



NHS National Waiting Times Centre Board

Annual Audit Report to the Board
and the Auditor General for
Scotland

27 May 2013



Scott-Moncrieff
business advisers and accountants

NHS National Waiting Times Centre Board

Annual Audit Report to the Board and the Auditor General for Scotland

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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 13 June 2013. We expect to report, within our independent auditor’s report, unqualified opinions on the financial statements of the Board for the year ended 31 March 2013 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 2013 deadline. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to 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, we identified that balances had not been agreed with NHS Greater Glasgow and Clyde (NHS GG&C) until late in the audit process. Furthermore, transactions and balances with a number of territorial boards relating to the Beardmore Hotel and Conference Centre, although not material to the financial statements, were not agreed in line with SGHSCD guidance.

Use of resources

Financial performance

The Board met all of its key financial targets for 2012/13. The Board achieved a surplus against its Revenue Resource Limit (RRL) of £756,000, which will be carried forward to 2013/14. The financial performance included delivery of efficiency savings of £2.598 million, £293,000 above the targeted amount.

Robust financial management arrangements are in place and a comprehensive exercise has been undertaken to identify areas where efficiency savings can be generated. Savings plans are embedded within budget allocations and are subject to detailed scrutiny across each directorate.

Performance

The Board has a robust performance management framework in place. Directorates provide comprehensive performance information to management on a monthly basis. This information covers all performance indicators included within the Local Delivery Plan. Both the core HEAT (Health, Efficiency, Access and Treatment) targets and local performance targets are included in the Board’s performance management reports.

Governance

Our work on corporate governance focussed on reviewing the arrangements 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 2013-16 Local Delivery Plan (LDP) outlines the Board's key targets over the next three years. The financial plans for the 2013/14 financial year include the requirement to make £2.642 million of efficiency savings. Ensuring that planned efficiencies do not impact on frontline service delivery will be a key challenge over the coming years.

Conclusion

This report concludes our audit for 2012/13. 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 Director of Finance and we would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff
May 2013

Introduction

1. This report summarises the findings from our 2012/13 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 2012/13 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 *Scottish Public Finances: Addressing the Challenges*
 - 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 2012/13:
 - External audit plan
 - Interim management report
 - Targeted follow up of Audit Scotland’s *Scottish Public Finances: Addressing the Challenges*
4. The key issues from these outputs are summarised in this annual report.
5. 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.
6. 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

7. 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 2012/13 financial statements.

Management responsibilities

8. 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 2013; and
 - preparing a Directors' Report, an Operating and Financial Review, a Governance Statement and a Remuneration Report.

Auditor responsibilities

9. 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).
10. 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

11. 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.
12. 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.

Qualitative aspects of accounting practices and financial reporting

13. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided in the financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies, which are disclosed in the financial statements, and we consider these to be appropriate to the Board.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The accounting estimates and judgements used by management in the preparation of the financial statements are considered appropriate. Estimates and judgements have been adopted over fixed asset valuations, depreciation rates and valuation of provisions. Where available, the Board have utilised the work of independent experts or industry practice to support the basis estimate applied.
The potential effect on the financial	There are no significant uncertainties or

Qualitative aspect considered	Audit conclusion
statements of any uncertainties including significant risks and disclosures such as pending litigation.	risks that should be included in the financial statements. We have raised an audit adjustment for the Board to derecognise an accrual in the accounts for a potential HMRC liability (paragraph 20) due to uncertainty over future liability. However, we do not consider this to be material to the accounts.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the financial statements.	From the testing we performed, we identified no unusual transactions in the period.
Apparent misstatements in the directors' report or material inconsistencies with the financial statements.	There are no misstatements or material inconsistencies between the financial statements and the directors' report.
Any significant financial statement disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All disclosures made are required by relevant legislation and applicable accounting standards.
Disagreement over any accounting treatment or financial statement disclosure.	We have raised an audit adjustment for the Board to derecognise an accrual in the accounts for a potential HMRC liability (paragraph 20) due to uncertainty over future liability. However, we do not consider this to be material to the accounts. There was no other disagreement during the course of the audit with regards to any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

Overall conclusion

An unqualified audit opinion on the financial statements

14. The annual accounts are due to be approved by the Board on 13 June 2012. We expect to report, within our independent auditors' report, an unqualified opinion on the financial statements for the year ended 31 March 2013.
15. 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

16. 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.
17. 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

18. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to the finance team for their assistance with our work.
19. 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 2013 deadline.

Audit and accounting adjustments

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

Table 1 – Balance sheet adjustments

	£000	£000
	DR	CR
Revaluation reserve	164	
Property, plant and equipment		164
<i>Being adjustment to reflect in-year revaluation of property, plant and equipment</i>		
Revaluation reserve	721	
General fund		721
<i>Being release from revaluation reserve in respect of the excess of revalued depreciation over historic cost.</i>		

Unadjusted differences

22. During 2012/13, following an HMRC Aspect Review, the Board was required to pay £606,000 in NI and tax payments to HMRC this was due to a historical arrangement relating to payments to visiting medical consultants. These staff had previously been incorrectly paid as contracted suppliers rather than through the payroll system. HMRC imposed an additional suspended penalty of £104,000, which the Board would be required to pay if it failed to adhere to conditions applied by HMRC over the following two months. This suspended penalty has been accrued within the 2012/13 financial statements.
23. As the payment of the penalty is dependent on a future action i.e. the Board's adherence to the conditions applied by HMRC, there is uncertainty over whether the Board will actually be liable for any payment. The Board believes that future payment is unlikely but has recognised the liability on the basis of prudence. In our view, accounting standards dictate that liabilities should only be recognised when it is likely that there will be a future transfer of economic benefits, i.e. it is likely that the board will actually have to make a payment. As any future payment is unlikely, the penalty should not be charged to Statement of Comprehensive Net Expenditure but should instead be disclosed separately as a contingent liability.

Table 2. Unadjusted differences

	£000	£000	Net impact on comprehensive net expenditure
	DR	CR	£'000
Accruals	104		
Expenditure		104	104
<i>Being adjustment to remove accrual for suspended HMRC penalty</i>			
Net potential reduction of unadjusted misstatements on comprehensive income			104

Balances with other boards

24. 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.
25. 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. Amounts due to and from other NHS bodies in the accounts agreed to the SFR 30 and subsequent inter-board agreements. However, the Board did not agree balances due to NHS Greater Glasgow and Clyde until late in the audit process. Furthermore, we found that some transactions and balances relating to the Beardmore Hotel and Conference Centre had not been agreed with all other boards.

26. Future inter-board agreements should be based on income figures used to populate the accounts. These agreements should then form the basis of the SFR 30 note.

Action plan point follow up point 1

Key areas of audit focus and significant findings

27. 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

28. The Beardmore Hotel and Conference Centre (“the Beardmore”) continues to be self-financing. The Beardmore has responded to a challenging economic environment and continues to operate at a profit.
29. 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. Following legal advice, both parties agreed an out of court settlement prior to the dispute reaching tribunal. However, there is still uncertainty over the future contractual arrangements with casual staff which could potentially lead to further financial pressures.
30. Management has undertaken scenario planning to establish the impact that any change in employment conditions may have on the financial sustainability of the Beardmore. It is likely, whatever option is taken, that this will have a significant impact on services offered. It will be important for management to ensure that robust plans are put in place to ensure that the Beardmore remains financially sustainable.

Financial system

31. The Board is in the process of changing a number of its key financial systems. These include the upgrade of the ledger system, fixed asset system and procurement systems. The transfer to the new financial system has progressed well.
32. We confirmed during our audit that the financial systems contain an accurate record of balances and transactions throughout the year. Management envisage that the final stages of the transfer of the ledger system will take place over the coming months.

Related party confirmations

33. International Accounting Standard 24: *Related Party Disclosures* (IAS 24) requires disclosures about transactions and outstanding balances with an entity's related parties. The objective of IAS 24 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position may have been affected by transactions and outstanding balances with related parties.
34. A person or a close member of that person's family is related to a reporting entity if that person has significant influence over the reporting entity. Senior management and board members fall within this classification. Therefore where these individuals have related party interests in entities that the Board have transactions with, then these transactions should be disclosed in the accounts.

35. Currently the Board's register of interests disclosure form does not prompt disclosure of related party relationships of close family members. While we found that senior management had disclosed this information appropriately, it was generally done on an ad-hoc basis and not prompted by the disclosure form.
36. There is a risk that the Board does not identify and disclose all related party transactions within the accounts. We recommend that the Board amend the disclosure form to identify all potential related party transactions.

Action plan point 1

NHS Superannuation Scheme

37. The Board participates in the NHS Superannuation Scheme for Scotland. The amount charged to the statement of comprehensive net expenditure represents the Board's contributions payable to the scheme in respect of the year, determined by an actuarial valuation. However 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 2012/13 accounts. The periodic actuarial valuation is key to determining the adequacy of employer and employee contributions to the scheme.
38. 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 20 in the financial statements, is out of date. There is a risk that the liability may be understated and therefore the current level of contributions from employers and employees may not be adequate to meet the future commitments of the scheme.

Use of resources

39. 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 2012/13

The Board has met its key targets in the year

40. The Board is required to work within the resource limits and cash requirements set by SGHSCD. As shown in Table 3 below, the Board has met all of its financial targets.

Table 3 – Performance against financial targets

Financial Target	Target £000	Actual £000	Underspend £000	Target achieved
Revenue Resource Limit – Core	52,380	51,624	756	Yes
Revenue Resource Limit – Non-core	5,867	5,867	-	Yes
Capital Resource Limit	3,080	3,080	-	Yes
Cash Requirement	52,420	52,420	-	Yes

(Source: 2012/13 Annual Accounts)

41. The Board achieved a surplus against its Revenue Resource Limit (RRL) of £756,000. The outturn position against RRL will be carried forward into 2013/14, which has been agreed with the Scottish Government.
42. The 2012/13 financial performance included delivery of efficiency savings of £2.598 million, £293,000 above the targeted amount. The overachievement of efficiency savings occurred primarily on a non-recurrent basis through procurement and efficient use of estates and facilities management. The remaining £463,000 surplus against RRL has been achieved through robust cost control arrangements and over achievement of savings in previous years.
43. The Board achieved an underlying recurring financial surplus of £756,000 and cash releasing efficiency savings of 6.2% of the baseline funding were achieved in 2012/13. Management adopt a prudent approach to financial plans while ensuring that forecasts remain as accurate as possible. Consequently the Board has sufficient flexibility to respond to changing needs or pressures in the year. In our opinion the Board has effective financial management arrangements in place.

Capital Resource Limit

The Board delivered a breakeven position against CRL for 2012/13

44. The Board generated a breakeven position against CRL in 2012/13 with total capital expenditure of £3.080 million. This is an increase of £572,000 over the 2011/12 capital spend. The capital expenditure predominantly related to medical equipment. The Board's capital

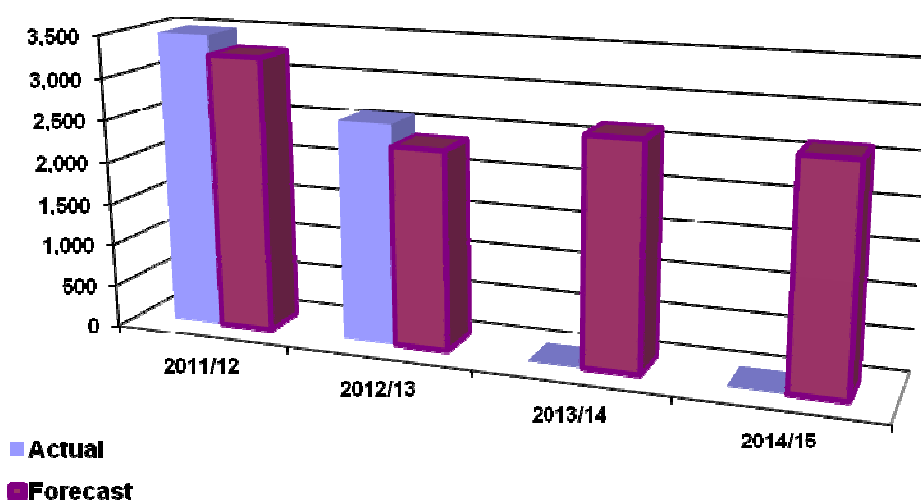
programme also included infrastructure work on the Golden Jubilee Hospital and included £775,000 of backlog maintenance property expenditure.

Financial plans

The 5 year financial plan reflects the increasingly challenging financial climate

45. Diagram 1 shows the significant level of further efficiencies required to maintain a balanced budget as set out in the Board's 2013-16 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 2013 – 16 Financial Plan)

Funding

46. The Board's 2013-16 financial plan assumes future increases in RRL allocations of approximately 1% for the next two years. The financial plan also assumes consistent year on year non-core funding including depreciation and impairment funding of approximately £6 million.
47. The Board has agreed to carry forward £756,000 from the 2012/13 RRL allocation to be utilised in 2013/14. This was agreed by Scottish Government as a result of slippage in the investment in quality initiatives, the slippage was due to project and recruitment delays.
48. The Board has agreed these financial projections with the Scottish Government.

Cost pressures

Cost increases exceed funding increases

49. The Board continues to face very significant financial challenges in the coming years. The 2013-16 Financial Plan is an integral part of the Local Delivery Plan and highlights a wide range

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
Resources	1.00%
Supplies	3.00%
Pay – general*	1.00%
Drugs - Hospital	5.00%

* Assumes impact of grading changes etc

(Source: 2013/16 Financial Plan)

- 50. Cumulatively, the difference between additional funding received and new cost pressures is a shortfall of £2.643m for 2013/14. This includes £0.115million in non-recurring savings. The Board is committed to delivering a balanced budget for 2013/14 and has savings plans in place, as noted below.
- 51. The assumptions on which the financial plan is based appear reasonable and consistent with our understanding of the Board's financial position and the wider health sector and have been incorporated into the Board's Local Delivery Plan.

Savings plans

Savings targets were exceeded in 2012/13

- 52. The Board exceeded its savings targets during 2012/13 by £293,000. These savings were delivered through a mixture of specific efficiencies highlighted at the start of the financial year and "in-year" programmes.
- 53. 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 reports.
- 54. A range of savings initiatives has 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

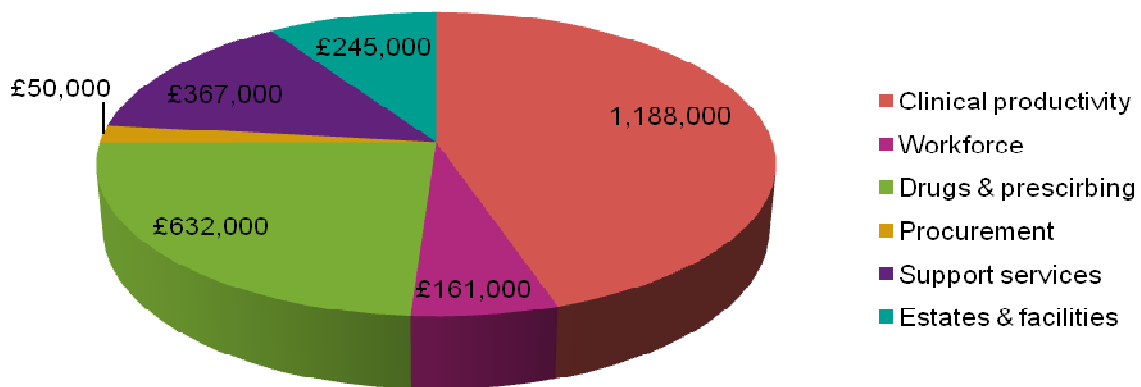
- 55. The financial implications of specific savings plans are reflected in the relevant budget areas. Previously, efficiency savings targets were allocated universally across budget codes. The revised arrangement ensures that there is a clear expectation at the start of the year as to exactly where efficiencies will be achieved, which enables robust monitoring of the plans.

56. 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

57. The Board has undertaken a comprehensive review of the savings required between 2013 and 2016. 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 2013/14, the Board has identified required savings of £2.643 million. The savings plan is summarised below.

Diagram 2 – 2013/14 Savings plan



(Source: Board Financial Plan 2013/16)

58. 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; and
- Failure to deliver the Beardmore strategy.

59. 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 as effectively as possible.

National reports follow up

Targeted follow-up of Audit Scotland national study reports

60. As part of our annual audit work for 2012/13, we will undertake a targeted follow up on the Audit Scotland national report on Scotland's public finances: addressing the challenges. The report provided an overview of the scale of budget cuts expected to be faced by the Scottish public sector in the period 2011/12 to 2014/15, and how public bodies were beginning to respond to the challenges of reducing expenditure.
61. In line with the timetable set out by Audit Scotland, 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 report.

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 2013/14 and beyond and achievement of future financial targets will be achievable but extremely demanding. Robust operational planning and performance monitoring arrangements remain essential to ensure that financial plans are delivered 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 a robust performance management framework in place. Directorates provide comprehensive performance information to management on a monthly basis. This information covers all performance indicators included within the Board's Local Delivery Plan. The Board's performance management reports include national HEAT (Health, Efficiency, Access and Treatment) targets and local performance targets. .

HEAT and performance targets

66. Performance against HEAT and other targets for 2012/13 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 all of its targets, as shown in Table 6.

Table 5 – Overall progress against targets

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

(Source: Board Performance Reports)

67. To ensure that the performance targets reflect those over which the Board has direct influence or control, the Board agreed with the Scottish Government Performance Division to reduce the number of relevant HEAT targets.
68. The Board's strong performance in the year demonstrates management's commitment to ensuring effective service delivery.

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 appear to be effective and in line with good practice. 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 through 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 2012/13 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.

The Board's internal audit services are provided by PricewaterhouseCoopers

73. Internal audit is a key component of the Board's corporate governance arrangements. The Board's internal audit service is provided by PricewaterhouseCoopers (PwC).
74. 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 to 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.

Governance developments during the year

75. During 2012/13 the Board reviewed the role of each of its governance committees. This includes the Audit Committee, Clinical (Safe) Governance Committee and the Staff (Person Centred) Governance Committee. The purpose of the review was to ensure that the committees were fulfilling the governance requirements of the Board and were demonstrating

clear links to the NHS in Scotland quality strategy. Following this review, revised remits for each of the governance committees were updated accordingly. All the revised terms of reference were approved by the Board, after which the committees commenced working to these updated terms of reference. In addition, all committees have submitted formal annual reports regarding the work of the committee to the Board.

Prevention and detection of fraud and irregularity

- 76. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the annual financial statements resulting from fraud and irregularity. As part of our governance work we also reviewed the Board's arrangements to prevent and detect fraud and irregularity.
- 77. During 2012/13 there was a case of stolen identity within the Board. As a result of this, the Board has been working with the UK Border Agency to ensure arrangements are put in place to prevent a similar event occurring. The case did not result in the Board itself being defrauded.
- 78. We did not find any indication of material fraud and irregularity and concluded that the internal controls and financial procedures for preventing and detecting material fraud and irregularity are reasonable.

The Board is making progress with work around the National Fraud Initiative (NFI)

- 79. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland, assisted by the Audit Commission. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
- 80. We have confirmed that the Board appears to have adequate arrangements in place to ensure that NFI matches are appropriately investigated. Currently management is in the progress of investigating matches reported and the arrangements the Board have in place appear adequate.

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

- 81. 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.
- 82. 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

- 83.** The 2013-16 Local Delivery Plan (LDP) outlines the Board's key targets over the next three years. The Board's financial plans for the 2013/14 financial year include the requirement to make £2.642 million of efficiency savings. Delivering these financial targets will be challenging and considerable cash releasing efficiency savings will be required. The Board has established more than 60 efficiency schemes to deliver these savings. A number of schemes require a review of staffing arrangements, including the redesign of services; an early retirement or voluntary severance packages scheme; a review of the skill mix; and an ongoing review of job planning. As with any significant change process, there are a number of risks to the delivery of these schemes, including those relating to national policy issues, staff and management buy-in and service quality.
- 84.** 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.
- 85.** The Board is expecting a funding uplift of 1% in 2013/14 to support costs arising from pay and supplies inflation. However, costs are anticipated to increase by approximately 4-5% per annum over the next three years. These cost increases relate to rising energy and waste costs, general inflation, the impact of automatic enrolment, incremental banding reviews and pharmacy costs.
- 86.** It is vital that the board continues to monitor financial and service performance closely, particular in areas where efficiency savings are required, to enable the Board to continue to break even against its financial targets while maintaining service standards.

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

The grading structure for our recommendations is 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.

Action plan

1	Register of interests
Observation	The Board's register of interests disclosure form does not prompt the disclosure of related party relationships of close family members interests. While we found that senior management had disclosed this information, it was generally done on an ad-hoc basis and not prompted by the disclosure form.
Risk and recommendation	There is a risk that the Board does not identify and disclose all related party transactions within the accounts. We recommend that the Board amends the disclosure form to identify all potential related party transactions.
Management response	Grade 2 The Board notes this action and accepts whilst disclosure has been made it would improve the process if the disclosure form explicitly requests this information. The revised form will also be shared with Scottish Government to ensure this can be rolled out across the other Health Boards
Responsible officer and deadline	Responsible Office – Director of Finance Deadline – June 2013

Follow up on prior year action plan

1	
Balances with other Boards	
Observations	<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..</p>
Risk and recommendations	<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>
Prior year management response	<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>
Audit observation in current Year	<p>Amounts due to and from other NHS bodies in the accounts agreed to the SFR 30 and subsequent inter-board agreements. However, the Board did not agree balances due to NHS Greater Glasgow and Clyde until late in the audit process. Furthermore, we found that some transactions and balances relating to the Beardmore Hotel and Conference Centre had not been agreed with all other Boards.</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>

Current year management response

The audit point is accepted. Whilst improvements had been made within the process as identified in the previous year audit, the issue with the NHS GG&C late agreement was due to resolution of a query identified at initial agreement stage. This was unique to GG&C,

In relation to the Beardmore Hotel given the current contractual relationship with the other Boards as customers this is more similar to a commercial transaction, the SFR30 process has never been used by the Boards, also the balances tend to be immaterial. However this point is noted and work will be undertaken in 2013/14 to ensure the SFR30 process is put in place.

Responsible officer: Implementation by Assistant Director of Finance

Deadline: By march 2014

2 Property, plant and equipment

Observations

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.

During our audit we identified that the Board had not reflected the transfer between reserves in the current year or the previous two years.

Risk and recommendations

There is a risk that the Board do not appropriately reflect the true value of reserves within the financial statements.

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.

Grade 3

Prior year management response

The value of the total reserves are accurate. The review will conclude if any transfers between reserves is required.

This review will be actioned during 2012/13 for conclusion by end September 2012

Responsible officer: This review will be undertaken by Karen Fee, Financial Accountant and overseen by Lily Bryson, Assistant Director of Finance

Deadline: by end September 2012

Audit observation in current

The initial draft accounts did not contain a transfer from the revaluation reserve to the general reserve. However,

year following receipt of the formal valuation report, management have updated the accounts to show a release of £721,000 between the reserves.
We are satisfied that this accurately reflects the annual release required within the financial statements.

Issue resolved

3 **People management**

Observations During the best value review of people management arrangements the Board identified a number of areas to enhance and strengthen its people management arrangements.

Risk and recommendations There are opportunities for the board to enhance and strengthen its people management arrangements.

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.

Grade 3

Prior year management response The report has been agreed by the Board and an action plan put in place. This will be reviewed on an ongoing basis.

Responsible officer: Lindsey Ferries, Director of HR

Deadline: By end March 2013

Audit observation in current year An action plan has been developed identifying areas for strengthening people management arrangements. The Board is working towards implementing these actions and continuously improve to ensure that it achieves best value across all of its people management activities.

Issue resolved

4 **NHS superannuation scheme**

Observations 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.

Risk and recommendations 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.

The Board should work with SGHSCD and Scottish Public Pensions Authority on how this issue will be taken forward at a national level.

Grade 2

Prior year management response

The Board will liaise with SGHD and agree a common approach across Scotland.

Responsible officer: Julie Carter, Director of Finance

Deadline: throughout 2012/13

Audit observation in current year

The Board should work with SGHSCD and the Scottish Public Pensions Agency on how this issue will be taken forward at a national level.

Issue outstanding

Current year management response

Responsible officer: Director of Finance

Deadline: March 2014

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