

National Waiting Times Centre Board

**Annual Report to the Board
and the Auditor General for
Scotland 2014/15**

June 2015



Scott-Moncrieff
business advisers and accountants

National Waiting Times Centre Board

Annual Report to the Board and the Auditor General for Scotland 2014/15

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Summary

Financial statements

The Board approved the annual accounts for 2014/15 on 24 June 2015. 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.

Use of resources

Financial performance

The Board was within all of its budget limits for the year, delivering a saving of £0.501 million (0.8%) against its revenue resource limit. The Board achieved efficiency savings of £3.273 million during the year and invested £3.821 million in assets.

The local delivery plan forecasts a breakeven position against both recurring and non-recurring funding in each of the next three years. Although the resources available to the Board are expected to remain broadly consistent until 2018 the Board is expected to make significant recurring efficiency savings in each year of the plan. The Board has already identified all of the £3.265 million recurring savings it will need to make in 2015/16.

Operational performance

The Board continues to have appropriate performance management arrangements in place. 20 of the 25 key performance indicators for the Golden Jubilee National Hospital were on target for 2014/15. Of the remaining five indicators, the Board expects that three will be achieved with delays and two will not be met.

Governance

We found the Board's governance arrangements to be appropriate. We have reviewed the Board's systems of internal control as well as its arrangements for risk management, internal audit, the 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 2014/15. 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 2015

Introduction

1. This report summarises the findings from our 2014/15 audit of the National Waiting Times Centre Board ('the Board'). The scope of our audit was set out in our External Audit Plan, which was presented to the Audit Committee in November 2014.
2. The main elements of our audit work in 2014/15 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. 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.

An overview of the scope of our audit

4. The External Audit Plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise
5. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks. No additional significant risks were identified after the planning stage during our audit work this year.
6. Our standard audit approach is based on performing a review of the significant accounting systems in place, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained in Appendix 2.
7. The significant risks that had the greatest effect on our audit, our response to those risks and our findings from the work performed are set out as *Key areas of audit focus and significant findings* below. The audit response to each significant risk was designed in the context of the financial statements as a whole and, consequently, where we set out findings we do not express any opinion on these individual risks.

Financial Statements

Overall conclusion

An unqualified audit opinion

8. The annual accounts for the year ended 31 March 2015 were approved by the Board on 24 June 2015. 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
9. We are also satisfied that there are no matters which we are required to report to you by exception.
10. Further information on the responsibilities of the Board and the auditor in relation to the financial statements can be found in Appendix 1.

Good administrative processes were in place

11. 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 we are grateful to the finance team for their assistance with our work.
12. 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 2015 deadline.

Key areas of audit focus and significant findings

Financial position

13. There is a risk that delivery of the Boards efficiency savings plans are at the detriment of services and/or on-going financial health. We have reviewed the Board's financial position and related budgets and projections to ensure that they are soundly based. Further context and our findings in relation to this risk are presented in the *Use of resources and performance* section below.

The Beardmore Hotel and Conference Centre

14. The Beardmore Hotel and Conference Centre ('the Beardmore') forms a key part of the Board's model of care and it continued to be self-funding during 2014/15. We have reviewed the accounting treatment of income received and have gained satisfactory assurance that it is recognised appropriately in the financial statements.
15. In May 2014 the Board approved the Beardmore 2020 Strategy. The strategy has been developed to harness the strengths and opportunities available to the Beardmore, its role as an integral part of the National Waiting Times Centre Board and as a national resource for NHS Scotland. The strategy is supported by a Management and Implementation Plan and the Beardmore 2020 Strategy Implementation Group has been established with responsibility for planning, implementation, scrutiny of agreed actions and establishing a risk management framework.

16. During the year, internal audit reviewed the Beardmore's key financial controls (as operated by the Hotel and also those that interface with the NWTTCB financial controls), cash management, and the Beardmore 2020 Strategy. The audit report was classified as low risk with only minor issues being raised.

Revenue recognition & management override

17. Auditing standards require us to presume that there is a 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 adequate. 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.

18. Management override is also a presumed risk under auditing standards and we have carried out specific audit testing to address this risk. 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. Our testing has identified no indication of management override.

Audit Adjustments

19. The audit identified some disclosure and presentational adjustments and we are pleased to report that these are reflected in the updated financial statements.

Board representations

20. We identified five unadjusted differences during our audit work. The potential impact on the financial statements of the five unadjusted differences is summarised below.

No	Narrative	DR £m	CR £m
1	Current provisions	0.335	
	Current receivables		0.078
	Non-current receivables	0.065	
	Non-current provisions		0.263
	Non-core expenditure		0.059
	<i>Being the adjustment and aging of provisions & the related reimbursement receivables</i>		
2	Current prepayments	0.045	
	Core expenditure		0.045
	<i>Being the adjustment for prepayments</i>		
	Net potential impact on Core resource outturn		0.045
	Net potential impact on Non-core resource outturn		0.059

21. The differences above 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. We have requested that a signed representation letter covering a number of issues, including the unadjusted differences, be presented to us at the date of signing the financial statements

Qualitative aspects of accounting practices and financial reporting

22. 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 table summarises our findings.

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 concerns over the timing of 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 preparing 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 has 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, which should be included in the financial statements.
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 annual report or material inconsistencies with the financial statements.	The Annual Report contains no material misstatements or inconsistencies with the financial statements.

Qualitative aspect considered	Audit conclusion
<p>Any significant financial statement disclosures to bring to your attention.</p>	<p>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.</p>
<p>Disagreement over any accounting treatment or financial statement disclosure.</p>	<p>As noted in paragraph 20, we identified five unadjusted differences during our audit work. However, there was no material disagreement during the course of the audit over any accounting treatment or disclosure.</p>
<p>Difficulties encountered in the audit.</p>	<p>There were no significant difficulties encountered during the audit.</p>

Use of resources and performance

Overall conclusion

23. We found that the Board has effective arrangements in place for financial management and the use of resources. Our conclusion is 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 2014/15

The Board met its key financial targets for the year

24. 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 operated within all of its budget limits for the year.

Performance against budget limits	Budget limit (£million)	Actual (£million)	Saving (£million)	Target achieved?
Core revenue resource limit	59.859	59.358	0.501	Yes
Non-core revenue resource limit	5.306	5.306	0	Yes
Capital resource limit	3.824	3.821	0.003	Yes
Cash requirement	68	67.425	0.575	Yes

(Source: Annual Accounts for the year ended 31 March 2015)

A saving against RRL of £0.501 million and efficiency savings of £3.273 million

25. The Board reported a saving against its Revenue Resource Limit (RRL) of £0.501 million (0.8%) for 2014/15. This outturn is close to the breakeven position that was forecast in the 2014/15 Local Delivery Plan (LDP) and has been agreed with the SGHSCD. The outturn included the carry forward of the £0.5 million saving achieved in 2013/14, which was received as a non-recurring revenue allocation during 2014/15.
26. The Board achieved efficiency savings of £3.273 million during the year, comprising £2.93 million of recurring savings and £0.343 million of non-recurring savings. The total savings achieved in 2014/15 were £0.343 million higher than the target set in the LDP, due to additional non-recurring savings being identified.

The Board invested £3.821 million in assets during 2014/15

27. The Board invested £3.821 million of its £3.824 million capital allocation in the year. The two most significant projects in the year, making up 75% of the overall spend, were the £1.983 million boiler decentralisation project and medical equipment additions of £0.89 million.

Financial Plans

28. The Board has submitted an LDP to the SGHSCD outlining financial plans to 2017/18. The LDP forecasts a breakeven position against both recurring and non-recurring funding in each of the next three years. The Board expects core RRL to remain broadly consistent in the short term, as shown below.

Anticipated movements in core RRL	2015/16	2016/17	2017/18
Core RRL (£million)	61.319	60.828	61.335
Increase / (decrease) on prior year (%)	2%	(1%)	1%

(Source: NHS National Waiting Times Centre Board Local Delivery Plan 2015/16 – 2017/18)

Savings plans are in place

29. Although the core RRL is expected to remain broadly consistent over the next three years, the Board is still expected to make recurring efficiency savings of between 5% and 6% of its core RRL in each year of the plan. The LDP reports that the Board has already identified all of the £3.265 million recurring savings required in 2015/16, as well as 50% of the £3.602 million recurring savings required in 2016/17 and 70% of the £3.982 million recurring savings required in 2017/18.

30. 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 a number of key assumptions and risks to the delivery of the plan, as outlined below.

Key assumptions and risks in the 2015-2018 LDP	Risk rating	Potential impact
Efficiency savings are not achieved	Medium	> £500k
Cost of agenda for change higher than anticipated	Low	> £500k
Waiting list risks and the increased financial implications	High	> £250k
The delivery of the Beardmore 2020 strategy	Low	£200k

(Source: NHS National Waiting Times Centre Board Local Delivery Plan 2015/16 – 2017/18)

Cost pressures

31. The Board makes a range of financial assumptions when producing its LDP. The principal assumptions made are broadly consistent over the three year period. They are that:

- available resources will rise by 1% year on year;
- pay will rise by 1.7% in 2016/17 and 1.5% in the following two years;
- general costs will rise by 2.5% in 2015/16 and 2% in the following two years; and
- hospital drugs costs will rise by 5.6% each year, with volume increasing by 2.4% each year.

These assumptions are broadly in line with the rates applied by the board in previous years and those we have experience of in the sector.

HEAT and performance targets

32. The Board continues to have appropriate performance management arrangements in place. Management monitors performance against relevant national Health, Efficiency, Access and Treatment (HEAT) targets as well as local performance measures. The Board receives a balanced scorecard each time it meets which summarises the performance of the Board's three functions (the Golden Jubilee National Hospital, the Beardmore Hotel and Conference Centre, and the Beardmore Centre for Health Science) against a suite of key performance indicators, grouped under the headings: clinical governance, staff governance, financial governance and operational governance. The table below summarises the key performance indicators for the Golden Jubilee National Hospital as at May 2015.

Golden Jubilee National Hospital performance by 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	
	Number	Percentage	Number	Percentage	Number	Percentage
Clinical governance	7	100%	0	0%	0	0%
Staff governance	3	60%	0	0%	2	40%
Financial governance	4	80%	1	20%	0	0%
Operational governance	6	75%	2	25%	0	0%
Total	20	80%	3	12%	2	8%

(Source: NHS National Waiting Times Centre Board Corporate Balanced Scorecard, May 2015)

33. Explanations are provided within the Board reports wherever performance is below target levels. The table below gives additional information on the two indicators that will not be met.

Key performance indicator that will not be met	Target	Actual	Management explanation
Sickness absence rate.	4%	4.5%	<i>"Sickness absence within the Board has been reported slightly above the HEAT standard of 4% for a significant part of 2014-15. The Board's sickness absence rate for the year was around 4.5%."</i>
Medical appraisals for all relevant doctors to be completed.	90%	63%	<i>"During 2014-15 a total of 76 doctors have been appraised and of this number 63% have a completed Form 4 indicating conclusion of the appraisal process. All doctors appraised before 31 March have until 30 April to sign off their Form 4 and so this completion figure is increasing daily. The aim now is to appraise the remaining 24 doctors before end April. The Board is asked to note that all doctors due for revalidation have met their appraisal requirements due to the efforts of the Medical Lead for appraisals."</i>

(Source: NHS National Waiting Times Centre Board Corporate Balanced Scorecard, May 2015)

Governance

Overall conclusion

- 34.** The Board has appropriate governance arrangements in place. Our audit work has included reviewing corporate governance arrangements as they relate to:
- systems of internal control;
 - risk management;
 - internal audit;
 - the prevention and detection of fraud and irregularity; and
 - standards of conduct and the prevention and detection of bribery and corruption.

Corporate governance and systems of internal control

- 35.** As reported in our interim management report, we found the internal financial controls to be generally well designed and operating effectively. We have not identified any significant weaknesses in the internal financial controls in place over the Board's key accounting systems.
- 36.** The Board's Governance Statement reports that no significant control weaknesses or issues have arisen during the year and that no significant failures have arisen in the expected standards for good governance, risk management and control. This assessment is supported by the findings of internal audit. Internal audit did not identify any significant or critical findings during the year, although several moderate and minor findings were identified which, if addressed, would strengthen the Board's control framework. Our work did not identify any issues that we considered required disclosure in the Governance Statement.

Endowments

- 37.** The Board has endowment funds that have historically been administered by the trustees of the NHS Greater Glasgow and Clyde Endowment Funds. In October 2014 the National Waiting Times Centre Board Endowment Fund was registered with The Scottish Charity Regulator, with a view to taking on formal administration of the endowment funds.
- 38.** As at 31 March 2015 the Board's endowment funds continued to be formally administered by the trustees of the NHS Greater Glasgow and Clyde Endowment Funds, so no consolidation was required in the 2014/15 annual accounts. The Board expects that all relevant funds will be transferred to the National Waiting Times Centre Board Endowment Fund in 2015/16.
- 39.** To support the efficient transition of endowments, internal audit reviewed the Board's governance arrangements, roles and responsibilities, and preparation for the transfer. Overall the Board's arrangements were found to be adequate. However, internal audit considered that a formal induction programme should be delivered to ensure that the trustees are fully aware of the difference between the requirements of their roles as trustees of the endowment fund and as members of the health board.
- 40.** The National Waiting Times Centre Board Endowment Fund is unique as it has a national remit, unlike the endowment funds of the territorial boards. The Board plans to carry out proactive fund raising and is considering the potential for attracting donations from across the world to be invested in research and

innovation projects in Scotland. The Board is working closely with the Scottish Government on this project and we will continue to monitor developments.

Risk management

41. The Board continues to have an effective risk management framework in place. At present, the Senior Management Team (SMT) regularly reviews the risk register to identify any new risks and any changes required. On a quarterly basis a more formal review is presented to the SMT before being submitted to the Audit and Risk Committee and the Board. Work began in 2014/15 to further develop the Board's risk management arrangements. In December 2014 PwC facilitated a board workshop on risk appetite and tolerance. The workshop is expected to be a driver behind a number of changes and improvements in the Board's approach to risk.

Prevention and detection of fraud and irregularity

42. 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 found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

National Fraud Initiative

43. 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. The NFI produces 'matches' by using data matching to compare a range of information held on bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.
44. The Board's arrangements for the 2014 NFI exercise have been satisfactory. The required data was submitted on time and the Board received 1,001 data matches in total, of which 111 are recommended for investigation. The Board began to investigate the matches shortly after they were released and by the end of May 2015 157 matches had been investigated, with no frauds or error being found. The Board plans to investigate all remaining recommended matches, and a sample of other matches, during 2015. The investigation of data matches is led by the Assistant Director of Finance and the results of the investigations will be reported as part of the regular fraud updates to the Audit and Risk Committee.

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

45. In our opinion the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. 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.

Internal audit

46. The Board's internal audit service is provided by PwC and complies with Public Sector Internal Audit Standards. 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.

Appendix 1 – Board and auditor responsibilities

Board responsibilities

47. It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare financial statements that show a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder. This means:
- observing the accounts direction issued by the Scottish Ministers including the relevant accounting and disclosure requirements and applying suitable accounting policies on a consistent basis;
 - making judgements and estimates on a reasonable basis;
 - stating whether applicable accounting standards as set out in the government Financial Reporting Manual have been followed and disclosing and explaining any material departures; and
 - preparing the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate.
48. The Board is 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 the Scottish Ministers. They are also responsible for implementing appropriate internal control systems, safeguarding the assets of the Board and hence taking reasonable steps for the prevention of fraud and other irregularities.

Our responsibilities

49. Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance. Specifically in relation to the financial statements, we are required to audit them in accordance with International Standards on Auditing (ISAs) and to 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 2015 and of its net operating cost for the year then ended;
 - whether the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Government Financial Reporting Manual (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;
 - 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 Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

50. 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

51. 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.

Appendix 2 – Materiality

Overall materiality

52. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement.
53. Our initial assessment of materiality for the financial statements, as presented in the external audit plan, was £1million. We consider that this assessment has remained appropriate throughout the audit.

Performance materiality

54. At the planning stage we set a performance (testing) materiality for each area of work that was based on a risk assessment for the area. We performed audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement.
55. Our final assessment of performance materiality was lower than that reported in our external audit plan, resulting in a greater level of testing than outlined at the planning stage.

Calculation of performance materiality (£million)

Area risk assessment	Performance materiality at planning stage (£million)	Performance materiality at final audit (£million)
High	0.5	0.4
Medium	0.65	0.6
Low	0.85	0.7

56. We have reported all misstatements identified through our audit that fell into one of the following categories:
- Material corrected misstatements;
 - Uncorrected misstatements with a value in excess of £10,000; and
 - Other misstatements below £10,000 that we believe warrant reporting on qualitative grounds.

Appendix 3 - 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, and may not be all that exist. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

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.

Follow-up of issue identified during the 2013/14 audit

No	Title	Issue identified & recommendation	Original management response	2014/15 update
1.	GRNI accrual	<p>The Board has a process in place to identify items in the automatic accrual for goods that have been received but not yet invoiced (GRNI) that do not need to be accrued. However, there is no process in place to ensure that the eFinancials system is updated as a result of this review.</p> <p>If the eFinancials system is not updated then the same unrequired GRNI accruals will be automatically posted every month. As a result staff time may be wasted reviewing accruals that have already been identified as unrequired.</p> <p>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.</p> <p>Grade 2</p>	<p>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.</p> <p>Responsible officer: Assistant Director of Finance / Head Of Procurement.</p> <p>Implementation date: from July 2014, then ongoing.</p>	<p>Audit update: Management accountants continue to review the GRNI accrual on a regular basis. At the 2014/15 year-end, adjustments in the region of £2.3 million were raised to remove unrequired automatic accruals. This compares to adjustments in the region of £2.7 million being made in 2013/14. Although there has been a small reduction in the adjustments required it appears that the eFinancials system is not yet being updated on a timely basis to reflect the findings of the monthly GRNI accrual review process.</p> <p>Management response: The internal review process as described previously has been put in place and during the year, at the quarterly reviews this reduced significantly. However due to year end purchases this increased again to a similar level to 2014/15.</p> <p>It has been suggested the next stage of the work to improve this process will be to present this to the National Focus Group for Purchase to Pay and working with the National Focus Group for Management Accounts assess if there is a national systems solution that can be put in place</p> <p>Responsible officer: Director of Finance</p> <p>Implementation date: Will progress discussions at the Focus Groups from July and seek to agree solutions by December 2015</p>

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