a national level.</p> <p>Grade 2</p>	<p>The Board will liaise with SGHD and agree a common approach across Scotland.</p> <p>Responsible officer: Julie Carter, Director of Finance</p> <p>Deadline: throughout 2012/13</p>

Appendix 2 - Unadjusted differences

No.	Narrative	SOCNE / SORO		Balance Sheet		Impact on surplus against RRL £ ('000)
		£ DR ('000)	£ CR ('000)	£ DR ('000)	£ CR ('000)	
1.	Dr Payables			248		
	Cr General Fund				248	
	<i>Being adjustment to recognise outstanding amounts due to NHS Greater Glasgow and Clyde</i>					
	Net impact of unadjusted differences – movement in surplus against RRL					0



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