INFRASTRUCTURE, GOVERNMENT & HEALTHCARE

The Scottish Tourist Board

trading as

VisitScotland

Annual audit report to VisitScotland and the Auditor General for Scotland 2006-07

31 October 2007

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

Notice: About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ('the *Code*').

It is for the benefit of only The Scottish Tourist Board trading as VisitScotland, Scottish Network 1 Tourist Board and Scottish Network 2 Tourist Board and is made available to Audit Scotland (together the beneficiaries), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introductory section of this report.

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If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact David Watt, who is the engagement leader for our services to Scottish Enterprise, telephone 0131 527 6793, email david.watt@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Lorraine Bennett, our Head of Audit in Scotland, either by writing to her at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 222 2000 or email to lorraine.bennett@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Director of Audit Strategy, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH.

Executive summary

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

Accounts

On 29 October 2007 we issued an audit report giving our unqualified opinions on the accounts of VisitScotland and its group, Scottish Network 1 Tourist Board and Scottish Network 2 Tourist Board for the year ended 31 March 2007 and on the regularity of transactions reflected in those accounts.

Strategic planning

The three year corporate plan is structured around the business agenda and related business drivers, including identification of critical success factors, key strategy drivers, and a detailed risk analysis and mitigating factors. The annual operating plan provides the detail for each financial year and considers the resources required, both financial and people, and how the Board will demonstrate progress towards and achievement of objectives. The structure and content of the plan is appropriate for a public sector organisation.

A range of key performance indicators have been developed and discussion of progress against objectives is a standing item on the board agenda. Performance targets are aligned to the strategic objectives and include financial, visitor satisfaction, and conversion rate (enquiries to visitors) targets. The management commentary accompanying the accounts reports that the Board has achieved all of its main performance targets for 2006-07.

Financial management

Monthly finance reports to the board include an analysis of income and expenditure against budget. A short commentary highlights significant variances against expectations and any changes to the annual forecast outturn.

The combined outturn reported by VisitScotland and the Network Boards shows an underspend of £835,000 against the core and capital allocations of £45,226,000 set by the Scottish Executive, and an overspend of £974,000 against the non-cash allocation. £701,000 of the core underspend relates to a benefit recognised through the implications of accounting for defined benefit pensions under financial reporting standard 17 'retirement benefits'. Overall, VisitScotland and the Network Boards overspent against its total allocation of £45,641,000 by £139,000 (0.3%).

Governance and risk management

A formal risk management policy statement is in place, approved by the board. Risk registers have been established and the risk management policy requires a formal annual review of all risks. Management have established an internal controls assessment framework, complementing risk management and internal audit arrangements.

There are no significant weaknesses disclosed in the statement on internal control, but management acknowledge that there were weaknesses in internal controls around accounts payable, payroll and budgetary control. These weaknesses have been addressed through the implementation of a new accounting system and comprehensive training for staff members.

In relation to 2006-07, internal audit have concluded that "*on the basis of work undertaken in the year ended 31 March 2007 we consider that the organisation has an adequate framework of control over the systems examined.*" The main exceptions to this level of assurance were in respect of purchasing processes, payroll, local authority funding award documentation and state aid. A draft state aid policy and procedure has been prepared, but this has still to be ratified.

Efficient government and Best Value arrangements

The Board was given a target to transfer £1 million of operating costs to marketing, whilst maintaining quality of service, by 31 March 2007. These savings were identified and fully reflected in the operating budget.

In March 2007 it was reported to the board that the 2005-06 Best Value baseline report would be used to prepare an updated action plan for best value, with further reports during 2007-08.

In accordance with good practice, management should report to the board, at least annually, on progress against the efficient government and Best Value agendas to demonstrate their continued commitment to embedding the efficient government and Best Value initiatives.

Introduction

Audit framework

This was the first year of our five-year appointment as external auditors of VisitScotland ("the Board"), Scottish Network 1 Tourist Board and Scottish Network 2 Tourist Board (collectively "the Network Boards"). This report to the Board, the Network Boards and the Auditor General for Scotland outlines our opinion and conclusions and highlights significant issues arising from our work. All comments within this report apply collectively to the Board and the Network Boards unless otherwise noted.

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

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

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

Basis of information

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

Acknowledgement

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

Management arrangements

Setting the strategic agenda

Increasing tourism revenues to Scotland is a key priority for the Scottish Executive and the Board plays a vital role in maximising the economic benefit of tourism to Scotland. The Board supports the tourist industry to help achieve growth through its activities. The Board develops a three year corporate plan on an annual basis to provide strategic direction for the Board. The plan is structured around the business agenda and related business drivers, including identification of critical success factors, key strategy drivers, and a detailed risk analysis and mitigating factors. The annual operating plan provides the detail for each financial year and considers the resources required to deliver the plan, both financial and people, and how the Board will demonstrate progress towards and achievement of objectives. The structure and content of the plan is appropriate for a public sector organisation.

The Board's corporate plan for 2006-09 details its five corporate objectives to assist in the achievement of its overall goal to promote and develop tourism in Scotland:

- provide strategic direction to the industry;
- attract visitors by building a successful Scottish tourism brand;
- engage and work in partnership with the tourism industry;
- enhance the visitor experience; and
- manage the business efficiently and effectively.

Within the corporate plan is a one year operational plan for the financial year which sets out the Board's performance targets and operational strategies for achieving its overall goal. Progress on the Board's activities has been reported to board members during 2006-07. The board takes an active role in discussing policy development, supporting industry and commercial engagement, responses to legislation, consideration of emerging issues impacting on tourism, such as avian flu, and the Board's involvement in or presence at major sporting events.

A range of key performance indicators have been developed to allow the monitoring of performance against targets; discussion of progress against objectives is a standing item on the board agenda. These performance targets are aligned to the objectives detailed above and include financial targets to ensure the delivery of best value, customer/visitor satisfaction targets to ensure that a high quality service is delivered and conversion rate targets to ensure tourism campaigns and marketing are effective.

The management commentary accompanying the accounts reports that the Board has achieved all of its main performance targets for 2006-07 including:

- £1 million of efficient government savings (target £1 million);
- £8.1 million of industry income from business customers (target £7.7 million); and
- 11,432 business customers (target 10,500).

The Board approved the 2007-10 corporate plan and the 2007-08 operational plan and budget on 23 March 2007.

visitscotland.com

TourCo Limited, a fully owned subsidiary, was formed a number of years ago to invest in eTourism Limited, a company established to operate a national call centre and the website of visitscotland.com. TourCo Limited signed a new strategic partnership agreement in September 2006 to realign shareholdings and, as a result, TourCo Limited is now the single largest shareholder with 36% of the shares. The change in the ownership structure and technology supplier is designed to secure a range of benefits, including

- to improve the technology platform for the website; and
- to improve the financial stability of e-Tourism Limited.

Financial reporting

Management provide monthly finance reports to the board for consideration at its meetings. These reports include an analysis of income (by source) and expenditure (by category) against budget. A short commentary highlights significant variances against expectations and any changes to the annual forecast outturn.

In addition, *ad hoc* papers are also provided where additional discussion is required, such as pension scheme assumptions, VAT issues, and approval of procurement contracts. The board agenda also frequently includes discussion on the receipt of funding from third parties such as local authorities and the European Union, particularly where income is not being received in line with expectations.

The central finance team are responsible for a number of month end procedures prior to preparation of the monthly finance report. As part of their review of key financial controls, internal audit reviewed these arrangements and identified some areas for improvement reflecting a need to formalise a number of arrangements.

During our audit of the accounts we have identified a number of matters with recommendations made to improve the accounts preparation process following the year end.

Implementation of recommendations made by internal and external audit would strengthen and increase efficiency of the monthly and annual financial reporting process. Our recommendations have been separately reported to the audit committee in our report to those charged with governance.

2006-07 financial outturn

An analysis of the 2006-07 financial performance is summarised below.

	Expenditure (£'000)	**Funding (£'000)**	**Outturn (£'000)**
Core grant-in-aid (including capital)	44,391	45,226	835
Non-cash	1,389	415	(974)
Total	**45,780**	**45,641**	**(139)**

Source: VisitScotland

The combined outturn reported by VisitScotland and the Network Boards shows an underspend of £835,000 against the core and capital allocations of £45,226,000 set by the Scottish Executive, and an overspend of £974,000 against the non-cash allocation. £701,000 of the core underspend relates to a benefit recognised through the implications of accounting for defined benefit pensions under financial reporting standard 17 'retirement benefits'. Overall, VisitScotland and the Network Boards overspent against its total allocation of £45,641,000 by £139,000 (0.3%). Management has indicated that the non-cash allocation was not updated to reflect the inclusion of the Network Boards from 1 April 2005. The 2007-08 non-cash allocation is £1,580,000, which is more consistent with the Board's estimate for non-cash costs for the year.

Group reserves decreased by £4,744,000 during the year, primarily due to significant actuarial decreases in the pension liability, as shown below.

	£'000
Group reserves at 1 April 2006	**9,133**
Net expenditure	(45,951)
Scottish Executive funding	45,226
Net impact of restructuring the group's shareholding in eTourism	1,124
Actuarial movement on pension liabilities	(5,435)
Net movement on the government grant reserve	(112)
Net movement on the revaluation reserve	429
Group reserves at 31 March 2007	**4,414**

Source: VisitScotland

Network Boards' financial position

For 2006-07 management took the pragmatic decision not to formally allocate a portion of resources directly from VisitScotland to the Network Boards, reflecting the collective approach to the management of VisitScotland and the Network Boards. In finalising the accounts of VisitScotland at 31 March 2007, adjustments of £7.6 million were required to the balances shown between VisitScotland the Network Boards to recognise the accounting implications of the restructuring under the Tourist Boards (Scotland) Act 2006 from 1 April 2007.

	Network Board 1 (£'000)	**Network Board 2 (£'000)**	**Combined total (£'000)**
Opening general fund at 1 April 2005	**(2,293)**	**(901)**	**(3,194)**
Net operating costs (net of cost of capital reversal)	(2,255)	(3,907)	(6,162)
Funding from VisitScotland	1,878	3,342	5,220
Actuarial movement in pension liabilities	3,064	2,388	5,452
General fund at 31 March / 1 April 2006	**394**	**922**	**1,316**
Net operating costs	(1,538)	(2,447)	(3,985)
Actuarial increase in pension liabilities	(2,444)	(2,991)	(5,435)
Transfer of realised element of the revaluation reserve	548	-	548
General fund at 31 March 2007	**(3,040)**	**(4,516)**	**(7,556)**

Source: Scottish Network Tourist Boards

In respect of 2007-08, VisitScotland's operating plan amounts to £67 million. This reflects a decrease in grant-in-aid from 2006-07 of £2 million.

	2007-08
	£'000
Resource budget 2007-08	42,160
Other income	24,375
Operating plan 2007-08	66,535

Source: VisitScotland

Governance and risk management

Introduction

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

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

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

Management is responsible for establishing arrangements for the conduct of its affairs, including compliance with applicable guidance, ensuring legality of activities and transactions and monitoring the adequacy and effectiveness of these arrangements in practice.

Risk management

A formal risk management policy statement is in place, approved by the board. Risk registers have been established and the risk management policy requires a formal annual review of risks to be agreed by the management team and reported to the board.

Risks are identified and prioritised; there is a process to manage and mitigate risks. Risks are assessed according to impact and likelihood and where there is no existing mitigating control in place an action plan is created to address the risk.

In our interim management report we noted that there was no formal risk assessment procedure in place in respect of identifying fraud risks and no formal definition of the processes open to fraud. Management agreed to complete a risk assessment and to undertake a review of the adequacy of controls. This issue will also be considered as part of the internal audit plan in 2007-08.

Systems of internal control

Statement on internal control ("SIC")

The SIC for 2006-07 provides details of the internal control environment and risk and control framework. Management highlight that the organisation is committed to ensuring that arrangements have been made to secure best value, which includes the concepts of good corporate governance, performance management and continuous improvement.

While no significant weaknesses are included in the SIC, management acknowledge that during 2006-07 there were weaknesses in internal controls around accounts payable, payroll and budgetary control. These weaknesses have been addressed through the implementation of a new accounting system and comprehensive training for staff members.

Management have established an internal controls assessment framework, complementing the risk management and internal audit arrangements. The assessment of internal control is informed by executive managers who have responsibility for the development and maintenance of the internal control framework, the work of internal audit, and comments made in reports by external audit. The audit committee is also responsible for providing assurance to the board relating to corporate governance.

Internal control arrangements

The Board changed internal auditors to Deloitte from 1 April 2006. Following completion of a needs assessment, the internal auditors issued their three year internal audit plan in October 2006. The 2006-07 annual internal audit plan was substantially completed, with 82 days delivered compared to the planned level of 90.

In relation to 2006-07, internal audit have concluded that "*on the basis of work undertaken in the year ended 31 March 2007 we consider that the organisation has an adequate framework of control over the systems examined.*" The main exceptions to this level of assurance were in respect of purchasing processes, payroll, local authority funding award documentation and state aid.

Internal audit follows a process of continuous follow up of previous recommendations and reported in their annual report that 60% of previous recommendations have been fully implemented or require no further action. 26% of findings have been reported as partially implemented. Management intend to complete partially implemented and outstanding controls in the near future.

During the year internal audit completed a review of key financial controls and concluded that "*the finance function within VisitScotland has undergone substantial change … and our review highlighted a number of control weaknesses and process improvement opportunities which should be addressed as soon as possible*".

Our work on financial and entity level controls included consideration of the principal accounting systems to assess whether the related controls were designed appropriately and operating effectively to prevent or detect a material misstatement of the accounts, consideration of management's reporting arrangements and review of the IT control environment. In order to maximise efficiency and avoid duplication of effort, we placed reliance on internal audit's work on key financial controls for a substantial part of this work.

Our testing of the design and operation of entity-level controls suggests that such controls were, broadly, designed appropriately and operating effectively. Recommendations were made to management to enhance the control environment by:

- documenting consideration of the specific fraud risks faced by the Board, the processes open to fraud to ensure that the appropriate mitigating systems and controls are in place and operating as intended;
- implementing a formal programme of regular review for all policies, procedures, and strategies;

- establishing a formal system of recording and monitoring action taken to comply with guidance and circulars; and
- improving the systems of financial controls of fixed assets and stock.

State aid

State aid refers to forms of assistance from a public body given to an undertaking on a discretionary basis, with the potential to distort competition and affect trade between member states of the European Union. During the year internal audit undertook a review of state aid restrictions in order to assess the effectiveness of the controls in place to monitor compliance with state aid rules. One control weakness rated as "high" by internal audit relating to the absence of a formal, documented policy and procedure in place with respect to VisitScotland's approach to state aid. Without the close scrutiny of senior management there is a risk that inappropriate payments are made which could have potential state aid implications resulting in penalties for recipient firms and the UK government.

Management agreed that a set of procedures would be prepared, agreed and circulated by July 2007. A draft state aid policy and procedure has been prepared but this has still to be ratified. Management should ensure that the ratification of a state aid policy is prioritised to minimise the risk of breaching state aid regulations and demonstrate the Board's approach to considering requirements.

Recommendation 1

Contracts are used to manage grant awards from the Challenge Fund and the EventScotland ring-fenced allocation. The Challenge Fund contract template was revised during the year following identification of a potential risk of non-compliance with state aid requirements. The EventScotland contract does not specifically mention state aid, but has a number of 'award repayment triggers', including an overarching clause giving EventScotland the right to change or amend these triggers at any time.

A new EventScotland contract has been drafted by the Board's lawyers and includes specific obligations of the grantee in relation to compliance with state aid legislation. The revised contract is not yet being used, primarily due to the reluctance of third parties to agree to the terms and conditions. In our view, risks to VisitScotland and the Scottish Executive from non-compliance with state aid requirements would be mitigated through the use of the revised contract.

Recommendation 2

Prevention and detection of fraud and irregularity

The Board has a fraud response plan in place to encourage staff to bring suspected frauds to notice and to ensure that prompt and effective action is taken. Where management are made aware of a suspected fraud, the internal fraud response group is convened to co-ordinate an investigation. Significant frauds are reported to the audit committee, and, starting in 2006-07, management planned to prepare an annual report to the audit committee, but this has not yet been presented.

Management has not reported any material instances of fraud or irregularity in 2006-07.

Standards of conduct

Staff are required to operate in accordance with the Board's internal code of conduct setting out the required minimal ethical and behavioural expectations. There are comprehensive human resources policies and procedures providing additional guidance to staff which are readily accessible to staff on the intranet. There is also a formal register of interests for recording board members and senior managers' interests. This is regarded as best practice and assists in demonstrating consideration of independence in decision-making and the awarding of contracts.

People management

During the year 20 staff members were made redundant at a cost of £278,000 (2005-06: £1,241,000). The payback period for this amount is less than one year. VisitScotland's senior management team were made aware of the "pool" of employees at risk of redundancy. Directors were then empowered to identify, in conjunction with human resources colleagues, those individuals with an alternative role within the organisation to determine those for whom redundancy would be required. Going forward we have been advised that it is intended that a revised process will be instituted whereby redundancies will be approved by the head of human resources and the chief executive, but, for any redundancies requiring consultation, board approval will be obtained.

Since the creation of the Network Boards on 1 April 2005, and the general harmonisation of policies, the board has been reviewing employment contracts of staff. We understand that, at the time of this report, there are over 100 employees on 'old' contracts. As a result, there are inconsistencies in a number of terms and conditions, including mileage rates and annual leave entitlement. Management should continue to manage the process of harmonising employment contracts.

Recommendation 3

Efficient government and Best Value arrangements

Efficient government

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

The Board was given a target to transfer £1 million of operating costs to marketing, whilst maintaining quality of service, by 31 March 2007. It was reported to the board in August 2006 that £0.273 million of savings had been achieved in 2005-06 and that the cumulative £1 million savings required in 2006-07 had been fully reflected through the operating budget. Progress against budgets is reported to the board on a monthly basis. While there have been no specific, separate reports to the board on achievement of the efficient government target, the director of corporate services maintains a separate record of activities on a project by project basis which could be used to demonstrate progress against the target.

Best Value

During 2005-06 Audit Scotland undertook a baseline assessment of the Board's position in relation to Best Value. Seven out of the ten areas were found to be 'under development' to secure Best Value, with the remaining three areas regarded as 'well developed' (commitment and leadership, accountability, and joint working). The 2006-07 and 2007-08 corporate plans and development of internal policies address the areas identified as 'under development', such as human resources policies, operational key performance indicators and stakeholder surveys. Achievement of corporate objectives is reported to all board meetings.

In March 2007 management reported to the board an intention to update the action plan for Best Value, with further reporting to the board during 2007-08.

In accordance with good practice, management should report to the board, at least annually, on progress against the efficient government and Best Value agendas to demonstrate their continued commitment to embedding the efficient government and Best Value initiatives.

Recommendation 4

Accounts audit

Audit opinion

On 29 October 2007 we issued an audit report expressing an unqualified opinion on the accounts of the Board and the group and the Network Boards for the year ended 31 March 2007 and on the regularity of transactions reflected in those accounts.

We bring the following issues to your attention.

Recoverability of intra-group debtors

A loan of £1.875 million has been provided to TourCo Limited by the Board. This in turn has been used to provide a loan of £1.85 million to eTourism Limited by TourCo Limited. The loan is repayable after project costs of £1.7 million have been settled from annual income. Income is dependant on the profitability of eTourism Limited which has been and is loss making. The earliest date repayment of the loan will be due to commence is 2008, but the current financial position, including net liabilities of £4.98 million at 31 December 2006, means that it is unlikely that repayments will commence until later.

In view of the business and accounting implications it is important that management continues to review eTourism Limited's revised business plan and financial position.

Consolidation

Following discussion with management, and reflecting the restructuring in the shareholdings of eTourism Limited during the year, the accounting treatment in the group accounts was changed from a joint venture to an associate for consolidation purposes.

Appendix – action plan

Priority rating for performance improvement observations raised		
Grade one: Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	**Grade two**: Issues that have an important effect on internal controls, but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately, but the weakness remains in the system.	**Grade three**: Issues that would, if corrected, improve the internal control in general, but are not vital to the overall system. These are generally issues of best practice that we feel would be of benefit to you if introduced.

No.	Issue and performance improvement observation	Management response	Officer and due date
1	Following the issue of the internal audit report on the review of state aid restrictions management agreed that a set of procedures would be prepared, agreed and circulated by July 2007. A review of progress during the final audit found that a draft state aid policy and procedure has been created but this has still to be ratified. Management should ensure that the ratification of a state aid policy is prioritised to minimise the risk of breaching state aid regulations. *(Grade three)*	Management are committed to the issuance of this policy.	Head of finance 31 October 2007
2	The EventScotland contract template does not specifically mention state aid, but has a number of 'award repayment triggers'. A new EventScotland contract has been drafted by the Board's lawyers and includes specific obligations of the grantee in relation to compliance with state aid legislation. The revised contract is not yet being used, primarily due to the reluctance of third parties to agree to the terms and conditions. In our view, risks to VisitScotland and the Scottish Executive from non-compliance with state aid requirements would be mitigated through the use of the revised contract. *(Grade three)*	Management will continue to take all reasonable steps to further mitigate risk in this area through appropriate alterations to the EventScotland standard award contract.	Chief operating officer – EventScotland Director of corporate services 31 December 2007

No.	Issue and performance improvement observation	Management response	Officer and due date
3	Since the creation of the Network Boards on 1 April 2005, and the general harmonisation of policies, the Board has been reviewing employment contracts of staff of the Network Boards and the Board. We understand that, at the time of this report, there are over 100 employees on 'old' contracts. As a result, there are inconsistencies in a number of terms and conditions, including mileage rates and annual leave entitlement. Management should continue to manage the process of harmonising employment contracts. *(Grade two)*	Management will continue to strive to bring all employees into a single set of harmonised employment contracts.	Head of human resources 31 March 2008
4	Efficient government targets and development of Best value policies and initiatives are embedded into operational and corporate plans. Reporting to the board is on an exception basis, which is consistent with management's overall approach to corporate reporting. In accordance with good practice, management should report to the board, at least annually, on progress against the efficient government and Best Value agendas to demonstrate their continued commitment to embedding the efficient government and Best Value initiatives. *(Grade three)*	Management are committed to the Best Value and efficient government agendas and will strive to continue to deliver results against both. Management will inform the board of progress as required and at least once per annum.	Director of corporate services 31 March 2008

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