NHS National Waiting Times Centre Board

Annual report to the Board and the Auditor General for Scotland

June 2014

Scott-Moncrieff
business advisers and accountants

NHS National Waiting Times Centre Board

Annual report to the Board and the Auditor General for Scotland

Summary

Financial statements

The Board's annual accounts for the year ended 31 March 2014 were approved on 19 June 2014. We have reported, within our independent auditor's report, unqualified opinions on the financial statements, the regularity of transactions and on other prescribed matters. We are also satisfied that there are no matters which we are required to report to you by exception.

We identified two unadjusted differences during our audit work and the Board identified one further unadjusted difference. We do not consider these three differences to be material to the financial statements either individually or in aggregate. Through discussion with the Director of Finance the decision was therefore taken not to adjust the annual accounts.

The annual accounts will be submitted to the Scottish Government and the Auditor General for Scotland prior to the 30 June 2014 deadline.

Use of resources

Financial performance

The Board has met all of its key financial targets, achieving a saving against its revenue resource limit of £0.500 million (0.9%). This saving is close to the break even position that was forecast as part of the 2013/14 local delivery plan and has been agreed with the Scottish Government. In achieving this result, the Board has reported efficiency savings of £3.650 million, which are £1.007 million above the target set. The Board has invested its full £3.050 million capital resource allocation.

The local delivery plan forecasts a break even position in each of the next three years. Although core funding is expected to increase modestly over the next three years, the Board is also expected to make efficiency savings totalling approximately 5% of its revenue resource limit in each of the three years. The Board has already identified 100% of the £2.930 million savings that need to be made in 2014/15.

Operational performance

The Board has appropriate performance management arrangements in place. Performance against relevant national health, efficiency, access and treatment (HEAT) targets as well as local performance targets is monitored by management and is reported at each Board meeting. The latest available performance information for the Golden Jubilee National Hospital shows that two performance targets were not expected to be met during 2013/14. These were:

- 80% of Agenda for Change staff to be actively using eKSF for their annual KSF PDR by March 2014.
- Patients to be treated within 12 weeks from the date that the treatment is agreed.

Governance

In our view, the Board's governance arrangements are effective and in line with expectations. Our work on governance focused on reviewing the arrangements to ensure effective systems are in place for internal control, risk management, prevention and detection of fraud and irregularity, standards of conduct and the prevention and detection of bribery and corruption.

Conclusion

This report concludes our audit for 2013/14. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, 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
June 2014

Introduction

1. This report summarises the findings from our 2013/14 audit of NHS National Waiting Times Centre Board ('the Board'). The scope of our audit was set out in our External Audit Plan, which was previously presented to the Audit Committee.

2. The main elements of our audit work in 2013/14 have been:

   - a review of governance arrangements, internal controls and financial systems; and
   - an audit of the financial statements, including a review of the Governance Statement;

3. 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.

4. 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.

Board Members' responsibilities

5. 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 thereunder. This means:

   - applying on a consistent basis the accounting policies and standards approved for NHS Scotland by Scottish Ministers;
   - making judgements and estimates that are reasonable and prudent;
   - stating whether applicable accounting standards as set out in the Financial Reporting Manual (FReM) have not been followed where the effect of the departure is material; and
   - preparing the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate.

6. Board members are responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Board and enable them to ensure that the accounts comply with the National Health Service (Scotland) Act 1978 and the requirements of Scottish Ministers. They are also responsible for safeguarding the assets of the Board and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

7. We audit the financial statements and the part of the Remuneration Report to be audited and give an opinion on:

   - whether the financial statements give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the Board's affairs as at 31 March 2014 and of its net operating cost for the year then ended;

- whether the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the 2013/14 FReM;

- whether the financial statements have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and

- whether in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers (the regularity opinion).

- whether the part of the Remuneration Report to be audited has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and

- whether the information given in the Operating and Financial Review for the financial year for which the financial statements are prepared is consistent with the financial statements; and

8. We also report to you by exception if, in our opinion:

   - adequate accounting records have not been kept; or

   - the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or

   - we have not received all the information and explanations we require for our audit; or

   - the Governance Statement does not comply with guidance from the Scottish Ministers; or

   - there has been a failure to achieve a prescribed financial objective.

Independence

9. International Standard on Auditing (UK & Ireland) 260 (ISA 260) “Communication with those charged with governance” requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

10. We confirm that we have complied with Auditing Practices Board 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:

    - 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,

    - Scott-Moncrieff has not provided any consultancy or non-audit services to the Board.

Financial Statements

Introduction

11. The annual accounts are the principal means of accounting for the stewardship of the resources made available to the Board. In this section we summarise the findings from our audit of the 2013/4 financial statements.

Overall conclusion

An unqualified audit opinion

12. The annual accounts for the year ended 31 March 2014 were approved by the Board on 19 June 2014. We have reported, within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified audit opinion on regularity;
- an unqualified audit opinion on other prescribed matters

13. We are also satisfied that there are no matters which we are required to report to you by exception.

Good administrative processes were in place

14. 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.

15. Arrangements are in place to enable the annual accounts to be submitted to the Scottish Government and the Auditor General for Scotland prior to the 30 June 2014 deadline.

Key areas of audit focus and significant findings

16. We are required by ISAs to report to the Board the main issues arising from our audit of the financial statements. The most significant issues are noted below.

Financial position

17. In our External Audit Plan we recognised that there was a risk that delivery of the Board's efficiency savings plans are at the detriment of services and / or its on-going financial health. As a result we have considered the Board's financial position, related budgets and projections to ensure that they are soundly based. Our findings are reported through the Use of Resources and Performance section below.

NHS Superannuation Scheme

18. The Board participates in the NHS Superannuation Scheme for Scotland ('the scheme'). The amount charged to the statement of comprehensive net expenditure represents the Board's contributions payable to the scheme in the year, determined by an actuarial valuation. However the most recently published full actuarial and funding valuation was as at 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 2013/14 accounts. The periodic actuarial valuation is essential to determine the adequacy of employer and employee contributions to the scheme.

19. In common with all health boards in Scotland, the information in relation to the scheme is out of date. There is a risk that, as the level of employers contributions have not recently been revised, the current contribution levels may not be sufficient to meet the future commitments of the pension scheme. The NHS Directors of Finance group has requested an updated valuation for the scheme from the Scottish Public Pensions Agency. We endorse this action and encourage the Board to continue with efforts to obtain an updated valuation.

The Beardmore Hotel and Conference Centre

20. The Beardmore Hotel and Conference Centre ('the Beardmore') forms a key part of the Board model of care with the hospital using the accommodation to assist with access for patients and their relatives from all over Scotland. The hotel faces significant financial challenges over the coming years.

21. The Beardmore has continued to operate at a profit during 2013/14. We have reviewed the accounting treatment of income received and have gained satisfactory assurance that it is recognised appropriately in the financial statements. In addition, the Board's internal audit service has conducted a review of key financial controls during the year which included a review of the controls in place over income at the Beardmore. The report was classified as low risk with only minor housekeeping issues being raised.

Revenue Recognition & management override

22. Under ISAs, there is a presumed risk of fraud in relation to revenue recognition. To address this risk we have reviewed the controls in place over the accounting records and found them to be sufficient. We have evaluated each type of revenue transaction and carried out testing to ensure that the Board's revenue recognition policy is appropriate and has been applied.

23. Management override is also a presumed risk under ISAs and we have carried out dedicated audit testing as a result. Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any indications of management override during the year.

Automatic accruals

24. Under the National Single Instance finance system an automatic accrual is generated on a monthly basis for goods received that have not yet been invoiced (GRNI). The accrual is based on information held within the eFinancials system. There is a risk that the automatic accrual may be overstated if the payments made for goods and services are not properly matched to the order records. Where payment is not properly matched off against order records it can be effectively double counted.

25. The Board has a process in place to identify items in the GRNI accrual that do not need to be accrued. As the Board is unable to post adjustments to the GRNI accrual, off-setting entries are posted to the general accrual account code. As at 31 March 2014 the GRNI accrual totalled £7.1 million. Of that, £1.3 million related to orders that were recorded as received prior to 31 March 2013. Following the internal review process the Board has raised off-setting journals of around £3.0 million to reduce the accrual reflected in the financial statements to £4.1 million.

26. We have reviewed the Board's approach to identifying unrequired GRNI accruals, including sample testing of the GRNI accruals and the adjustments raised, and find it to be reasonable. However, the Board do not have a process in place to ensure that the eFinancials system is updated as a result of their findings. If the eFinancials system is not updated then the same unrequired GRNI journals will be automatically posted monthly. As a result staff time may be wasted reviewing accruals that have already been identified as unrequired. The Board should ensure that the eFinancials system is updated on a timely basis to reflect the findings of the monthly GRNI accrual review process.

Action plan point 1

HMRC Compliance Visit

27. During the year, the Board received a compliance visit from HM Revenue and Customs (HMRC). The review focused on the treatment of acquisition tax during June 2010 to June 2013. HMRC concluded that Value Added Tax (VAT) had not been correctly recorded within the finance system or paid to HMRC in the Board's VAT returns with regard to acquisitions from non-UK suppliers.

28. The Board has agreed with HMRC to pay outstanding VAT due for the period under review, amounting to £0.227 million, along with interest of £0.001 million. The Board did not incur any penalties from the review. The Board's financial ledger has been amended and the correct treatment of acquisition tax has been adopted from the August 2013 VAT return onwards.

Audit Adjustments

29. 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 immaterial adjustments were also identified by the Board during the audit.

Board representations

30. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements. We identified two unadjusted differences during our audit work, with the Board identifying one further unadjusted difference. These three differences are not considered to be material to the financial statements, either individually or in aggregate. Through discussion with the Director of Finance the decision was taken not to adjust the annual accounts. These unadjusted items are included in our representation letter and shown in table 1 below.

Table 1: Unadjusted differences

No	Narrative	DR £m	CR £m
1	Trade and other receivables	0.192	
	Hospital and Community Health Services Income		0.192
	Being the recognition of accruals		
2	Other Operating Income	0.164	
	Deferred income		0.164
	Being the deferral of income		

No	Narrative	DR £m	CR £m
3	Trade and other receivables	0.460	
	Core expenditure		0.075
	Non-core expenditure		0.385
	Being the recognition of reimbursements for provisions		
	Net potential impact on Core resource outturn		**0.103**
	Net potential impact on Non-core resource outturn		**0.385**

Qualitative aspects of accounting practices and financial reporting

31. During our audit we have considered 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 by the financial statements. The following observations have been made.

Table 2: Consideration of the qualitative aspects of the financial reporting process

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The significant accounting policies, which are disclosed in the financial statements, are considered 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 of the transaction 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. The principal areas of estimates and judgements have been: property valuations, asset depreciation rates and the valuation of provisions. Where appropriate, the Board have utilised the work of independent experts or industry practice to support the estimates made.
The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the financial statements.	We have not identified any uncertainties, including any significant risk or required disclosures, that should be included in the financial statements.

Qualitative aspect considered	Audit conclusion
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 performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the directors' report or material inconsistencies with the financial statements.	There has been no misstatement or material inconsistency with the financial statements included in 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 the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statement disclosure.	As noted in paragraph 30, we identified two unadjusted differences during our audit work, with the Board identifying one further unadjusted difference. However, there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

Use of resources and performance

32. 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. Overall, we found that the Board has effective arrangements in place for financial management and the use of resources. Our conclusions are based on a review of the Board's financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets.

The Board's financial performance in 2013/14

The Board met all of its key financial targets in the year

33. The Board has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD). As shown below, the Board met all of its key financial targets in 2013/14.

Table 3: Performance against key financial targets

	Target (£'000)	Actual (£'000)	Saving (£'000)	Target achieved?
Core revenue resource limit	57,687	57,187	500	Yes
None-core revenue resource limit	6,193	6,193	0	Yes
Capital resource limit	3,050	3,050	0	Yes
Cash requirement	60,598	60,598	0	Yes

(Source: Annual Accounts for the year ended 31 March 2014)

A saving of £0.500 million against RRL is reported

34. The Board achieved a saving against its Revenue Resource Limit (RRL) of £0.500 million (0.9%). This surplus is close to the break even position that was forecast as part of the 2013/14 Local Delivery Plan (LDP) and has been agreed with the SGHSCD.

35. During the year the Board has reported efficiency savings of £3.650 million, comprising £2.528 million of recurring savings and £1.122 million of non-recurring savings. The savings achieved were £1.007 million above the target set through the LDP process. This was wholly due to over-achievement of non-recurring savings.

Capital Resource Limit

The Board has met its CRL in 2013/14

36. The Board was given an initial capital allocation of £4.800 million at the outset of the year. This was subsequently reduced to £3.050 million, principally due to delays on the Board's boiler decentralisation project. The Board has invested the full £3.050 million allocation. The most significant projects in the year involved £1.856 million being spent on medical equipment and £0.770 million being spent on e-Health. The remaining £0.424 million was spent on a number of smaller projects.

Financial Plans

37. As requested, the Board has agreed an LDP with the SGHSCD covering the financial years 2014/15 to 2016/17. The LDP forecasts a break even position in each of the next three years. The core RRL available to the Board is forecast to increase by 3% in 2014/15 with further increases of 1% projected for the subsequent two years. The financial plan also assumes relatively consistent year on year non-core funding covering depreciation and impairment funding of £6.054 million in 2014/15 and £6.242 million in the subsequent two years.

Savings plans are in place

38. Although the core RRL available to the Board is expected to increase modestly over the next three years, the Board is also expected to make efficiency savings totalling approximately 5% of its core RRL in each year of the plan. The Board has already identified 100% of the £2.930 million savings that need to be made in 2014/15. Of the 2014/15 savings, £1.373 million are assessed as low risk, £1.533 million are assessed as medium risk and £0.025 million are assessed as high risk. The Board has also identified 50% of the savings required for 2015/16.

39. Each directorate monitors its budget and variances against financial expectations are subject to appropriate challenge. Historically, the Board has been able to achieve the savings that were required and it remains confident that, based on funding assumptions within the LDP, it will continue to do so. The LDP highlights number of key assumptions and risks on the delivery of the plan, as outlined in table 4.

Table 4: Key assumptions and risks in the 2014-2017 LDP

Key assumption / risk	Risk rating	Potential financial impact
Waiting list risks and the increased financial implications	High risk	Value could be in excess of £0.250 million
Efficiency schemes are not achieved	Medium risk	Likely value could be in excess of £0.500 million
Cost for agenda for change higher than anticipated	Medium risk	Likely value could be in excess of £0.500 million
Assuming sustainable referrals to support the national waiting times target with particular reference to General surgery and ophthalmology	Low risk	Likely value could be in excess of £1.500 million
The delivery of the Beardmore Financial Strategy	Low risk	Likely value could be in excess of £0.200 million

(Source: NHS National Waiting Times Centre Board 2014/15 Local Delivery Plan)

Cost pressures

40. The Board makes a range of assumptions when producing its LDP. The principal assumptions made are consistent over the three year period. They are that available resources will rise by 1%, pay and general costs will rise by 1%, and hospital drugs costs will rise by 4%. These assumptions are broadly in line with the average rates applied by comparable bodies in the sector in 2013/14 and appear to be reasonable and consistent with our understanding of the Board's financial position.

HEAT and performance targets

41. The Board has appropriate performance management arrangements in place. Performance against relevant national Health, Efficiency, Access and Treatment (HEAT) targets as well as local performance targets is monitored by management. Performance against targets is reported on a monthly or quarterly basis, as appropriate, with explanations given for the performance reported. The Board receives a balanced scorecard each time it meets which summarises the performance of the Board's three directorates against each of the relevant targets under the following priority headings:

- Clinical governance: Deliver a service which is clinically safe and effective, supported by the organisations clinical governance and risk management activities;
- Clinical governance: Meeting the requirements of the infection control programme;
- Staff governance: Treated fairly and consistently;
- Staff governance: Safe and healthy work environment;
- Staff governance: Appropriately trained;
- Financial governance: Ensure delivery of service within agreed resources;
- Operational governance: We are operationally effective and deliver a value for money service

42. The most recent balanced scorecard was reported in May 2014, showing the performance of all quarterly indicators up to quarter three (December 2013) as well as reporting monthly indicators to month 11 (February 2014). Table 5 below summarises the latest available performance information for the Golden Jubilee National Hospital. It shows that two performance targets were not expected to be met during 2013/14. Table 6 gives additional information on the two targets in question.

Table 5: Golden Jubilee National Hospital performance

Priority heading	Objective on track to complete by agreed date		Objective still likely to be achieved but likely to be delayed		Objective will not be met	
Clinical governance	5	71.4%	2	28.6%	0	0.0%
Staff governance	4	80.0%	0	0.0%	1	20.0%
Financial governance	6	75.0%	2	25.0%	0	0.0%
Operational governance	6	75.0%	1	12.5%	1	12.5%
Total	**21**	**75.0%**	**5**	**17.9%**	**2**	**7.1%**

(Source: NHS National Waiting Times Centre Board Corporate Balanced Scorecard, May 2014)

Table 6: Further information on objectives that will not be met

Key performance indicator	Target	Explanation
80% of AfC staff will have completed and actively using eKSF for their annual KSF PDR by March 2014.	Trajectory target at December 2013 was 71%	Performance against the target as at December 2013 was over 10% away from the trajectory of 71%
Treatment Time Guarantee (TTG)	Patients to be treated within 12 weeks of the date that treatment is agreed	One patient breached the TTG in this reporting period. This was due to a consultant falling ill during the planned theatre session. A full update was given to the Board on this matter.

(Source: NHS National Waiting Times Centre Board Corporate Balanced Scorecard, May 2014)

Governance

43. The Independent Commission on Good Governance in Public Services produced the Good Governance Standard for Public Services in 2004. The standard describes the function of governance as 'ensuring that an organisation fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in an effective, efficient and ethical manner'. The Accountable Officer and the Board are responsible for ensuring the proper conduct of the Board's affairs, including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.

44. We have found that the board has appropriate governance arrangements in place. We reported our conclusions on the Board's governance arrangements through our interim audit report. Our work involved reviewing the Board's arrangements for:

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

Governance arrangements

45. 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.

46. The Board continues to receive regular performance and financial information which facilitates scrutiny and challenge. Key risk factors which may impact on achievement of financial and non-financial outcomes are identified and discussed.

Systems of internal control

47. In line with ISAs we have considered the internal controls in place over the Board's key financial systems. As reported in our interim management report, we identified no significant weaknesses in relation to the internal financial controls in place over the Board's key accounting systems. We found the internal financial controls to be well designed and operating effectively.

48. The governance statement included within the Board's 2013/14 annual accounts does not disclose any material internal control weaknesses. Although a number of recommendations were made by internal audit during the year, the Board and internal audit do not consider these areas would have an impact on the achievement of corporate objectives. Our audit work has not identified any issues which we consider require to be disclosed in the governance statement.

Internal audit

49. An effective internal audit service is an important element of the Board's governance arrangements. The Board's internal audit service is provided by PwC. In accordance with ISAs we have considered the function provided by PwC and have concluded that we are able to place reliance upon their work. 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.

Risk management

50. Internal audit reviewed the Board's risk management arrangements during the year as part of their review of corporate governance arrangements. No significant deficiencies were identified but in order to further strengthen risk management arrangements, they advised that there may be merit in reviewing and strengthening the remit of the Audit Committee. In response to this recommendation the Board has reviewed its corporate risk arrangements. The principal changes that have been made are:

- The Audit Committee has taken over responsibility for the governance arrangements for the Board's Risk Management Strategy from the Clinical Governance Committee. This has led to the Audit Committee being renamed the Audit and Risk Committee. The Audit and Risk Committee plans to review the Board's Risk Management Strategy during 2014/15.
- The Corporate Risk Register has been renamed the Board Risk Register. The Senior Management Team (SMT) will be responsible for managing the Board Risk register and will approve the risks and the controls prior to Audit and Risk Committee and Board Submission.
- Risk registers for the Board's two divisions and the Beardmore will be reported quarterly to the SMT, in parallel with the Board Risk Register.

Prevention and detection of fraud and irregularity

51. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. During the year we have found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

National Fraud Initiative

52. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. We are required to consider the Board's arrangements for each NFI. In our interim audit we reported that the Board's approach to the most recent (2012/13) NFI exercise was satisfactory with little or no scope for improvement.

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

53. In our opinion the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are sufficient and appropriate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local codes of conduct. We have also considered the controls in place to ensure compliance with the regulatory guidance that is produced by the SGHSCD throughout the year.

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	Explanation
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.

No	Title	Issue identified	Risk and recommendation	Management comments
1.	**GRNI accrual** **(paragraph 26)**	The Board has a process in place to identify items in the GRNI accrual that do not need to be accrued. However, they do not have a process in place to ensure that the eFinancials system is updated as a result of their findings.	If the eFinancials system is not updated then the same unrequired GRNI accruals will be automatically posted monthly. As a result staff time may be wasted reviewing accruals that have already been identified as unrequired. The Board should ensure that the eFinancials system is updated on a timely basis to reflect the findings of the monthly GRNI accrual review process. **Grade 2**	Noted. The Assistant Director of Finance and the Head of Procurement have put in place a process for reviewing the historic orders to ensure that these orders are closed appropriately. In order that this task is manageable targets are being set for quarterly review and these will be monitored as part of the monthly finance review meeting. In addition a formal process will be put in place going forward to ensure that all orders when completed and invoiced are closed. **Responsible officer:** Assistant Director of Finance / Head Of Procurement. **Implementation date:** from July 2014, then ongoing.