

NHS Lanarkshire

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Board of NHS Lanarkshire and the Auditor General for Scotland
June 2024

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Key messages

2023/24 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2 Key risks arising from the audit of the NHS Lanarkshire's annual report and accounts in our Annual Audit Plan were presented to the Audit and Risk Committee on 5 March 2024. There are no significant matters from that work to draw to the attention of the Board.
- 3 Adjustments have been made in the audited annual report and accounts to reflect our audit findings. Management have refreshed the format and content of the annual report to enhance readers' understanding of NHS Lanarkshire's performance.

Financial management and sustainability

- 4 NHS Lanarkshire met the 3 key financial targets set by Scottish Government for 2023/24 and achieved breakeven against its Revenue Resource Limit (RRL).
- 5 The 2023/24 funding gap was managed through additional funding and efficiency savings. The majority of these savings were achieved on a non-recurring basis. With rising cost pressures, including pay and non-pay costs, NHS Lanarkshire starts the financial year 2024/25 with a recurring funding gap of £54.589 million.
- 6 NHS Lanarkshire has prepared a medium-term financial forecast which identifies a funding gap before savings of £54.589 million for 2024/25, increasing to a funding gap before savings of £70.299 million by 2026/27.
- 7 Systematic change is required to develop a financially sustainable healthcare delivery model. Transformational plans are underway to increase service provision but performance against the key metrics for the programme remain below target.
- 8 Significant staffing challenges remain and NHS Lanarkshire continues to rely on supplementary agency and bank staff to fill gaps.

- 9 NHS Lanarkshire has effective budgeting and financial control arrangements in place however business continuity and disaster recovery testing need to be further improved.

Vision, leadership and governance

- 10 A detailed programme of improvement is being taken forward through Operation Flow, however performance against the key metrics for the programme remain below target. Effective leadership across the Health and Social Care system in Lanarkshire is required to deliver the Board's transformation agenda.
- 11 NHS Lanarkshire has appropriate governance structures in place that support scrutiny of decisions made by the Board.

Use of resources to improve outcomes

- 12 NHS Lanarkshire's performance against national standards remains below pre pandemic levels with a number of Key Performance Indicators classified as 'red.' Given the financial challenges facing the Board, it will be difficult to balance attaining financial sustainability whilst trying to improve service delivery without significant transformation and reform.
- 13 NHS Lanarkshire has appropriate arrangements for performance monitoring and reporting however performance remains below pre pandemic levels.
- 14 The University Hospital Monklands Replacement Project Outline Business Case has been approved by the Scottish Government and a full business case is being developed for approval in 2024.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of NHS Lanarkshire. The scope of the audit was set out in an Annual Audit Plan presented to the 5 March 2024 meeting of the Audit and Risk Committee. This annual audit report comprises:

- significant matters arising from an audit of NHS Lanarkshire's annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the *Code of Audit Practice 2021*:
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the Board of NHS Lanarkshire and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment

3. John Boyd have been appointed by the Auditor General as auditor of NHS Lanarkshire for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second year of the five-year appointment.

4. We would like to thank Board members, Audit and Risk Committee members, Executive Directors, and other staff, particularly those in finance, for their cooperation and assistance in this year's audit, and we look forward to working together over the remainder of the five-year appointment.

Responsibilities and reporting

5. NHS Lanarkshire has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. NHS Lanarkshire is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. Our responsibilities as the independent appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice 2021 and supplementary guidance, and International Standards on Auditing in the UK (ISAs).

7. Weaknesses or risks identified in this report are only those which have come to the attention of the audit team during our normal audit work and may not be all that exist. Communicating these does not absolve management of NHS Lanarkshire from its responsibility to address the issues raised and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor independence

9. The audit team comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £262,680, as set out in the Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

10. The annual audit adds value to NHS Lanarkshire by:

- identifying and providing insight on significant risks and making clear and relevant recommendations.
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice.

1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

Adjustments have been made in the audited annual report and accounts to reflect our audit findings.

Management have refreshed the format and content of the annual report to enhance readers' understanding of NHS Lanarkshire's performance.

Audit opinions on the annual report and accounts are unmodified

11. The Board approved the annual report and accounts for NHS Lanarkshire and its group for the year ended 31 March 2024 on 26 June 2024. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- expenditure and income were in accordance with applicable enactments and guidance.
- the audited part of the Remuneration and Staff Report was prepared in accordance with the Government Financial Reporting Manual.
- the Performance Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the Government Financial Reporting Manual.

Overall materiality was assessed on receipt of the unaudited annual report and accounts as £29.6 million

12. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. Our initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values for NHS Lanarkshire and its group

Materiality level	Board	Group
Overall materiality	£29.6 million	£29.605 million
Performance materiality	£22.2 million	£22.204 million
Reporting threshold	£1.5 million	£1.500 million

Source: Audit Scotland

14. The overall materiality threshold for NHS Lanarkshire was set with reference to gross expenditure, adapted to remove the impact of expenditure with North and South Lanarkshire Integration Joint Boards, which we judged as the figure most relevant to the users of the financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75 per cent of overall materiality, reflecting our understanding of the entity and errors identified in the prior year audit.

16. It is our responsibility to request that all misstatements are corrected, other than those below the reporting threshold. The final decision on making the correction lies with the board.

Significant findings and key audit matters

17. Under ISA (UK) 260, we communicate significant findings from the audit to the board, including our view about the qualitative aspects of the board's accounting practices.

18. The Code of Audit Practice also requires me to highlight key audit matters which are defined in ISA (UK) 701 are those matters judged to be of most significance.

19. The significant findings and key audit matters are summarised in [Exhibit 2](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. IFRS 16 implementation for PFI/PPP liabilities</p> <p>International Financial Reporting Standard (IFRS) 16 applied to service concession arrangements (i.e. PFI, PPP and NPD agreements) for the first time in 2023/24. NHS Lanarkshire has four service concession arrangements.</p> <p>IFRS 16 requires the Board to remeasure the lease liability when a change in indices causes a change in future lease payments and that change has taken effect.</p> <p>For NHS Lanarkshire all four service concession arrangements have an index linked element where payments increase each year due to increases in RPI inflation.</p> <p>NHS Lanarkshire did not recognise the full extent of the liabilities for each PFI arrangement upon transition and during 2023/24. In addition, NHS Lanarkshire incorrectly processed an in-year movement for the PFI arrangements under the previous accounting standard.</p>	<p>NHSL has agreed to adjust the 2023/24 accounts as follows:</p> <ul style="list-style-type: none"> • £18.6 million increase in the catch-up adjustment on transition • £20.7 million increase in the 2023/24 liability • £29.1 million adjustment to the timing split of the liability • £10.1 million reversal of a movement in reserves processed in error during 2023/24 under the previous accounting standard. <p>Recommendation 1</p> <p>(Refer Appendix 1, action plan)</p>
<p>2. Gross Internal Area (GiA) for PFI properties</p>	<p>Audit are satisfied that the proposed accounting treatment by the Board is correct. Management obtained updated</p>

Issue	Resolution
<p>GIA is factual data that is used alongside valuer's judgements to arrive at the overall valuation.</p> <p>NHS Lanarkshire have procured updated Computer Aided Design (CAD) to detail gross internal areas of three PFI properties. The updated GiAs' used result in a material increase in value for the current year of approximately £50 million.</p> <p>Accurate floorspace information was available if procured in the prior year; the Board's valuation relied on historic information.</p>	<p>information on which to base the valuation. The appointed valuer has used the updated data to arrive at a more accurate valuation.</p>
<p>3. Reconciliation of SFR 30 payables</p> <p>We identified a £2.9 million over-accrual in the NHS Lanarkshire ledger balance for payables to other NHS Scotland bodies when compared to the Scottish Financial Returns (SFR) 30 returns received. This was processed as an adjustment to non-NHS payables. NHS Lanarkshire confirmed that these were balances held with NHS bodies but reallocated in order to agree with SFR 30 returns.</p> <p>Per the accounts manual, for any variances above the SFR 30 threshold of £200,000 (for NHS Lanarkshire this included NHS Forth Valley, NHS Greater Glasgow and Clyde, Scottish Ambulance Service and National Waiting Times Centre), NHS Lanarkshire should resolve the variances prior to 19 April and if no resolution was found this was required to be reported to SGHSCD.</p>	<p>Recommendation 2</p> <p>(Refer Appendix 1, action plan)</p>

Source: Audit Scotland

20. In addition to the significant findings detailed in [exhibit 2](#), we identified areas where NHS Lanarkshire need to make improvements as detailed below.

21. Significant judgements and sources of estimation uncertainty are disclosed at Note 1.30 to the financial statements. This disclosure is not fully compliant with IAS 1 in that it does not clearly explain the areas of estimation and their potential impact from any changes over the next twelve months. In line with IAS 1, information relating to the following should be provided:

- nature of the assumption or other estimation uncertainty

- sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity
- expected resolution of an uncertainty and the range of possible outcomes within the next financial year in respect of the carrying amounts of the asset and liabilities affected
- explanation of changes made to past assumptions concerning those assets and liabilities if the uncertainty remains unresolved.

Recommendation 3

Management should review the current disclosure against the requirements outlined.

22. Several errors and inconsistencies were identified with disclosures in the Remuneration and Staff Report, including the calculation of the Fair Pay and Directors' pensions disclosures. This included correction of prior year Cash Equivalent Transfer disclosures for Executive Directors. We recognise that there were delays in receiving some of the information from the Scottish Public Pension Agency (SPPA) to inform pension disclosures in the Remuneration and Staff Report.

Recommendation 4

Management should ensure disclosures in the Remuneration and Staff Report meet the requirements per the Financial Reporting Manual (FrM).

Identified misstatements of £99.674 million were adjusted in the financial statements

23. In addition to the significant misstatements outlined in [exhibit 2](#), other misstatements of £21.174 million were identified in the annual accounts as outlined below:

- Capital payables within the Cash Flow Statement were understated by £5.474 million.
- Capital downward revaluation of £15.7 million had been recognised in error as an impairment.

24. Adjustments have been processed to the annual report and accounts for the above misstatements. We concluded that further audit procedures were not required as the misstatements arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

25. In addition to the above there was an adjustment of £19.517 million in respect of NHS Lanarkshire's share of the Integration Joint Boards' (IJBs') deficit for the year, increasing the consolidated net expenditure figure and reducing reserves by £19.517 million. This information was not available at the time of preparing the unaudited accounts.

There were number of non-material misstatements identified within the financial statements

26. We identified a number of misstatements which were not corrected by management in the audited accounts. We considered the size, nature and circumstances leading to all uncorrected misstatements, individually and in aggregate, and concluded that these were not material. Further details of the uncorrected misstatements are included in [Appendix 2](#).

27. Note 22 in the financial statements discloses the recognition basis of the Board's financial assets and liabilities. The Board's disclosure is prepared in accordance with Scottish Government template accounts guidance however the current template reports these under incorrect headings. We are satisfied that this is not material to the annual report and accounts.

Audit work responded to the risks of material misstatement identified in the annual report and accounts

28. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed

Exhibit 3

Identified significant risks of material misstatement in the annual report and accounts

Audit risk	Audit Response	Conclusion
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. 	<p>We assessed the controls in place over journal entry processing.</p> <p>We undertook detailed substantive testing of journal entries, accruals and invoices.</p> <p>Our journal testing included a data analytics review to identify key risk factors.</p>

Audit risk	Audit Response	Conclusion
<p>perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries with a focus on significant risk areas, including year-end and post-closing entries, where we consider the risk of management override of controls to be the greatest. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of higher risk income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments. 	<p>We reviewed related party relationships and disclosures.</p> <p>We reviewed accounting estimates and transactions for appropriateness.</p> <p>We reviewed income and expenditure journals and transactions for indications of management bias and override of controls and did not identify any issues in these areas.</p> <p>We considered the risk of fraud across our work and did not identify any fraud.</p> <p>Conclusion: We did not identify any incidents of management override of controls from our work.</p>
<p>2. Risk over fraud over non pay expenditure</p> <p>In line with Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, as most public-sector bodies are net spending bodies, the risk of material misstatement</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over non pay expenditure processing via walkthroughs, specifically those around the year end. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of non-pay 	<p>We assessed the design and implementation of controls over non pay expenditure processing specifically those around the year end and did not identify any issues.</p> <p>We made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of non-pay expenditure</p>

Audit risk	Audit Response	Conclusion
<p>due to fraud related to non-pay expenditure recognition may in some cases be greater than the risk relating to revenue recognition.</p> <p>Our audit focus is on transactions around the year end where we consider greatest incentive for management to understate non pay expenditure due to significant pressure from stakeholders to break-even, particularly around the year end non pay expenditure.</p>	<p>expenditure transactions and other adjustments.</p> <ul style="list-style-type: none"> • Detailed testing of non-pay expenditure transactions with a focus on significant risk areas, including year-end and post-close-down entries. • Evaluate any identified significant transactions outside the normal course of business, identified through audit testing of income and non-pay expenditure and accruals. 	<p>transactions and other adjustments and found no issues.</p> <p>Detailed testing of non-pay expenditure transactions with a focus on significant risk areas, including year-end and post-close-down entries.</p> <p>Evaluated any identified significant transactions outside the normal course of business, identified through audit testing of income and non-pay expenditure and accruals.</p> <p>Conclusion: We did not identify any areas that would impact the risks of fraud over expenditure.</p>
<p>3. IFRS 16 implementation for PFI/PPP liabilities</p> <p>PFI models used by health boards and their measurement of PFI liabilities need to be adapted to incorporate the relevant IFRS 16 requirements from 1 April 2023.</p> <p>Boards will need to calculate a catch-up adjustment on transition to IFRS 16 on 1 April 2023, which is likely to be material.</p> <p>If this is not carried out correctly, there is a significant risk that NHS Lanarkshire's accounting treatment of this area is not in line</p>	<ul style="list-style-type: none"> • Early engagement with NHS Lanarkshire finance officers prior to year-end to review progress against FReM requirements. • Evaluate the extent to which controls have been implemented over the identification and recording of PFI liabilities in accordance with the FReM. • Detailed testing of PFI liabilities recognised under IFRS 16 to ensure compliance with FReM requirements. 	<p>We had early engagement with NHS Lanarkshire finance officers prior to year-end to review progress against FReM requirements.</p> <p>Evaluated the extent to which controls have been implemented over the identification and recording of PFI liabilities in accordance with the FReM.</p> <p>We undertook detailed testing of PFI liabilities recognised under IFRS 16 to ensure compliance with FReM requirements.</p> <p>Conclusion: We highlighted the audit adjustments required in Exhibit 2 above. With the exception of the above we are content no other weaknesses exist.</p>

Audit risk	Audit Response	Conclusion
with the requirements of the FReM.		
<p>4. Estimation in the valuation of land and buildings.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions, and changes in these can result in material changes to valuations. This subjectivity represents an increased risk of material misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Review the work of the valuer, and in particular review the assumptions that have been used and any data used to inform the valuation. • Review the controls in place at the board over the valuation of land and buildings. • Review of reports from the valuer to confirm overall asset valuation movements. • Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. • Test the reconciliation between the financial ledger and the property asset register. • Sample testing of individual asset valuations to confirm the suitability of the basis of valuation, the recognition of the valuation in the accounts and underlying assumptions used. • Critically assess the adequacy of NHS Lanarkshire's disclosures regarding the assumptions in relation to the valuation of land and buildings. • Review BCIS rates used by the valuer. 	<p>We reviewed the work of the valuer, and the assumptions and any data used to inform the valuation.</p> <p>We reviewed the controls in place at the board over the valuation of land and buildings.</p> <p>We reviewed reports from the valuer to confirm overall asset valuation movements.</p> <p>We obtained an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.</p> <p>Tested the reconciliation between the financial ledger and the property asset register.</p> <p>We sample tested individual asset valuations to confirm the suitability of the basis of valuation, the recognition of the valuation in the accounts and underlying assumptions used.</p> <p>We assessed the adequacy of NHS Lanarkshire's disclosures regarding the assumptions in relation to the valuation of land and buildings.</p> <p>We reviewed BCIS rates used by the valuer.</p> <p>Conclusion: We are satisfied NHS Lanarkshire has appropriate arrangements are in place in relation to the annual revaluation process.</p>

Source: Audit Scotland

29. In addition, we identified “areas of audit focus” in our 2023/24 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These areas of specific audit focus were:

- **Service Level Agreement with NHS Greater Glasgow & Clyde** – A service level agreement (SLA) is in place between NHS Lanarkshire and NHS Greater Glasgow & Clyde (NHSGGC) for costs associated with treatment provided by an NHSGGC health body to patients living within the NHS Lanarkshire area. The Boards are in the process of reviewing these SLA arrangements as the underlying performance delivery aspects of these have not been in operation since Covid-19. Should the terms and application of the SLAs change, this could have implications for NHS Lanarkshire's income and expenditure recognition in relation to the SLA arrangements.

30. We kept these areas under review throughout the audit. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

The unaudited annual report and accounts were not received in line with the agreed timetable

31. The unaudited annual report and accounts were not received in line with the agreed audit timetable on 10 May 2024. The accounting template was provided on 14 May 2024; however a full unaudited annual report and accounts was not received until 12 June 2024. A full set of working papers were also not received during the course of the audit, with a number of working papers outstanding at the end of May 2024.

32. The delay in receiving a full set of unaudited annual report and accounts has impacted the audit deadlines, the external review of Performance and Accountability Report and the opportunity for management to address any audit findings.

Recommendation 5

NHS Lanarkshire should review the timetable for the accounts production to ensure that the unaudited annual report and accounts and a full working paper package are provided for audit in line with the agreed deadlines set out in our Annual Audit Plan.

The Board have taken the opportunity to refresh its Annual Report and Accounts

33. In addition to the opinion on the performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of the Board's

performance report. The performance report should provide information on the Board, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of performance as well as helping stakeholders understand the financial statements.

34. We reviewed the performance report provided to us as part of the unaudited 2023/24 annual report and accounts taking into account good practice notes issued by Audit Scotland in recent years in relation to the content of performance reports in the NHS and Central Government.

35. During 2023/24 the Board undertook a significant refresh of the Performance Report included in the Annual Report and Accounts. This includes the use of infographics and tables. The updates make the Performance Report clearer and easier to digest and we confirm that the content complies with the requirements of the FReM.

Good progress was made on prior year recommendations

36. NHS Lanarkshire has made good progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

NHS Lanarkshire met the 3 key financial targets set by Scottish Government for 2023/24 and achieved breakeven against its Revenue Resource Limit (RRL).

The 2023/24 funding gap was managed through additional funding and efficiency savings. The majority of these savings were achieved on a non-recurring basis. With rising cost pressures, including pay and non-pay costs, NHS Lanarkshire starts the financial year 2024/25 with a recurring funding gap of £54.589 million.

NHS Lanarkshire has effective budgeting and financial control arrangements in place however business continuity and disaster recovery testing need to be improved.

NHS Lanarkshire operated within its Revenue Resource Limit (RRL) of £1,737 million

37. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within. The requirement for boards to develop three-year financial plans was reintroduced from 2022/23.

38. As a result [Exhibit 4](#) shows that NHS Lanarkshire operated within the 3 key financial targets set by Scottish Government during 2023/24.

Exhibit 4

Performance against resource limits in 2023/24

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	1,679.584	1,679.533	0.051

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Non-core revenue resource limit	57.621	57.621	0
Total revenue resource limit	1,737.205	1,737.154	0.051
Core capital resource limit	37.326	37.326	0
Non-core capital resource limit	0.735	0.735	0
Total capital resource limit	38.061	38.601	0
Cash requirement	1,912.656	1,912.656	0

Source: NHS Lanarkshire Annual Report and Accounts 2023/24

Integration Joint Boards underspent against the NHS Lanarkshire budget

39. NHS Lanarkshire delegates responsibility for a specified range of health and social care services to the North and South Lanarkshire Integration Joint Boards (IJBs) and passes the budgets associated with these services to the IJBs. The budget is amended throughout the year to reflect additional funding received by the board for IJB services.

40. Under the integration financial guidance, any funding unspent at the year-end belongs to the IJBs and is retained by them to be held in reserves for use in future years. Both North and South Lanarkshire Integration Joint Boards underspent by £15.377 million and £5.305 million respectively against the NHS Lanarkshire budget.

Budget processes were appropriate

41. We reviewed NHS Lanarkshire's budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and Board members receive regular, timely and up to date financial information on NHS Lanarkshire's financial position. The budget monitoring reports presented to each Board meeting clearly show the extent of NHS Lanarkshire's reliance on non-recurring savings and the content and format of the reports allow members to perform their scrutiny role.

42. The finance report presented to each meeting of the Board also includes an analysis of the movements in NHS Lanarkshire's RRL since the previous finance report. This provides Board members with sufficient detail on the nature

of changes to NHS Lanarkshire's funding allocation as a description is provided for each change to the funding allocation along with the monetary values.

43. Each year internal audit produce an Internal Control Evaluation (ICE) report which is informed by a detailed review of formal evidence sources including Board, Standing Committee, Corporate Management Team (CMT) and other papers. Internal audit opinions are also informed by regular meetings with directors, senior officers and through fieldwork undertaken for specific audits during the year.

44. The principal objective of this review is to provide assurance to the Chief Executive, as Accountable Officer, that there is a sound system of internal control that supports the achievement of the board's objectives and aims to identify of any significant issues that may affect the Governance Statement in the annual accounts.

45. The 2023/24 Internal Audit Annual Report was presented to the Audit and Risk Committee meeting on 26 June 2024 and identified no significant issues in relation to financial governance that impact on the annual accounts or our audit work.

46. We concluded that NHS Lanarkshire has effective budgetary monitoring and control arrangements that allow both members and officers to carry out effective scrutiny of the board's finances.

The 2023/24 funding gap was managed through additional funding and efficiency savings. The majority of these were on a non-recurring basis. NHS Lanarkshire starts the financial year 2024/25 with a recurring funding gap of £54.589 million

47. NHS Lanarkshire's 2023/24 financial plan in March 2023, identified a budget gap of £56.505 million between projected costs and income. Initial efficiency schemes identified savings of £22.373 million which left an unidentified funding gap of £34.132 million. For the year ended 31 March 2024 the Board had managed to deliver a breakeven position against targets. Key elements in achieving this included:

- Sustainability funding (June 2023) totalling £14.933 million
- Scottish Government releasing £12.493 million (June 2023) to cover the costs of new medicines which has been a long standing cost pressure
- Slippage on financial planning estimates of £5.429 million

48. Financial breakeven was achieved in 2023/24 as the Board delivered £30.810 million of efficiency savings. However, there has been substantial reliance on non-recurring income, slippage and non-recurring savings to achieve a break-even position, leaving much of the opening gap still to be

resolved in 2024/25. NHS Lanarkshire starts the financial year 2024/25 with a recurring funding gap of £54.589 million.

NHS Lanarkshire has appropriate control arrangements in place however business continuity and disaster recovery testing need to be improved.

49. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach and the testing the operating effectiveness of specific controls, we did not identify any internal control weaknesses which could affect NHS Lanarkshire's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

50. In July 2023 Cyber Security Scotland undertook a Network and Information Systems (NIS) audit which highlighted that there were significant areas for improvement in NHSL's business continuity and disaster recovery testing; noting their testing lacked a structured approach and did not clearly test the whole plan nor its actual effectiveness.

51. This creates a risk that any weaknesses which exist in the plan's design are not identified until an event occurs which requires actual implementation, at which point the response to the issue would be compromised.

Recommendation 6

NHS Lanarkshire should address the findings highlighted in the NIS audit to improve the Board's business continuity and disaster recovery controls.

Standards of conduct for prevention and detection of fraud and error are appropriate

52. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

53. NHS Lanarkshire has a range of established procedures in place designed to maintain standards of conduct, prevent and detect bribery and corruption and prevent and detect of fraud and error. These include codes of conduct for members and officers, a whistleblowing policy, a fraud, theft, bribery and corruption policy and response plan. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

54. We have concluded that NHS Lanarkshire has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

55. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Throughout the year NHS Lanarkshire has been involved in the National Fraud Initiative (NFI) process with the process now concluded.

56. Control weaknesses within NHS National Services Scotland resulted in the service auditor issuing qualified opinions. The NHS in Scotland procures several service audits each year to provide assurance on the controls operating within the shared systems.

57. NHS National Services Scotland procures service audits covering Practitioner and Counter Fraud Services (primary care payments), payroll and the national IT services contract that supports the associated systems.

58. For the Practitioner and Counter Fraud Services the Type II service audit resulted in a qualified opinion on the controls relating to dental payments as the controls associated with the objective *'Controls provide reasonable assurance that: GDS payments are made completely and accurately based on authorised claims to the valid contractors; GDS payments are made only once; and Verification is performed in accordance with Scottish Government Guidance'* did not operate effectively during the year.

59. For the national IT services contract the Type II service audit also resulted in a qualified opinion on the controls relating to access to the systems as the controls associated with the objective *'Controls provide reasonable assurance that logical access to applications, operating systems and databases is restricted to authorised individuals'* did not operate effectively during the year.

60. NHS Lanarkshire Management have considered the qualifications in the report and are satisfied that these do not materially impact on the Board's control environment. We have reviewed the qualifications contained within the service auditor reports and have undertaken additional substantive audit procedures including analytical review of GMS payments to conclude that the qualifications did not have an adverse impact on our audit opinion. The 2023-24 Governance statement notes the opinions provided by the service auditor

An unqualified opinion was provided by the NSI service auditors on the controls operating in shared systems, however an assurance gap remains

61. NHS Ayrshire & Arran procures a Type II service audit of the National Single Instance (NSI) eFinancials services. The service auditor assurance reporting in relation to the NSI eFinancials was unqualified. The assurance gap identified

last year for the IT general controls, system backup and disaster recovery remains. This continues to be a risk for NHS Scotland that needs to be addressed, but it did not impact on our 2023/24 audit.

62. In 2022/23 we reported that a gap was identified in the current service audit arrangements. The NSI service auditor report for 2023/24 again reports that: 'Atos provides national IT services to the NHS in Scotland and hosts the servers upon which the financial ledger sits. Therefore, IT general controls, controls over the server, backup of financial ledger data and disaster recovery arrangements are outside the scope of this report'. The assurance gap therefore remains for the IT general controls, system backup and disaster recovery for the NSI eFinancials system.

63. This is an area that needs to be resolved for NHS Scotland and NHS Ayrshire and Arran should continue to work with NSS to ensure appropriate service auditor assurance is provided to other NHS boards on Atos services which support e-Financials.

64. NHS Lanarkshire is satisfied that the opinions expressed do not impact on the Board's system of internal control or financial governance arrangements in respect of payments and patient registration arrangements for Family Health Services or associated IT services.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

NHS Lanarkshire has prepared a medium-term financial forecast which identifies a funding gap before savings of £54.589 million for 2024/25, increasing to a funding gap before savings of £70.299 million by 2026/27.

Systematic change is required to develop a financially sustainable healthcare delivery model. Transformational plans are underway to increase service provision but performance against the key metrics for the programme remain below target.

Significant staffing challenges remain and NHS Lanarkshire continues to rely on supplementary agency and bank staff to fill gaps.

Our audit work identified and addressed risks relating to financial sustainability

65. [Exhibit 5](#) sets out the wider scope risks relating to Financial Sustainability identified in our 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 5

Risks identified from the responsibility under the Code of Audit Practice

Audit risk	Audit Response	Conclusion
<p>Financial Sustainability</p> <p>There is significant financial uncertainty facing NHS Lanarkshire. The board's 2023/24 Financial Plan projected a budget gap of £47.826 million (after potential savings) for 2024/25</p>	<ul style="list-style-type: none"> Review NHS Lanarkshire's financial plans and consider underlying savings plans. Assess the progress made by NHS Lanarkshire in implementing sustainable transformational change to 	<p>Results: Financial breakeven was achieved in 2023/24 as the board delivered £30.810 million of efficiency savings (£27.582 million non-recurring).</p> <p>While NHS Lanarkshire has continued to operate within its</p>

Audit risk	Audit Response	Conclusion
<p>representing a significant challenge in delivering services in a financially sustainable way. This is driven through a combination of inflationary pressures on pay and non-pay costs, demand driven pressures and funding allocations not increasing to offset these costs. Potential efficiency savings realised are generally on a non-recurring basis rather than on a sustainable recurring basis. This will result in added pressure in subsequent years as budgets become increasingly constrained.</p>	<p>address financial targets while meeting performance targets.</p>	<p>financial resources limits, this has relied upon non-recurring savings and funding. With a 2024/25 funding gap of £54.589 million and projections for the gap to further rise over the next three years, it is critical that NHS Lanarkshire identify and deliver sustainable financial efficiencies.</p> <p>NHS Lanarkshire faces difficult decisions to enable it to continue to deliver safe health provision in a financially sustainable way.</p> <p>Conclusion: NHS Lanarkshire faces significant financial challenges. With projected deficits over the next 3 financial years, systematic change is required to develop a financially sustainable operating model. Working with the Scottish Government and other key partners, including North and South Lanarkshire IJBs will be critical in developing a financially sustainable model of care for the region.</p> <p>Recommendation 7</p>

Source: Audit Scotland

Rising demand, operational challenges and rising costs have exacerbated the financial position of the NHS in Scotland

66. The significant cost pressures already experienced by public bodies are likely to continue. As highlighted in Audit Scotland's *NHS in Scotland 2023* <https://www.audit-scotland.gov.uk/publications/nhs-in-scotland-2022> report, the financial position is concerning across the health sector, despite the health budget increasing in real terms since 2013/14. A range of financial pressures

are presenting a significant challenge for all health boards. The key messages from the report are:

- Significant service transformation is required to ensure the financial sustainability of Scotland's health service. Rising demand, operational challenges and increasing costs have added to the financial pressures on the NHS and, without reform, its longer-term affordability.
- The NHS, and its workforce, is unable to meet the growing demand for health services. Activity in secondary care has increased in the last year but it remains below pre-pandemic levels and is outpaced by growing demand. This pressure is creating operational challenges throughout the whole system and is having a direct impact on patient safety and experience.
- There are a range of strategies, plans and policies in place for the future delivery of healthcare, but no overall vision. To shift from recovery to reform, the Scottish Government needs to lead on the development of a clear national strategy for health and social care. It should include investment in preventative measures and put patients at the centre of future services. The current absence of an overall vision makes longer-term planning more difficult for NHS boards.

NHS Lanarkshire has prepared a medium-term financial plan which identifies a funding gap before savings of £54.589 million for 2024/25, increasing to a funding gap before savings of £70.299 million by 2026/27

67. NHS Lanarkshire's 2024/25-2026/27 financial plan was endorsed by the Board on 27 March 2024 for submission to Scottish Government. NHS Lanarkshire's forecast includes additional costs relating to recovery from Covid-19 and costs related to recovering and addressing service backlogs in other areas. Forecasts in the financial plan are based on several assumptions including allocation uplifts, inflationary costs and pay growth. It also considers the impact of known commitments made by NHS Lanarkshire over the three-year period.

68. This has been used to estimate the additional financial gap which must be addressed each year. The financial plan forms part of NHS Lanarkshire's reporting requirement to Scottish Government and is updated annually.

69. The projected outturn for NHS Lanarkshire for 2024/25 projects a gap before savings of £54.589 million. Current projected savings reduce the gap to £6.251 million.

70. In previous years the gap has been reduced in financial plans mostly by non-recurring savings. However, the forecast for 2024/25 reduces the gap mostly using recurring savings. The Board acknowledges that traditional

efficiencies are not enough to close a gap of this scale, and closing this to a sustainable level requires 'significant transformation and reform'. As a result, the risk of the Board not achieving the forecast savings in 2024/25 is considered high.

71. The Board has identified £48.338 million of potential savings for 2024/25 which are split between three risk categories: low risk (41 per cent), medium risk (12 per cent), and high risk (47 per cent). In previous financial plans, only those categorised as low risk were included in the forecasts due to the potential risk of longer timescales or inability to proceed.

72. The 2024/25 gap between projected costs and income and the scale of the savings to be delivered is the single largest financial risk facing the Board. There are a number of factors the Board have identified which could increase this, which include:

- the pay deal not being fully funded (current assumption is that this would be funded)
- supplies inflation averaging more than 2 per cent. Every 1 per cent increases costs by £1.5 million
- As all NHS Boards face gaps in their financial plans there is a risk that additional income is sought by other Boards from those using their services. Every 1 per cent increase would be the equivalent of £2.4 million.

73. The Board recognises that as more work takes place on the proposals, the estimates of what is deliverable within 2024/25 will be revised and that other mitigating measures will also be sought.

74. Going forward into 2025/26 and 2026/27 respectively, it is projected that the funding gap, even after achieving in-year savings (and the recurring savings identified for 2023/24) will continue to increase to £45.806 million and £70.299 million respectively. The potential savings in these years are mostly non-recurring. These financial years plan on no uplift as the Board has been advised to plan on this basis in future years. NHS Lanarkshire have identified that their ability to deliver a balanced budget within the medium term remains their highest corporate risk.

75. Recognising that the scale of the overall financial challenge varies across boards, NHS Boards have been categorised into three groups (Tailored Support; Enhanced Monitoring and Quarterly Engagement), to ensure Scottish Government support is directed based on need. NHS Lanarkshire is categorised as a Board with Quarterly Engagement (the lowest level of assessment).

76. A letter from the Scottish Government's DHSCFD&G dated 17 May 2024 notified all Chief Executives that Boards at level 2 or 3 of the NHS Scotland Support and Intervention Framework have been given a brokerage cap which cannot be exceeded, or an overspend will show in the financial statements. This does not change the statutory responsibility to break even. The letter also explained that Boards must move quickly to achieve financial balance because as the year progresses, options to reduce the deficit will become more limited, therefore action is required now.

77. Planned efficiency savings are not enough to close the predicted financial gap in 2024/25 and financial recovery in the medium to longer term will require transformation and reform of existing health service delivery models.

78. Whilst we recognise that a range of improvement activity is taking place across NHS Lanarkshire, recurring pressures are currently being met with a combination of recurring and non-recurring solutions but with an underlying reliance on non-recurring savings. This needs to be addressed as a part of the Transformation and Reform plans noting the urgency of the timeline.

79. An effective long term financial sustainability plan needs to be introduced, and decisions about the way services are delivered in the short, medium and longer-term based on information about the cost, impact and quality of all available options. Detailed scenario planning should also be undertaken to provide an understanding for the Board of the effects of various reform options.

Systematic change is required to develop a financially sustainable healthcare delivery model. Transformational plans are underway to increase service provision but performance against the key metrics for the programme remain below target

80. A three-stage transformation programme, Operation FLOW, was initiated in early 2023 following visits to other health systems, research on effective interventions and experience from NHS Lanarkshire's own improvement activity.

81. In February 2023 senior clinical and management resource focussed on supporting teams to implement a variety of interventions to prevent unnecessary admission or delays in discharge. The aim was to create a firebreak and decompress the hospitals to a level of occupancy where work could progress to embed longer term, resilient sustainable optimised service models.

82. It succeeded in reducing occupancy across the three District General Hospitals from:

- 105 per cent in January 2023 to 89 percent during the firebreak
- increased the number of people spending 4 hours or less in the emergency departments from 61 per cent to 70 per cent.

83. Without sustained additional resource input the numbers again increased with occupancy at 94 per cent in April 2023 and the 4 hour performance at 64 per cent. NHS Lanarkshire has agreed with Scottish Government a level of targeted investment within the 2024-25 Financial Plan for a range of initiatives to reduce occupancy in hospitals and improve progress of patients through the emergency departments.

84. A detailed programme of improvement is being taken forward through Operation Flow. Site Flow Oversight Boards (FOBs) have been established to lead in the development and implementation of the key elements aligned to the new flow model and are accountable to the Executive Flow Oversight Board (EFOB) which reports to Corporate Management Team (CMT). The primary focus of this work is to reduce occupancy across all NHS Lanarkshire acute hospital sites.

85. Site Flow Oversight Boards are responsible for delivering improvement actions to reduce occupancy and improve performance. Establishing and maintaining good flow across the health care system is key to the success of Operation Flow and therefore improving NHS Lanarkshire's unscheduled care performance.

86. Updates on Operation Flow progress are considered by the Board. At the Board meeting in May 2024 key area of note were:

- at the end of April 2024 NHS Lanarkshire reported an end of month performance against the 4-hour standard as 55 per cent compared to the target trajectory of 70 per cent
- the numbers of patients waiting 8 and 12 hours respectively exceeded target improvement metrics,
- acute hospital occupancy levels increased to 100 per cent from 98 per cent from the previous month

87. The report highlighted that performance against the key metrics for the programme remain below target, whilst recognising the importance that improvement milestones are both challenging and realistic. To address this, the Director of Acute Services, Interface Director and Head of Planning and Development and the Hospital Site Directors will revise targets and trajectories across NHS Lanarkshire's model of improvement.

Significant staffing challenges remain and NHS Lanarkshire continues to rely on supplementary agency and bank staff to fill gaps

88. NHS Lanarkshire continued to face challenges in recruitment throughout 2023/24 and its reliance on agency and locum staff. This is impacting on NHS Lanarkshire's ability to achieve their medium to long term plans.

89. NHS Lanarkshire's overall average staffing had increased by the equivalent of 1,621 whole time staff (WTE) (12 per cent) since March 2020, the start of the pandemic with 302 WTE more staff recorded in 2022/23 taking the total whole time equivalent staffing to 13,578. Staffing increases supported by specific Scottish Government funding are mostly within the Health and Social Care Partnerships in line with their stated policy of shifting the balance of care.

90. There has been recruitment across many services, with the acute services employing substantial additional numbers of healthcare support workers and opening access to agency staffing for unfilled shifts. This resulted in spend on agency nursing within acute services increasing from £1.935 million in 2018/19 to £23.156 million in 2023/24. While recognising this is a reduction compared to the £25.882 million of agency costs incurred in 2022/23, it still represents a significant area of spend and a considerable factor in overspends against nursing budgets in this area.

91. NHS Lanarkshire submitted its three-year workforce plan to the Scottish Government in November 2022. The plan was developed in partnership working with North and South Lanarkshire Council, covering health and social care partners, in line with Scottish Government Health Workforce Directorate guidance using 6 steps to workforce planning methodology as the agreed collective approach.

92. The aim of the plan is to develop a healthcare strategy that supports the development of an integrated health and social care system which has a focus on prevention, anticipation and supported self-management. This aligns with the strategic commissioning plans set out Both North and South Lanarkshire Integration Joint Board's (IJB) overall strategy for health and social care services for the next three years up to 2025.

93. Quarterly Workforce Reports are presented to each meeting of the Staff Governance Committee (SGC), the minutes of which are taken to relevant meetings of the Board. These quarterly reports allow members to monitor the board's statistics in relation to staff numbers, vacancies, supplementary staffing, agency shifts, staff turnover and staff absences, with additional commentary on each area.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

A detailed programme of improvement is being taken forward through Operation Flow, however performance against the key metrics for the programme remain below target. Effective leadership across the Health and Social Care system in Lanarkshire is required to deliver the Board's transformation agenda.

NHS Lanarkshire has appropriate governance structures in place that support scrutiny of decisions made by the Board.

NHS Lanarkshire has a vision and organisational objectives which link to the 2023/24 Annual Delivery Plan

94. NHS Lanarkshire's vision is '*To enable healthier, longer lives by delivering compassionate, innovative, sustainable and high quality health and care services that empower people and reduced inequalities*'. This is supported by four corporate objectives which cover the broad themes of **Better Health, Better Care, Better Value and Better Workplace**.

95. The 2023-24 ADP was submitted as a draft to the Scottish Government and, thereafter, formally approved by the NHS Lanarkshire Board in August 2023. The key priorities reflected within the ADP are incorporated as part of the Board's Corporate Objectives and Corporate Management Team (CMT) members' personal objectives for the year.

96. The NHS Lanarkshire's Annual Delivery Plan (ADP) for 2023/24 aligns to the Board's vision and corporate objectives of remobilising services following the pandemic and notes the risks associated with financial challenges.

A detailed programme of improvement is being taken forward through Operation Flow, however performance against the key metrics for the programme remain below target. Effective leadership across the Health and Social Care system in Lanarkshire is required to deliver the Board's transformation agenda

97. NHS Board Chief Executives and senior teams are responsible for the delivery of critical day-to-day services as well as leading the changes to how services are accessed and delivered in their boards. This places significant demands on senior leadership teams. Board executive and non-executive directors have some challenging decisions to make with regard to how services are best delivered in the current financial climate.

98. It is acknowledged by the senior officers and Board that the sustainable and longer-term recovery of the 2024-25 forecast deficit is crucial. The Board has already identified many of the areas most in need of transformation. As detailed in paragraphs 83-86 above, a detailed programme of improvement is being taken forward through Operation Flow. The primary focus of this work is to reduce occupancy and improve ED performance across all NHS Lanarkshire acute hospital sites.

99. The latest report considered by the Board in May 2024 highlighted that performance against the key metrics for the programme remain below target. Effective leadership across the Health and Social Care system in Lanarkshire is required to drive the changes needed and progress transformational challenges.

Recommendation 7

The Chief Executive, Director of Finance and Board members need to ensure future delivery plans demonstrate how services will change and efficiencies will be realised to meet the growing needs of patients within the financial constraints it faces. Effective leadership across the Health and Social Care system in Lanarkshire is required to drive the changes needed and progress should be challenged by the Board.

Governance arrangements are appropriate and effective

100. NHS Lanarkshire's governance arrangements have been set out in the Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate and effective.

101. The Board is supported by a number of committees and the Remuneration sub-committee. The minutes of committee and sub-committee

meetings are presented to the Board. In addition, minutes from meetings of North Lanarkshire IJB and South Lanarkshire IJB are presented to Board meetings as appropriate. Non-executive Board members are also members of selected committees and are represented at both IJBs.

102. Board members provide appropriate scrutiny and challenge at regular bi-monthly meetings to ensure the Board's performance is effectively reviewed. There has been no significant change to the Board's governance arrangements during 2023/24.

103. NHS Lanarkshire's strategic planning and performance monitoring role is shared with two separate legal bodies; the North and South Lanarkshire Integration Joint Boards (IJBs). Each Integration Joint Board comprises 4 non-executive directors from the NHS Board and 4 councillors from the respective Council. Each have appointed a Chief Officer and a Chief Finance Officer responsible for delivery of the IJB's objectives.

104. NHS Lanarkshire delegates the planning and commissioning for Primary, Community and Mental Health services to the IJBs and passes to them the relevant budgets. The IJBs also strategically plan, alongside the NHS Board for Accident and Emergency Services, and inpatient services for General, Geriatric, Respiratory, Rehabilitation and Palliative Care inpatient services.

105. The IJBs decide what integrated services will be provided and how they will be funded and direct NHS Lanarkshire and North and South Lanarkshire Councils to deliver those services. The Integration Joint Boards have a joint responsibility for reducing delayed discharges and their Chief Officers are full members of the NHS corporate management team.

106. Through our attendance at the Audit and Risk Committee meetings, we concluded that committee papers were well prepared (and in sufficient time in advance of meeting for review), adequate time was allowed to discuss the issues on the agenda and committee members were well-prepared and asked appropriate questions. This enables the Audit and Risk Committee to exercise effective scrutiny.

107. The NHS Scotland Corporate Governance Blueprint says that NHS boards should annually assess the effectiveness of the corporate governance system, conducting a self-assessment to review progress, and develop an action plan, identifying any new and emerging issues or concerns.

108. The Board's Code of Corporate Governance is reviewed on an annual basis. A report was approved by the Board at its meeting in May 2024 confirming that no changes were required at this time. It was noted that the Code will be updated in the summer to reflect changes to the governance structure.

109. A self-assessment survey undertaken in late 2023 resulted in an agreed Improvement Plan being approved by the Board in March 2024 and will be reviewed in September 2024. It was confirmed that the improvement plan does not require any changes to be made to the Code.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

NHS Lanarkshire's performance against national standards remains below pre pandemic levels with a number of Key Performance Indicators classified as 'red.' Given the financial challenges facing the Board, it will be difficult to balance attaining financial sustainability whilst trying to improve service delivery without significant transformation and reform.

NHS Lanarkshire has appropriate arrangements for performance monitoring and reporting however performance remains below pre pandemic levels.

The University Hospital Monklands Replacement Project Outline Business Case has been approved by the Scottish Government and a full business case is being developed for approval in 2024.

NHS Lanarkshire's annual delivery plan has a series of actions designed to address backlogs in operational performance

110. In February 2023 the Scottish Government commissioned NHS boards to submit an Annual Delivery Plan (ADP) for 2023/24 and a Medium-Term Plan covering 2023-26. The Scottish Government have developed 10 recovery drivers that span across the work of NHS Scotland for 2023/24. Concurrently, they are continuing planning work for longer term redesign/renewal and transformation of services, which seeks to position the NHS for sustainable delivery of healthcare that also improves population health and reduces health inequalities.

111. The 2023-24 Annual Delivery Plan has been developed in partnership with primary care and secondary care services. The Plan details 103 initiatives and actions taken to deliver on the Scottish Government's 10 Recovery Drivers. Quarterly progress updates are developed at mid-year and year end for the

Scottish Government and shared with the Planning, Performance & Resources Committee (PPRC) for scrutiny and assurance.

112. The ADP acknowledges that there is a need to redesign and transform services to address the increased waiting times and the backlog of patients awaiting diagnosis and treatments. Work in this area should be aligned to the work on delivering financial sustainability as transforming services in the longer term will help support the aims of sustainability.

NHS Lanarkshire has appropriate arrangements for performance monitoring and reporting however performance remains below pre pandemic levels

113. The Board is kept well informed on performance across all areas. The detailed review and scrutiny of performance has been delegated to the Planning, Performance and Resources Committee (PPRC) which meets quarterly.

114. Performance update reports are prepared by NHS Lanarkshire's Acute Services Division and North and South Lanarkshire IJBs. The Acute Services Division reports provide updates on performance in the delivery of key scheduled care waiting time targets and unscheduled care standards (Access Targets). The reports also highlight areas of pressure and challenge and describes the actions being taken to manage clinical prioritisation.

115. The reports from each IJB provide updates on delayed discharge performance against trajectory and waiting times performance for those services hosted by the IJB, as well as providing details of activity underway to improve performance where required.

116. We concluded that the NHS Lanarkshire has appropriate arrangements for performance monitoring and for performance reporting.

Service performance against national waiting time standards is reported as being behind target

117. The 2023/24 annual report and accounts reports on NHS Lanarkshire's performance against its national waiting time standards. Performance is considered at each Board meeting, and reporting acknowledges the challenges facing NHS Lanarkshire.

118. While these are not currently the Board's only focus for performance monitoring, they provide context for the scale of the impact of the pandemic of the delivery of health services. [Exhibit 6](#) demonstrates trends in demand and activity.

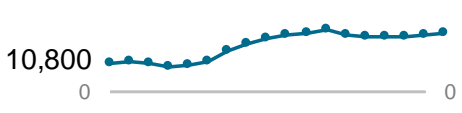
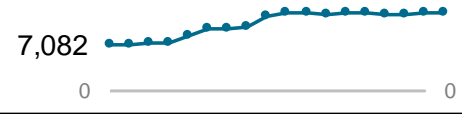
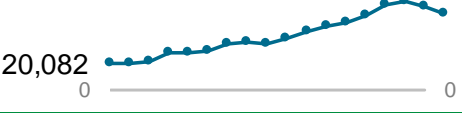
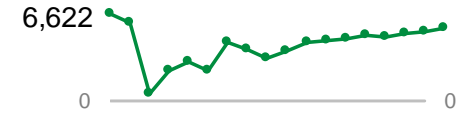

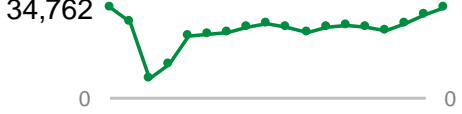


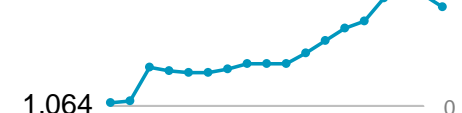
119. In terms of demand, the number of patients waiting for diagnostic tests continues and outpatient appointments continues to increase since last year,

with a small reduction in the number of inpatient admissions but remaining significantly higher than pre pandemic levels. Activity levels show both the number of inpatient admissions and outpatient appointments increasing. The length of waits data shows that whilst the number of inpatient and outpatient admissions remains significantly higher than pre pandemic levels they have started to level off.

120. [Exhibit 7](#) provides a comparison of performance against key waiting time standards against prior years. Performance against cancer targets remains high and above targets and has done so throughout the pandemic. Pressures on new outpatient waiting times, patient treatment time guarantee, and A&E attendees remain challenging and are still significantly below pre-pandemic figures. Addressing this backlog, demonstrates the need for service transformation to support patient care and long term financial sustainability.

See recommendation 7 above

Exhibit 6**NHS Lanarkshire Trends in demand and activity per acute services**

Demand	Quarterly trend Dec 2019 to Mar 2024	Change (%)
Ongoing waits for diagnostic tests	 10,800	22,331 106.8%
Ongoing waits for an inpatient or day case admission	 7,082	11,978 69.1%
Ongoing waits for a new outpatient appointment	 20,082	58,755 192.6%
Activity	Quarterly trend Dec 2019 to Mar 2024	Change (%)
Number of scheduled elective operations in theatre system	 6,622	5,565 -16.0%
Number of inpatient and day case admissions	 6,192	4,556 -26.4%
Number of new outpatient appointments	 34,762	34,296 -1.3%
Length of waits	Quarterly trend Dec 2019 to Mar 2024	Change (%)
Ongoing waits longer than 6 weeks for diagnostic tests	 1,346	12,300 813.8%
Ongoing waits longer than 12 weeks for an inpatient or day case admission	 1,855	7,710 315.6%
Ongoing waits longer than 12 weeks for a new outpatient appointment	 1,064	37,897 3461.7%

Source: Public Health Scotland

Exhibit 7**Performance against key waiting time standards**

Target/standard	Performance at March 2021	Performance at March 2022	Performance at March 2023	Performance at December 2023*
CAMHS 18 Weeks Proportion of patients that started treatment within 18 weeks of referral	64.3%	80.0%	29.0%	71.8%
Psychological therapies Waiting time within 18 weeks	74.7%	85.5%	85.8%	82.3%
Drug and Alcohol 21 days Proportion of drug and alcohol patients that started treatment within 21 days	99.0%	97.7%	94.2%	92.8%
18 Weeks RTT Proportion of patients that started treatment within 18 weeks of referral	73.6%	75.2%	63.4%	60%
Patient Treatment Time Guarantee (TTG) Proportion of inpatients or day case that were seen within 12 weeks	63.8%	51.6%	45.8%	50.1%
Outpatients waiting less than 12 weeks Proportion of patients on the waiting list at month end who have been waiting less than	71.6%	67.1%	61.3%	52.3%

12 weeks since referral at month end				
A & E attendees Proportion of A & E attendees who were admitted, transferred, or discharged within 4 hours	82.1%	63.7%	57.1%	56.3%
Cancer 31 Days RTT Proportion of patients who started treatment within 31 days of decision to treat	98.8%	94.4%	94.8%	93%
Cancer 62 Day RTT Proportion of patients that started treatment within 62 days of referral	90.9%	82.4%	74.3%	81.2%

*Latest data available

The University Hospital Monklands Replacement Project Outline Business Case has been approved by the Scottish Government and a full business case is being developed for approval in 2024

121. In December 2020 the Board approved the Monklands Replacement Project (MRP) Site Selection Process Report with Wester Moffat the preferred site for the location of the new University Hospital Monklands. In January 2021, the Scottish Government confirmed the site's approval.

122. In January 2022 the Monklands Replacement Governance Committee, reporting to the Planning, Performance & Resources Committee (PPRC) was established. The Monklands Replacement Project has been subject to a number of delays, cost pressures and external challenges during the development phase.

123. The Outline Business Case (OBC) for the new hospital was approved by the Board on 30 November 2022 and subsequently approved by the Scottish Government on 3 July 2023. A full planning application for Monklands Replacement Programme has been submitted to North Lanarkshire Council.

124. In August 2023 Laing O'Rourke was appointed as the preferred construction partner, under a pre-construction services agreement (PCSA) and supports progress from OBC to a full business case. With Laing O'Rourke's input, the full business case will now be developed and finalised during 2024. The new hospital is planned to open in 2031.

NHS Lanarkshire has an appropriate and effective best value framework

125. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

126. During 2020/21 NHS Lanarkshire carried out a detailed review of its arrangements to secure best value across the seven themes set out in the guidance. The primary focus of the review was to look at the strategy, policy or assurance mechanism that the Board or its committees have in place to ensure the expected feature of best value is delivered.

127. NHS Lanarkshire's practice is to formally review its arrangements for securing best value every three years (as was done in 2020/21) with annual update reviews to reflect any changes to board arrangements in the interim.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Application of IFRS 16 to Service Concession Arrangements</p> <p>IFRS 16 requires the Board to remeasure the lease liability when a change in indices causes a change in future lease payments and that change has taken effect.</p> <p>NHS Lanarkshire did not recognise the full extent of the liabilities for each PFI arrangement upon transition and during 2023/24.</p> <p>NHS Lanarkshire also incorrectly processed an in-year movement for the PFI arrangements under the previous accounting standard.</p> <p>Risk – The liability for service concession arrangements within the Statement of Financial Position is misstated.</p>	<p>NHSL should ensure that PFI liabilities are recognised in line with the requirements of IFRS 16 under the FReM.</p> <p>Exhibit 2</p>	<p>Management response</p> <p>Audit point relates to the provision of the draft Financial Statements and the Auditors requirement to disclose movements between initial draft and final version.</p> <p>The final position disclosed in the 2023-24 Annual Report and Accounts fully meets this requirement.</p> <p>Responsible officer</p> <p>Deputy Director of Finance - Corporate</p> <p>Agreed date</p> <p>Complete</p>
<p>2. Reconciliation of SFR 30 payables</p> <p>We identified a £2.9 million over-accrual in the NHS Lanarkshire ledger balance</p>	<p>The total accrued value should be included in the NHS payables line, as this reflects the nature of the accruals.</p>	<p>Management response</p> <p>Agreed. For 2024-25 the correct classification category will be used.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>for payables to other NHS Scotland bodies when compared to the SFR 30 returns received.</p> <p>Risk – There is a risk that the amounts owed/owing to other NHS bodies in not accurately disclosed within the financial statements.</p> <p>In addition, there is a risk that NHSL is not complying with the relevant guidance within the accounts manual.</p>	<p>NHSL should comply with the SFR 30 process as required by the manual, including agreeing balances with other NHS Scotland bodies, and reporting any unresolved variances above the threshold prior to the annual deadline.</p> <p>Exhibit 2</p>	<p>As part of the External Audit plan for 2024-25 a specific task and timescale will be incorporated to reflect the requirement to engage with other NHS Board (noting the possibility of non-agreement of balances)</p> <p>Responsible officer Deputy Director of Finance - Corporate</p> <p>Agreed date March 2025 (External Audit plan for 2024-25 for Audit and Risk Committee assurance)</p>
<p>3. Key sources of judgement and estimation uncertainty</p> <p>Significant judgements and sources of estimation uncertainty are disclosed at Note 1.30 to the financial statements. This disclosure is not fully compliant with IAS 1 in that it does not clearly explain the areas of estimation and their potential impact from any changes over the next twelve months.</p> <p>Risk – the disclosure is not in line with IAS 1.</p>	<p>Management should review the current disclosure against the requirements outlined.</p> <p>Paragraph 21</p>	<p>Management response</p> <p>The Accounting Policy Note 30 will be updated for 2024-25 to reflect the issue raised.</p> <p>Responsible officer Deputy Director of Finance - Corporate</p> <p>Agreed date March 2025 (2024-25 Accounting Policies for Audit and Risk Committee approval)</p>
<p>4. Remuneration and staff report</p> <p>Our review of the remuneration and staff report highlighted a number of errors and disclosure omissions.</p>	<p>Management should ensure disclosures in the Remuneration and Staff Report meet the requirements per the Financial Reporting Manual (FreM).</p>	<p>Management response</p> <p>Audit point relates to the provision of the draft Financial Statements and the Auditors requirement to disclose movements between initial draft and final version.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk – there is a risk that the remuneration and staff report do not comply with the FReM.</p>	<p>Paragraph 22</p>	<p>The final position disclosed in the 2023-24 Annual Report and Accounts fully meets this requirement.</p> <p>Responsible officer Deputy Director of Finance - Corporate</p> <p>Agreed date Complete</p>
<p>5. Submission of unaudited annual report and accounts</p> <p>The unaudited annual report and accounts were not received in line with the agreed audit timetable.</p> <p>Risk – there is a risk that the statutory deadline for sign off of the annual report and accounts is not met.</p>	<p>NHS Lanarkshire should review the timetable for the accounts production to ensure that the unaudited annual report and accounts and a full working paper package are provided for audit in line with the agreed deadlines set out in our Annual Audit Plan.</p> <p>Paragraphs 30-31</p>	<p>Management response</p> <p>Agreement on this audit point. The Annual Report and Accounts were completely rewritten for 2024-25 and this work and creation of a new template will allow an earlier submission to External Audit for 2024-25</p> <p>As part of the External Audit plan for 2024-25 a specific task and timescale will be incorporated to reflect the requirement.</p> <p>Responsible officer Director of Finance</p> <p>Agreed date March 2025 (External Audit plan for 2024-25 for Audit and Risk Committee assurance)</p>
<p>6. Business continuity and disaster recovery</p> <p>An NIS audit highlighted significant areas for improvement in NHSL's business continuity and disaster recovery testing;</p>	<p>NHS Lanarkshire should address the findings highlighted in the NIS audit to improve the Board's business continuity and disaster recovery controls.</p> <p>Paragraphs 49-50</p>	<p>Management response</p> <p>Business Continuity and disaster recovery improvement is part of our Cyber Workplan. Key progress will be achieved in line with the workplan and</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>noting their testing lacked a structured approach and did not clearly test the whole plan nor its actual effectiveness.</p> <p>Risk – there is a risk that any weaknesses which exist in the plan's design are not identified until an event occurs</p>		<p>assessed in October 2024 as part of our NIS Follow-Up Audit</p> <p>Responsible officer Director of Digital Services</p> <p>Agreed date 31 December 2024</p>
<p>7. The medium-term financial forecast identifies a funding gap before savings of £54.589 million for 2024/25, increasing to £70.299 million by 2026/27</p> <p>The Board has already identified many of the areas most in need of improvement. A detailed programme of improvement is being taken forward through Operation Flow.</p> <p>The latest report considered by the Board in May 2024 highlighted that performance against the key metrics for the programme remain below target.</p> <p>Risk: - there is a risk that futures delivery plans are not achieved.</p>	<p>The Chief Executive, Director of Finance and Board members need to ensure future delivery plans demonstrate how services will change and efficiencies will be realised to meet the growing needs of patients within the financial constraints it faces. Effective leadership is required to drive the changes needed and progress should be challenged by the Board.</p> <p>Paragraphs 96-98</p>	<p>Management response</p> <p>Considerable work (including financial investment) has been completed during 2023-24 on providing effective governance and assurance structures and systems to drive forward KPI improvements e.g. occupancy reductions and unscheduled care performance.</p> <p>Building on this work during 2024-25 the Executive Team is focused on delivering new models of care with patients at the centre. A 2024-25 Transformation fund has been included in the budget for this year which will be used to fully establish new service models including FNC+, E-Triage and Virtual wards.</p> <p>Strong financial, budget monitoring and reporting systems will underpin this work to align financials to performance.</p> <p>The Board has agreed a new committee structure (reporting to PPRC) which</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>will allow enhanced focus on key strategic objectives across NHS Lanarkshire e.g. a new Finance and Resource committee.</p> <p>Responsible officer(s) Executive Management Team</p> <p>Agreed date By March 2025 (On-Going)</p>

Follow-up of prior year recommendations 2022/23

Issue/risk	Recommendation and Agreed Action	Progress
<p>1. Assets under construction</p> <p>As part of our audit work, we performed testing of a sample of Assets Under Construction (AUC) disclosed within the Property, Plant and Equipment note of NHS Lanarkshire's unaudited accounts. We identified that the classification and treatment of additions held as AUC is not in line with accounting requirements.</p> <p>Risk – There is a risk that the value of Assets Under Construction and other categories of assets disclosed in NHS Lanarkshire's annual accounts are misstated.</p>	<p>NHS Lanarkshire should introduce a process to ensure that Assets Under Construction are classified in line with accounting requirements.</p> <p>Exhibit 3</p>	<p>NHS Lanarkshire will review the accounting treatment of Assets Under Construction and align these to accounting requirements.</p> <p>Head of Finance Capital/PFI and Financial Services</p> <p>31 March 2024</p> <p>Complete</p>
<p>2. SFR 30 related expenditure</p> <p>NHS Lanarkshire do not undertake a reconciliation to ensure all SFR 30 expenditure included within the financial</p>	<p>NHS Lanarkshire should undertake a reconciliation of the total income and expenditure with other NHS bodies during the financial</p>	<p>NHS Lanarkshire will endeavour to implement an analysis which demonstrates the figures in the accounts correlate to SFR 30.</p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>statements can be agreed to the SFR 30 returns.</p> <p>Risk - SFR 30 income and expenditure included within the accounts does not reconcile to the SFR 30 returns.</p>	<p>year, to the figures included in the SFR 30 returns.</p> <p>Exhibit 3</p>	<p>Head of Finance Capital/PFI and Financial Services</p> <p>31 March 2024</p> <p>See recommendation 2 above</p>
<p>3. Gross Internal Area (GIA)</p> <p>Through our review of the work the valuer, we identified discrepancies between the data used for the purpose of the building valuations GIA against the data held on these buildings by the technical services team within NHS Lanarkshire. We were satisfied that the discrepancies did not impact on the accuracy of the valuations as these were informed through valuation inspections.</p> <p>Risk – There is a risk incorrect/out of date data is held by NHS Lanarkshire.</p>	<p>NHS Lanarkshire should undertake a review to ensure data is consistent between the valuer and the technical services team.</p> <p>Paragraph 23-24</p>	<p>NHS Lanarkshire will work with professional advisers to ensure the GIA measurement are consistent.</p> <p>Head of Finance Capital/PFI and Financial Services</p> <p>Immediate</p> <p>Complete</p>
<p>4. Key sources of judgement and estimation uncertainty</p> <p>Significant judgements and sources of estimation uncertainty are disclosed at Note 1.30 to the financial statements. This disclosure is not fully compliant with IAS 1 in that it does not clearly explain the areas of estimation and their potential impact from any changes over the next twelve months.</p> <p>Risk – the disclosure is not in line with IAS 1.</p>	<p>Management should review the current disclosure against the requirements outlined.</p> <p>Paragraph 25</p>	<p>NHS Lanarkshire will review and update the disclosure.</p> <p>Head of Finance Capital/PFI and Financial Services</p> <p>31 March 2024</p> <p>See recommendation 3 above</p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>5 Performance Report</p> <p>The Performance Report and content complies with the requirements of the FReM. However, there is an opportunity for NHS Lanarkshire to more clearly demonstrate how their new Corporate Objectives support the Scottish Government objectives. In turn NHS Lanarkshire's other plans and strategies need to clearly support and link to the Corporate Objectives.</p>	<p>NHS Lanarkshire should review the Performance Report to help stakeholders understand how the Corporate Objectives and supporting strategies link to Scottish Government objectives and will improve future performance.</p> <p>Paragraph 33</p>	<p>This will be done in conjunction with a review of our overall in year performance reporting and we aim to achieve clearer alignment.</p> <p>Director of Finance</p> <p>May 24 (with revised performance reporting in place by August 23)</p> <p>Complete</p>
<p>6 Reliance on agency staff</p> <p>NHS Lanarkshire has experienced challenges in recruitment throughout 2022/23 and continues to be reliant on agency and locum staff. These increased costs are impacting on NHS Lanarkshire's ability to achieve their medium to long term plans.</p>	<p>NHS Lanarkshire should continue to look to increase substantive staff recruitment to agreed staffing models to ensure it reduces its reliance on agency staff.</p> <p>Paragraph 76</p>	<p>NHSL is actively reviewing opportunities to increase substantive staffing in areas where shortfalls are leading to agency use and will review success mid-year.</p> <p>Directory of Nursing and Midwifery</p> <p>October 2023</p> <p>Ongoing</p>

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than the reporting threshold of £1.5 million.

The table below summarises uncorrected misstatements that were noted during audit testing and were not corrected in the financial statements. Cumulatively these errors are below the performance materiality level as explained in [Exhibit 2](#). We satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr	Cr	Dr	Cr
Accounting Misstatements		£m	£m	£m	£m
Enhancements to AUC processed as building additions	AUC			5.15	
	Buildings				5.15
Peppercorn lease assets recognised as PPE	Lease assets			10.04	
	Buildings				10.04
Overstatement of SLIJB expenditure	Associates & JV accounted for on an equity basis		3.55		
	Other reserves			3.55	
Holiday pay accrual	Other operating expenses	7.761			
	Staff costs		7.761		

NHS Lanarkshire

2023/24 Annual Audit Report

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