

NHS Lanarkshire

**Annual report
to
Lanarkshire Health Board
and the
Auditor General for Scotland**

2004 / 2005



SCOTT-MONCRIEFF

CHARTERED ACCOUNTANTS

EDINBURGH AND GLASGOW

CONTENTS

1	Summary	1
2	Introduction	3
3	Governance	5
4	Performance	10
5	Finance	16
6	Action Plan	28

1 SUMMARY

Governance

- Substantial progress has been made since unification on 1 April 2004 to establish unified governance arrangements at NHS Lanarkshire. Further work is required to establish full single system working at an operational level.
- The current risk management arrangements lack consistency throughout the organisation and risk management is not yet fully embedded as part of the culture.
- NHS Lanarkshire has appointed a new Chief Executive and a new Director of Finance. The existing chairman will remain in post until September 2005, at which time a new chairman is due to be appointed.

Performance

- NHS Lanarkshire has made substantial improvements to its performance management arrangements over the last three years. Further work is required to meet national performance targets set by SEHD, particularly in reducing waiting times and mortality rates from cancer, stroke and CHD.
- NHS Lanarkshire faces a major challenge in the coming years to meet these national targets while at the same time delivering the cost savings required to achieve financial stability.
- NHS Lanarkshire has embarked on a major service redesign project. The project will aim to improve health services to ensure they reflect best practice, are clinically and financially sustainable and are delivered from the right premises. The plan will aim to meet the requirements of the Kerr Report: *Building a Health Service Fit for the Future*.
- The Scottish Executive Health Department (SEHD) have referred back for further consideration NHS Lanarkshire's initial Scheme of Establishment for Community Health Partnerships. The Board's deadline for re-submission is September 2005.

Finance

- Our audit opinions on the truth and fairness of the financial statements and the regularity of transactions are unqualified.
- NHS Lanarkshire exceeded its Revenue Resource Limit by £20,042,000 and therefore failed to achieve this financial target. However the excess against RRL was caused by the deficit of £20,418,000 brought forward from previous years. The Board made an in-year saving of £376,000.
- In achieving its in-year saving, the Board delivered a programme of cost savings and other measures totalling £48m. Included in this was £16.3m of non-recurring funding from the SEHD.
- The Board signed missives for the sale of the Law Hospital site on 31 March 2005. The disposal has not been recognised in the 2004/05 accounts due to the contingencies attached to the sale completion.
- Key financial risks include the implementation of pay modernisation, particularly Agenda for Change, the full impact of which will not be known until after December 2005.
- Other financial risks relate to the Board's estate, including maintenance costs for properties retained, accelerated depreciation for properties closed and restrictions on the use of land sale proceeds for revenue purposes.

Conclusion

This report concludes the 2004/05 audit of NHS Lanarkshire. We have performed our audit in accordance with the Code of Audit Practice and Statement of Responsibilities published by Audit Scotland. Subject to the weaknesses identified in this report, we are satisfied that NHS Lanarkshire has properly discharged its duties in accordance with the Statement of Responsibilities.

This report has been discussed and agreed with the Director of Finance and Chief Executive and has been prepared for the sole use of the Board, the Auditor General for Scotland and Audit Scotland.

We would like to thank all members of NHS Lanarkshire's management and staff who have been involved in our work for their co-operation and assistance during our audit visits.

Scott-Moncrieff

28 July 2005

2 INTRODUCTION

2.1 Audit framework

The Auditor General for Scotland is the Scottish Parliament's watchdog for ensuring propriety and value for money in the use of public funds. The Auditor General is therefore responsible for appointing NHS auditors and setting the terms of their appointment.

Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out his statutory functions. Audit Scotland has prepared a Code of Audit Practice, which sets out the way in which auditors should carry out their functions, and a Statement of Responsibilities which explains where the responsibilities of the auditor begin and end.

The Auditor General has appointed Scott-Moncrieff as auditors of NHS Lanarkshire for the 5 year period 2001/02 to 2005/06.

2.2 Key priorities and risks

Our audits are risk based. This means that we focus our resources on the areas of highest priority or risk to the Board. To help us identify these areas, Audit Scotland have developed a National Planning Tool setting out the following key priorities and risks for NHS Scotland as a whole.

- Governance – clinical, staff and financial
- Service sustainability
- Financial management
- Performance management
- Pay modernisation
- Workforce management
- Joint working
- Information management

In order to define the scope of our work, we agreed with the former Chief Executive the extent to which each of the above areas were key priorities and risks for NHS Lanarkshire.

2.3 Scope of the audit

Our work can be classified under the following three headings: performance audit, governance audit and financial audit. The main audit objective for each of these areas is summarised below, along with the key priorities and risks for each area.

Table 2.3-1 - Audit areas v priorities and risks

Audit area	Audit objective	Key priorities and risks
Governance Audit	<p>To review the Board's governance arrangements in relation to:</p> <ul style="list-style-type: none"> • systems of internal control, including risk management • the prevention and detection of fraud and irregularity, • standards of conduct and prevention and detection of corruption. 	<p>Corporate governance</p> <p>Clinical governance</p> <p>Financial governance</p> <p>Staff governance</p>
Performance Audit	To review the Board's arrangements for managing its performance and for securing economy, efficiency and effectiveness in its use of resources.	<p>Service sustainability</p> <p>Performance management</p> <p>Workforce management</p> <p>Joint working</p> <p>Information management</p>
Financial Audit	<p>To provide an opinion on the truth and fairness of the Board's financial statements and on the regularity of transactions.</p> <p>To review the Board's financial standing, and financial management arrangements.</p>	<p>Financial management</p> <p>Pay modernisation</p>

2.4 Audit reporting

We have prepared the following detailed audit reports during 2004/05:

- Staff governance report,
- Priorities and risks framework report
- Interim management report – financial statements and accounting systems
- Final management report – financial statements and accounting systems.

This annual report summarises all of our work during the year and highlights the key issues we have identified under the headings of governance, performance and finance. The action plan in section 6 details all of the high priority recommendations we have made during the year, along with management's responses.

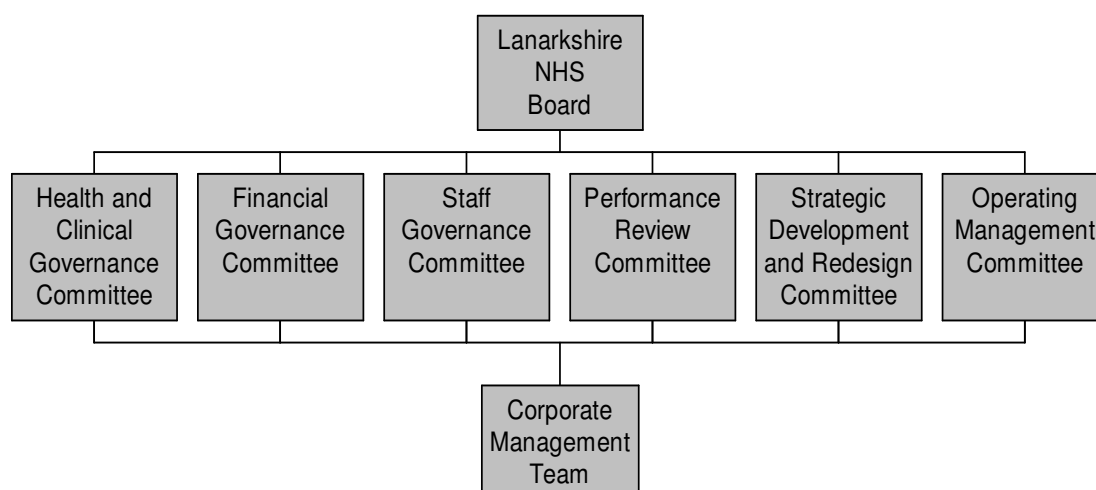
3 GOVERNANCE

3.1 Corporate governance framework

Substantial progress has been made since unification on 1 April 2004 to establish unified governance arrangements at NHS Lanarkshire. Key successes have included:

- A unified NHS Lanarkshire corporate structure was agreed and implemented on 1 April 2004;
- Senior appointments were made and responsibilities allocated in a timely fashion;
- Non-executive directors were appointed and in post as at 1 April 2004;
- An interim governance structure was presented to the Board and ratified in May 2004;
- The Modernisation Directorate was established to manage the process of service redesign on a Lanarkshire-wide basis;
- The Performance Directorate was established to monitor and report on performance across the whole of NHS Lanarkshire.

Figure 4.1 – NHS Lanarkshire Governance Structure



3.1.1 Changes during 2005 at Board level

During March 2005 both the Chief Executive and Director of Finance left post. The new Chief Executive attended a number of Board and committee meetings prior to taking up post to reduce the risks arising from these changes. The new Director of Finance took up post on 27 June. The Chairman is also due to leave the Board in September 2005.

3.1.2 Non-executive member with financial experience

The Audit Committee Handbook, prepared by the SEHD, recommends that at least one non-executive member should have significant, recent and relevant financial experience. NHS Lanarkshire's Audit Committee does not include such a member and there is a risk that this may effect the Audit Committee's ability to hold senior management to account on financial issues and to monitor the activities of auditors.

While we appreciate that the recruitment of non-executive directors is not under the Board's control, we recommend that the Board pursue the SEHD to ensure that a non-executive director with recent and relevant financial experience is appointed to the Board.

3.1.3 Non-executive members development programme

Non-executive directors should be well informed about the organisation and its external environment to enable them to hold the Corporate Management Team to account. It is therefore crucial that non-executive members have access to a programme of development. NHS Lanarkshire's members have all had some form of development training. The Board is currently reviewing its committee structure and membership. Once this has been agreed then personalised training programmes for each non-executive member will be developed.

3.2 Single system working

At the outset of 2004/05 a key challenge for NHS Lanarkshire was to implement single-system working across a unified organisation whilst also ensuring transitional arrangements were in place. As described above, NHS Lanarkshire has successfully implemented single system working at a strategic level. Each sub-committee of the Board has a Lanarkshire-wide remit and receives unified reports through a single Corporate Management Team, allowing them to monitor issues across the whole healthcare system. However, at an operational level, the Board is still functioning as three separate organisations in many areas, including:

- Budget setting (see section 5.10);
- Fully integrating the Finance department, including the financial ledger and financial reporting systems (see section 5.11);
- Consolidating and integrating existing risk management procedures (see section 3.5).

In our view, the current arrangements in the above areas are not as efficient or effective as they could be if the systems in place were properly unified. We recommend that the Board continues to drive forward the process of unification to ensure that single system working is in place throughout NHS Lanarkshire.

3.3 Statement of Internal Controls

The framework of internal controls in operation at NHS Lanarkshire is reported within the Statement of Internal Control (SIC) included in the accounts. NHS Lanarkshire has identified two key areas as requiring further development:

- The development of a consolidated risk register (see section 3.5))
- Security control issues in relation to the Board's financial systems. (see section 5.12)

These areas have been disclosed within the SIC and the Board intends to address them during 2005/06.

We are satisfied that the contents of the SIC are not inconsistent with information gathered during the course of our normal audit work.

3.4 Internal Audit

Internal audit is a key component of the Board's corporate governance arrangements. To avoid duplication of effort and ensure an efficient audit process we have placed reliance wherever possible on the work of internal audit. This followed a review of the internal audit service provided by Internal Audit Consortium of Lanarkshire (in partnership with PriceWaterhouseCoopers). The review concluded that the internal audit service provided to NHS Lanarkshire was in compliance with the NHS in Scotland Internal Audit Standards.

We have made use of internal audit work in the following areas:

- General ledger
- Procurement & E-Procurement

- Payroll and expenses
- Creditors
- Debtors
- Capital expenditure
- Fraud and irregularity
- Compliance with Laws and Regulations
- Business Planning

We are grateful to the Internal Audit Consortium of Lanarkshire for its continuing assistance during the course of our audit work.

3.5 Risk Management

The Turnbull report *Internal Control: Guidance for Directors on the Combined Code* states that a sound system of internal control depends on a thorough and regular evaluation of the risks faced by the body.

3.5.1 Quality Accreditation

Risk management standard setting and accreditation previously managed by CNORIS is now managed by NHS Quality Improvement Scotland (NHS QIS). NHS QIS standards have not been issued to date and the CNORIS standards are still considered best practice until the new standards are implemented.

3.5.2 Single System Risk Management Arrangements

The Board made progress during 2004/05 in developing a formal risk management framework and embedding the arrangements within the day to day management of the organisation, although further work is required. A Risk Management Project Plan was developed during January 2004 aimed at controlling the movement to a single-system for risk management. Notable achievements during the year were:

- A facilitated NHS Lanarkshire risk workshop.
- Approval of a unified Risk Management Strategy.

NHS QIS undertook a peer review of NHS Lanarkshire on 21 February 2005. The reviewers reported that “risk management within NHS Lanarkshire lacks coherence and is not yet fully embedded as part of the culture.” However, the reviewers did comment on the strong support for risk management at a strategic level.

The NHS QIS findings are consistent with the issues we have raised in previous reports and we would re-emphasise the importance to NHS Lanarkshire of establishing a single, unified approach to risk management that is embedded in the day to day management of the organisation. We were pleased to note that a unified strategic risk register was presented to the Financial Governance Committee on 27 June 2005, although further work is required to complete the related action plans and develop operational registers.

3.6 Fraud, irregularity and corruption

To ensure the integrity of public funds, it is the Board’s responsibility to establish arrangements to prevent and detect fraud and other irregularity, including:

- developing, promoting and monitoring compliance with standing orders and financial instructions,
- implementing strategies to prevent and detect fraud and other irregularity

- receiving and investigating allegations of breaches of proper standards.

We plan our work so as to provide a reasonable expectation of detecting misstatements in the financial statements resulting from fraud or irregularity. In particular, we focus on specific areas of high risk for potential fraud and irregularity and review the control arrangements in place in these areas.

We are pleased to report that no issues of concern have arisen with regard to the arrangements in place for the prevention and detection of fraud and irregularity.

3.7 Standards of conduct, integrity and openness

Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance. Guidance on standards of conduct, accountability and openness has been issued by the SEHD.

Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct. We also considered controls over tendering and awarding contracts, registers of interest and disposal of assets.

We are pleased to report that our audit identified no issues of concern in relation to standards of conduct, integrity and openness.

3.8 Clinical Governance

Responsibility for the monitoring of clinical governance procedures and outcomes is delegated to the Health and Clinical Governance Committee, which are charged with ensuring that quality standards are being set, met and continuously improved.

The NHS Quality Improvement Scotland (NHS QIS) interim report on Clinical Governance and Risk Management, issued in June 2005, reported that "strategic development and operational delegation of clinical governance is in line with the principles of single-system working but is only partly reflected in organisational frameworks and arrangements for implementation and feedback."

Clinical incidents were found to be under-reported by NHS Lanarkshire due to a lack of resources, accessibility and a reticence towards cultural acceptance of risk management. This issue was highlighted in our Priorities and Risks report and the Risk Management Steering Group agreed to investigate. The deadline agreed for this was March 2006.

A working group has been established to consider the interim report from NHS QIS and develop an action plan to address the issues raised. The group, which is chaired by the Medical Director, has met once and is due to meet again in December 2005.

3.9 Staff Governance

The NHS Reform (Scotland) Act 2004 makes it a statutory requirement for NHS employers to have in place arrangements for good governance of staff. Failure to comply with this duty can attract the powers of intervention contained in the NHS (Scotland) Act 1978. The staff governance framework means that Boards are equally accountable for how they behave as employers as they are for finance and clinical matters. The aim of this standard is to improve the way staff are treated in NHSScotland, to be clear on what staff should expect wherever they are in NHSScotland, and to improve accountability for making this happen.

A review of Staff Governance was undertaken as part of our performance audit work in 2004/05. This is the third year in which NHS Lanarkshire and previously the Board, Acute

and Primary Care Trusts have been subject to this review. In 2003/04 a Lanarkshire wide action plan was produced. A follow-up on the progress made in implementing this Action Plan was undertaken this year. NHS Lanarkshire also carried out a self-assessment of progress against five key staff governance areas along with producing mandatory qualitative indicators.

The findings from our work on Staff Governance have been presented to the Staff Governance Committee. Our overall conclusion is that NHS Lanarkshire had produced a realistic action plan to take the governance framework forward and that the necessary resources and skills were in place to deliver these actions. However, NHS Lanarkshire has been unable to fully comply with the requirements of the Staff Governance Standard in providing mandatory statistical information. The Empower HR system has not been set-up to report on staff turnover by staff group and statistical information for sickness absence was only partially available at directorate level. To enable the Board to monitor and identify areas of concern or patterns of staff behaviour it is essential that the quality and quantity of the information collected is improved.

4 PERFORMANCE

4.1 Performance against key indicators

As part of our audit work we have reviewed the performance of NHS Lanarkshire against key national performance indicators set by the Scottish Executive Health Department (SEHD). The Board's performance against selected Scottish targets and averages in 2004/05 is set out below:

Table 4.1-1 Performance against national targets and averages in 2004/05

Performance Indicator	Outcome	Target	
<i>Waiting times</i>			
% patients treated within 9 months	100	100	
% patients treated within 6 months	93.9	100	Not required until December 2005
% out-patients seen within 6 months	89.3	100	
% seen in A&E within 120 minutes (Trolley Cases)	64.0	51.2*	
% admitted to A&E within 2.5 hours	73.8	75.8*	
<i>Delayed discharges</i>			
Achievement of delayed discharge targets	97	98	
Delayed discharges waiting over 6 weeks	35.6	59.2*	
<i>Cancelled admissions and Did Not Attends</i>			
Cancelled admissions: % of planned admissions for Inpatient or Day Case	3.2	3.0*	
DNAs: % of first out-patients attendances.	12.4	11.6	
<i>Children and elderly</i>			
% of women breastfeeding at 6 weeks	25.5	50	
<i>Deaths from various causes</i>			
Mortality rates per 100,000 population:			
• Cancer	149	145*	
• Stroke	31	25*	
• Coronary Heart Disease	92	78*	
Percentage reduction in mortality rates:			
• Cancer	13.1%	10.7%	
• Stroke	26.9%	25%	
• Coronary heart disease	38%	32%	

* Scottish average

Key to performance table

Better than target/ Scottish average

Close to target/ Scottish average

Worse than target/ Scottish average

4.1.1 Summary of performance

- 100% of inpatients and daycases were treated within 9 months during 2004/05. However further work is required to meet the December 2005 targets for treating all inpatients and daycases within 6 months and seeing all outpatients within 6 months.
- Delayed discharges, cancelled admissions and DNAs are close to or better than the Scottish average.
- Breast feeding rates are still the worst in Scotland. This is recognised in Lanarkshire as a problem area and investment continues to be made in support networks to help and encourage women to breastfeed.
- Mortality rates for cancer, stroke and CHD continue to be well above the national average. However, NHS Lanarkshire is making good progress towards achieving the national targets for reducing deaths from cancer, stroke and CHD by 20%, 50% and 60% respectively between 1995 and 2010.

4.1.2 Impact of savings programme on performance delivery

As discussed in section 5, the Board embarked on and delivered a major programme of cost savings in 2004/05 as part of its approach to addressing the significant underlying financial deficit in NHS Lanarkshire. The Board believes that this programme has had minimal impact on service delivery in the Acute Operating Division. However pressure has been felt in the Primary Care Operating Division (PCOD), where proportionately greater savings were made.

Within the PCOD, cost pressures have impacted on the achievement of waiting times targets, particularly in those areas where little or no specific waiting list initiative funding has been received. These include Paediatrics, Podiatry, Physiotherapy and Dietetics. Additional spend on, for example, agency staff costs would normally have been incurred to deal with these shortfalls against target but, faced with savings targets, this has not always happened.

The impact of the savings programme will continue until at least 2008/09 when NHS Lanarkshire forecasts to finally eliminate its underlying recurring deficit. This is because the majority of the cost savings achieved in 2004/05 were non-recurring savings which will require to be achieved again in future years. As described below, service redesign will not be completed until 2006/07, so the benefits will not be fully realised until 2007/08 at the earliest. NHS Lanarkshire therefore faces a major challenge in the coming years to meet national performance targets while at the same time delivering the cost savings required to achieve financial stability.

4.2 Performance Management**4.2.1 Performance management framework**

NHS Lanarkshire has established a Performance Review Committee (PRC) and an Operational Management Committee (OMC) both of which report directly to the Board on all aspects of performance, including delivery of the health plan and achievement of national and local performance targets. The PRC considers performance at a strategic level, while the OMC focuses on operational issues.

The PRC and OMC are supported by a new Performance Directorate that reflects single system working and provides a robust reporting framework. The Performance Directorate produces high-level summary reports for the PRC, whilst the OMC receives more detailed reports, such as day surgery rates and bed usage figures.

In our opinion NHS Lanarkshire has made substantial improvements to its performance management arrangements over the last three years through the establishment of the PRC, OMC and, most recently, the Performance Directorate. The Board believes that these developments now allow NHS Lanarkshire to take action quickly and effectively to address poor performance and failure to achieve local or national priorities.

4.2.2 Corporate Objectives

Formal corporate objectives have been developed for 2005/06. These objectives and performance measures will be cascaded throughout the organisation. Their objectives underpin the health plan and include developing social inclusion, establishing health improvement strategies and improving workplace health. Performance measures are in place where it is possible to develop them.

The Corporate Management Team (CMT) is responsible for monitoring the delivery of the corporate objectives. The corporate objectives have not been put into the public domain, but will be available through the local health plan.

4.2.3 Key performance indicators

During 2004/05 the OMC established a group to consider which performance indicators were most relevant for reporting to the OMC. The group has proposed the following selection of local and national non-financial performance indicators, which will be reported at least annually to the OMC:

- Compliance with national waiting time targets
- Compliance with national delayed discharge targets
- Compliance with community care/ Joint Future targets
- Prescribing rates
- Readmission rates for people aged 65+
- Did Not Attend outpatient clinics
- Day surgery rates
- Bed utilisation
- Rates of MRSA
- Sickness absence rates

The group is also considering the most appropriate financial indicators to report, other than performance against budget, which already features as a standing item on the OMC's agenda.

4.2.4 Frequency of reporting performance indicators

As noted above, the non-financial performance indicators will be reported at least annually to the OMC. In our view, for performance indicators to be used effectively they need to be reported and monitored on a more regular basis than once a year. We recommend that the indicators be reported to the OMC either quarterly or on a six-monthly basis.

4.2.5 Benchmarking

The OMC has considered undertaking a benchmarking exercise with another NHS Board, but has been unable to identify a comparable body that shares similar geographical and demographic characteristics. Use has however been made of the benchmarking exercise undertaken by ISD and Frontline Scotland. The Performance Directorate has developed a revised work plan to take account of the comparative performance benchmarking exercise on acute services. The work plan has identified measures to improve the levels of “Did Not Attends” for outpatients and increase the frequency of day care surgery rates. A balanced scorecard of indicators is currently being developed by ISD and Frontline Scotland based on the benchmarking. Consideration will be given to the outcome of the benchmarking exercise in shaping future performance management plans within the Board.

4.3 Service Sustainability – A Picture of Health

Lanarkshire NHS Board has identified that changes are required in the ways that health services are organised and delivered in Lanarkshire. Pressures from maintaining staff rotas in response to the working time directive, delivering pay modernisation and at the same time striving to achieve national performance targets have highlighted that services cannot be sustained at current levels. The Board has therefore embarked on a major service redesign project to ensure long term service sustainability.

Led by the Modernisation Directorate a public engagement exercise was launched in November 2004, known as “*A Picture of Health*”, to ensure that the views of patients and carers, local authorities, staff and the wider public are taken into account in redesigning future health services.

Following the consultation process, a plan for the redesign of services under *A Picture of Health* will be developed and published during 2005. The plan will be aimed at improving health services for patients, making sure the delivery of services reflects best practice, that they are clinically and financially sustainable and that they are delivered from the right premises. The plan will aim to deliver the improvements highlighted in the Kerr Report: *Building a Health Service Fit for the Future*.

The service redesign will not be completed until 2006/07. However specific pressures have meant that three services are being fast-tracked through the redesign process, Acute Psychiatry, Gynaecology and Urology. The Board is currently working through the operational issues with the proposed redesign of the Psychiatry service, whilst the public are being consulted on proposals for Gynaecology and Urology. In addition consultation is taking place on a west of Scotland basis regarding the future of in-patient cardio-thoracic services.

4.3.1 Managed Clinical Networks

In terms of regional and local planning, limited arrangements are in place within NHS Lanarkshire to monitor progress in this area. The Board currently participates in five local Managed Clinical Networks (MCNs) and a regional MCN in relation to cancer. There are however several clinical areas which are currently not within the scope of the established MCNs. In these cases MCNs need to be developed and integrated.

4.4 Joint Future

Lanarkshire NHS Board and both North and South Lanarkshire Councils have appointed a lead contact for Joint Future. This ensures that all partners have an identified point of contact along with an accountable officer. Health and Care Partnerships have been established with both North and South Lanarkshire councils. These groups are responsible for the strategic direction that Joint Future will take and have the responsibility for ensuring that Joint Future will progress in line with the expectations of the Scottish Executive Health Department (SEHD).

NHS Lanarkshire conducts a monthly assessment of progress on Joint Future and an action plan has been prepared which clearly identifies action to be taken by partners on areas of limited progress and weakness. The action plans are highlighted in the annual evaluation plans.

4.4.1 Community Health Partnerships

NHS Lanarkshire submitted a proposed Scheme of Establishment for the formation of four Community Health Partnerships (CHPs) to the SEHD at the end of December 2004. The SEHD has since referred this scheme back to NHS Lanarkshire for further consideration for two main reasons. Firstly, NHS Lanarkshire proposed to incorporate all acute services within their CHP's and this was considered to be too ambitious. Secondly, it was considered that insufficient consideration had been given to links with community planning in Lanarkshire, or indeed joint health improvement planning.

A revised working group has been formed to produce a revised scheme. The first meeting of this group was held in June where a new set of proposals produced by the group's Project Manager was tabled for discussion. The Board's deadline for re-submission to the SEHD is September 2005.

4.5 Workforce Management

NHS Lanarkshire appointed a Workforce Development Manager in December 2004 who sits on the West of Scotland Consortium for workforce development and is responsible for taking forward workforce planning across Lanarkshire.

A dedicated officer has been assigned to develop the information requirements for the Scottish Workforce Integration and Strategic Systems (SWISS) project and work is currently being undertaken with Northgate Systems to bring their HR system into line with SWISS. Northgate will also be involved in ensuring new codings are available for CHP's and Agenda for Change.

4.5.1 Managing Medical Careers

In February 2003 the four UK Health Departments published a policy statement on Modernising Medical Careers (MMC). This was the result of a consultation on the future of the Senior House Officer (SHO) grade of hospital doctor and confirmed the need for significant reform. Reform of the medical workforce was regarded as long overdue and driven by the need to provide better planned, flexible and efficient training programmes. MMC is also about care for patients, and bringing the UK in line with practice in the rest of the developed world. MMC is therefore a fundamental change in terms of the manner in which junior doctors are trained.

Managing the implementation of MMC is therefore a key issue for NHS Lanarkshire in terms of clinical planning as a large volume of junior doctor's activity may be removed from NHS bodies staffing resources. How NHS Lanarkshire attempts to manage this, through the increased use of nurse-specialists or Hospital Emergency Care Teams (HECTs) will be key to service redesign in NHS Lanarkshire.

Implementation is also going to be a sensitive issue. Starting in August (but with selection already taking place since May 2004), a new generic two-year Foundation Programme will be introduced which incorporates the current Pre-Registration House Officer (PRHO) year and the first year of an SHO post.

The full financial impact of MMC on NHS Lanarkshire is not yet known. The workforce management changes required will be considerable and may have a financial impact. Addressing this area will be a key challenge for NHS Lanarkshire in 2005/06.

4.5.2 Nursing bank

One way in which NHS Lanarkshire has worked to improve workforce management, and achieve cost savings, has been in the development of a Lanarkshire-wide nursing bank. When the project began in August 2003, total agency nurse costs had risen to £1.16m for the year ended 31 March 2003. It was considered that the only way to tackle these costs was to increase the use of a local nurse bank. A high number of people in Lanarkshire had also been made unemployed as a result of the closure of a major factory in Airdrie. NHS Lanarkshire therefore worked with partner agencies, such as Scottish Enterprise, the local job centres and Cumbernauld College to devise a programme of training for unemployed people. This initiative has had the double benefit of helping the local labour market, while helping to reduce nurse agency costs in Lanarkshire to £227k in 2004/05. The use of a trained nurse bank also helps to ensure that temporary nursing staff are more familiar with local circumstances and protocols.

4.6 Information Management

NHS Lanarkshire has undertaken a three month consultation exercise on its eHealth Strategic Plan. eHealth refers to the development, application and implementation of integrated technology to improve the delivery of healthcare services. It includes the use of telemedicine and clinical systems used for diagnosis and care pathways as well as policies and protocols that assure the confidentiality and security of sensitive data. Significantly, it also includes those aspects that support major change of working practice - training, support and organisational development. The Plan outlines the funding requirements on a year-by-year basis. An eHealth lead officer has also been identified with assistance from a number of other clinicians.

The current Information Management and Technology (IM&T) skills within NHS Lanarkshire are felt to be adequate at a project and technical level. There may however be a need to bring in more project resource to fulfil delivery of the eHealth strategy. There are inadequate staff numbers with change management skills and discussions are taking place within NHS Lanarkshire to address this. IM&T service performance and quality targets are reported only in terms of helpdesk statistics. Whilst these statistics are subject to regular monitoring, targets and performance measures have not been agreed with users.

The three legacy IM&T Security Policies still exist and consolidation of these is an outstanding task. Promoting awareness of information security also needs to be undertaken across NHS Lanarkshire. We noted that whilst contingency plans such as the Major Incident Plan exist, there are no formal documented Business Continuity Plans in place for business critical systems.

There is a dedicated full time resource responsible for the Data Protection Act (DPA) within NHS Lanarkshire. DPA forms part of the induction process. Procedures and policies are currently under review and are placed on the intranet.

5 FINANCE

5.1 Introduction

It is the responsibility of the Board to conduct its financial affairs in a proper manner. As part of our audit, we are required to consider NHS Lanarkshire's financial standing, including:

- performance against financial targets,
- financial projections, including cost pressures in future years,
- internal financial control systems,
- financial planning, budgetary control and financial reporting systems.

It is important that such arrangements are adequate in order to properly control the organisation's operations and use of resources.

5.2 Annual accounts and audit timetable

The timetable for production of the NHS in Scotland Summarised Accounts is very tight. The deadline for the submission of audited NHS Board accounts to the Scottish Executive Health Department (SEHD) is 31 July. We are pleased to report that the accounts were approved by the Board of NHS Lanarkshire on 28 July and will be submitted to the SEHD and the Auditor General for Scotland prior to the 31 July deadline.

The 2004/05 annual accounts and audit process has been challenging for both the Board's Technical Accountant and ourselves, principally due to the Finance Department still operating as three separate units.

Three sets of divisional accounts were prepared by different members of finance staff and submitted, with supporting working papers, to the Technical Accountant who consolidated the divisional accounts to produce Unified Board Accounts. Our work therefore involved auditing the three sets of divisional accounts and then the consolidation exercise. As finance staff were principally concerned with preparing their own divisional accounts, we experienced difficulties obtaining the explanations we required on the Unified Accounts. In particular, the working papers prepared for the Primary Care Operating Division did not contain the level of supporting documentation we would expect. As a result, we spent a considerable amount of time requesting audit evidence that should have been provided at the start of the audit.

Although we received the first set of draft consolidated accounts on 3 June, we did not receive a set of accounts which were materially correct until 24 June 2005. Strong co-operation and regular communication between the Technical Accountant and the audit team prevented this delay resulting in a failure to meet the SEHD deadline.

5.2.1 2005/06 annual accounts

The SEHD's deadline for submitting annual accounts has been brought forward to 30 June from 2006. In our view, unless significant improvements are made in the annual accounts process, including integrating the Finance Department and financial ledgers, the Board is unlikely to meet this deadline.

5.3 Financial targets

Health Boards are set the following financial targets by the SEHD:

- To remain within the Revenue Resource Limit (RRL), i.e. revenue expenditure should not exceed the RRL;
- To remain within the Capital Resource Limit (CRL), i.e. capital expenditure should not exceed the CRL; and

- To remain within a cash limit.

Table 5.3-1 Performance against financial targets 2004/05

Financial Target	Target	Actual	(Excess) / Saving	Target achieved
Revenue Resource Limit	£662,595,000	£682,637,000	(£20,042,000)	✗
Capital Resource Limit	£5,888,000	£5,376,000	£512,000	✓
Cash Requirement	£658,341,000	658,341,000	0	✓

5.3.1 Revenue Resource Limit (RRL)

NHS Lanarkshire incurred a deficit of £20,042,000 against its RRL and has therefore failed to achieve its RRL target. This is a cumulative deficit and therefore includes the deficit brought forward from 2003/04 of £20,418,000. NHS Lanarkshire's in-year position therefore shows a surplus of £376,000 as shown below.

Table 5.3-2 In-year revenue position

Surplus/ (deficit)	£
Deficit against RRL in 2004/05, including deficit brought forward	(£20,042,000)
Deficit brought forward from 2003/04	£20,418,000
Surplus against in-year RRL	£376,000

5.3.2 Capital Resource Limit

A number of NHS Lanarkshire's capital projects did not commence on time. Consequently the Board was unable to utilise its full CRL and has been granted permission by the SEHD to carry forward the balance of £512,000 to 2005/06.

5.3.3 Cash Requirement

The Board achieved its cash requirement target for the year.

5.4 Achievement of in-year surplus**5.4.1 Deficit to be managed**

At the start of the year, the Board identified that, in order to achieve financial balance in-year, a deficit of £34.4m required to be managed in 2004/05. This amount represented the Board's estimate of its underlying recurring deficit, ie the difference between the cost of the Board's ongoing activities and the funding received for this. An action plan for managing this deficit was presented to the PRC on 2 June 2004.

During the year, a further £13.6m of additional recurring and non-recurring cost pressures were identified, increasing the potential deficit to £48m.

NHS Lanarkshire successfully delivered its savings plans and other actions and reported an in-year surplus of £0.4m. Given the size of the potential deficit, this represents a significant achievement for NHS Lanarkshire.

The table below shows how the in-year surplus was achieved.

Table 5.4-1 Achievement of 2004/05 in-year surplus

	Recurring £M	Non- recurring £M	Total £M
IN-YEAR DEFICIT TO BE MANAGED			
Initial forecast of in-year deficit	(34.4)		(34.4)
Additional cost pressures identified	(3.3)	(10.3)	(13.6)
	(37.7)	(10.3)	(48.0)
SAVINGS AND NON-RECURRING FUNDING			
Additional SEHD non-recurring funding			
• NHSL share of national £70M		7.3	7.3
• capital to revenue transfers		7.8	7.8
• capital charges funding		1.0	1.0
• accelerated depreciation funding		0.2	0.2
Savings plans	9.8	10	19.8
Primary Care cost containment		2.9	2.9
Prescribing underspend		5.3	5.3
Capital charges underspend		2.0	2.0
Service Level Agreements		0.1	0.1
Slippage		1.7	1.7
PFI re-financing	0.3		
	10.1	38.3	48.4
IN-YEAR POSITION	<u>(27.6)</u>	<u>28.0</u>	<u>0.4</u>

5.4.2 Arrangements for managing deficit

The Performance Review Committee (PRC), chaired by the Board Chairman, oversaw the management of the in-year deficit. Savings plans were developed for the Acute Operating Division, the Primary Care Operating Division and the Corporate Division where savings targets of 5% on clinical areas and 10% on non-clinical areas were set. The role of the PRC was to hold the Divisional Chief Executives and the Corporate Management Team to account for delivering the savings targets and other actions identified.

Monthly reports were presented to the PRC monitoring progress in delivering the savings plans. The reports were prepared by the Finance Department based on monthly meetings with General Managers during which variances from target were identified and investigated. A traffic lights system was used to identify those savings that were on target to be achieved and those in danger of not being achieved.

5.4.3 Additional SEHD funding

NHS Lanarkshire received £7.3m from the SEHD as its share of the additional £70m allocated to NHS Scotland on a one-off basis in 2004/05.

5.4.4 Capital to revenue transfers

The Board transferred £7.8m of capital funding to revenue during 2004/05. A further £12.85m of transfers are planned for 2005/06. From 2006/07, the SEHD have stated that capital to revenue transfers will be restricted and the Board will no longer be able to rely on this source of funding. As described below, the Board expects these restrictions to result in a surplus of capital funding and a pressure on revenue funding in future years.

5.4.5 Savings plans and cost containment

The savings plans developed by the Acute and Primary Care Operating Divisions resulted from a comprehensive review of the activities of each division. The plans contained a large number of small savings, examples of which are set out in the table below.

Table 5.4-2 Examples of cost savings 2004/05

Area of saving	£M
Vacancy management	1.5
Hospital reviews	1.2
Corporate functions	1.2
Review of Learning Development commitments	1.1
Junior doctors savings	1.0
Reduction in use of locum and agency staff, including greater use of nurse bank (see section 4.5.2)	0.5
Reduction in training budget	0.2

5.4.6 Prescribing underspend

Prescribing costs fell significantly in 2004/05 as a result of a combination of factors, primarily the impact of the Prescribing Action Plan implemented in 2004/05, the benefits of some widely prescribed drugs coming off patent and the impact of a price reduction negotiated in year by the Pharmaceutical Price Regulation Scheme (PPRS).

5.4.7 Capital charges underspend

This underspend against budget arose due to an over-estimation of the Board's capital charges costs when setting the budget for 2004/05.

5.5 Reliance on non-recurring funding and savings

Table 5.4-1 shows that, prior to any action being taken or additional funding received, the Board's underlying recurring deficit was estimated to be £37.7m in 2004/05. While savings plans, additional funding and other actions in 2004/05 amounted to £48.4m in total, only £10.1m of these actions have resulted in recurring savings. As a result, the Board estimates that it still has a recurring deficit of around £27m going into 2005/06 (see table 5.6-1).

This means that further savings and other actions of at least £27m will require to be made in 2005/06 in order to break even in-year.

5.6 NHS Lanarkshire's Financial Recovery Plan

5.6.1 Financial Recovery Plan Summary

The financial position of NHS Lanarkshire has been well documented. The on-going financial issues, as highlighted in table 5.6-1, are:

- An estimated recurring excess of expenditure over funding of approximately £27m; and
- A carried forward deficit of £20m.

Table 5.6-1 Projected financial position 2005/06

	2005/06 £m	2005/06 £m
Recurring income	676.7	
Recurring expenditure	(703.3)	
Underlying recurring surplus / (deficit)		(26.6)
Non-recurring income	124.2	
Non-recurring expenditure	(124.1)	
Balance of non-recurring		0.1
Funding Gap		(26.5)
Other income sources:		
Capital to revenue transfers	11.9	
Capital receipt transferred to revenue	5.0	
Corporate recovery programme	9.7	
Total actions to address funding gap		26.6
Projected in year surplus		0.1
Deficit brought forward from 2004/05		(20.0)
Projected cumulative deficit against RRL		(19.9)

5.6.2 Capital to receipt transfer to revenue

NHS Lanarkshire have made a request to SEHD to transfer £5 million from the forthcoming disposal of Stonehouse Hospital to support the Board's revenue position. At the time of this report approval for this transfer had not yet been received.

5.6.3 Corporate recovery programme

NHS Lanarkshire expects to further reduce its recurring deficit in 2005/06 by around £6.4m as part of the corporate recovery programme. A further £3.3m of non-recurring savings are expected, giving a target of £9.7m for the corporate recovery programme, as noted above.

The Board approved a high level financial plan at its meeting on 7 July 2005 which demonstrates in-year financial balance in each year of the plan, with recurring financial balance by the end of 2007/08. In other words, the Board will remain reliant on non-recurring savings and funding until 2008/09 at which time the Board expects to be in recurrent surplus.

The corporate recovery plan for 2005/06 is set out below.

Table 5.6-2 Corporate recovery plan 2005/06

Element of programme	2005/06 initiatives		
	Recurring £M	Non-rec £M	Total £M
Cash releasing efficiency savings	3.44	1.44	4.88
Workforce cost reductions	1.33		1.33
Prescribing management		1.00	1.00
Procurement		0.85	0.85
Non-clinical support services	0.78		0.78
Other elements	0.83		0.83
Total	6.38	3.29	9.67

5.7 Cost pressures – pay modernisation

The vast majority of the Board's cost pressures in future years will arise from recent pay modernisation initiatives.

A Pay Modernisation board was set-up to oversee the implementation of the three new pay contracts. In October 2004, the Board was transformed into the Agenda for Change Project Board as this is the one area where much work needs to be done prior to full implementation.

Pay modernisation costs for 2004/05 and those projected for 2005/06 are set out in the table below.

Table 5.7-1 Pay modernisation costs

	2004/05 £M	2005/06 £M
Consultants contract	6.0	3.4
Agenda for Change	6.9	10.5
GMS contract	3.5	2.7
Out of hours services	2.2	2.0
	18.6	18.6

5.7.1 Consultants contract

Uncertainties still remain over the final cost of the new Consultants Contract, as a significant number of consultants have yet to commit to the new contract. As at June 2003, 267

consultants had the option to move on to the new contract. By the end of June 2005 234 had done so. The majority of the remaining consultants are going through the appeals process and are expected to be agreed by September 2005.

5.7.2 General Medical Services (GMS)

The new GMS contract was introduced on 1 April 2004. An element of the payments to general practitioners is now based on quality achievements. Approximately 80% of GP practices in NHS Lanarkshire have made greater achievements than predicted in relation to quality practices. This has resulted in expenditure in excess of funding of £1.9 million.

5.7.3 Agenda for Change

The Whitley pay arrangements were replaced by Agenda for Change on 1 October 2004. Staff have already moved onto the Agenda for Change conditions from 1 December 2004. However, staff will not move onto their Agenda for Change salaries until job descriptions have been agreed to job profiles nationally. Job descriptions have yet to be agreed for all staff across Lanarkshire. The number of job descriptions agreed by the end of June 2005 was 3,601 out of 10,386 (34%).

Agenda for change accrual

Where applicable, staff will receive backdated pay from 1 October 2004 once all staff are transferred to the Agenda for Change salaries. NHS Lanarkshire is therefore required to accrue these costs in the 2004/05 accounts. NHS Lanarkshire has estimated its 2004/05 Agenda for Change accrual at £6.9m, being 2.38% of relevant annual pay costs.

The Board estimates that the cost of Agenda for Change in 2005/06 will amount to a further £10.5.

5.7.4 Managing Medical Careers (MMC)

As described in section 4.5.1, MMC will bring a fundamental change to the manner in which junior doctors are trained. The full financial impact of MMC on NHS Lanarkshire is not yet known. However the workforce management changes required will be considerable and may have a significant financial impact.

5.7.5 Other cost pressures

Other significant cost pressures for NHS Lanarkshire relate to the refurbishment and rationalisation of its estate, as described below.

5.8 Estates rationalisation

A key element of A Picture of Health (see section 4.3), is to look at ways of creating modern, sustainable services that are appropriate for the needs of the people of Lanarkshire. As part of the service redesign process, NHS Lanarkshire is carrying out a review of its current estate, which includes 15 hospital sites. The aim will be to streamline services to better deliver modern healthcare from fewer sites, freeing up capital from old hospitals to reinvest in new hospitals and primary care premises.

Although the public and other stakeholders will be involved in any proposals to make significant changes to NHS Lanarkshire's current estate, it is likely that any proposals will involve the sale of some of the smaller sites.

5.9 Revenue implications of estates rationalisation

5.9.1 Accelerated depreciation

Where the Board has approved a decision to close a property, the Resource Accounting Manual (RAM) requires Boards to write the value of the property down to its net realisable value over the asset's remaining life. This is known as accelerated depreciation. NHS Lanarkshire estimates that the cost of accelerated depreciation could be as much as £28m over the next two years. The SEHD has indicated that limited funding is available for these additional costs. If insufficient funding is available from the SEHD, this could have significant implications for planned service developments in NHS Lanarkshire and could impact on the Board's financial position.

No formal decisions have been made on the closure of any current hospitals. If the Board elects not to close any of its current hospitals, significant refurbishment costs will be incurred. These will require to be funded from within the Revenue Resource Limit as capital to revenue transfers will no longer be permitted from 2006/07.

The revenue implications of the estate rationalisation plans are not yet reflected in the Board's financial projections as A Picture of Health has not yet been formally approved.

5.9.2 Gains from the sale of surplus land

Changes introduced by Resource Accounting

For a number of years, NHS Lanarkshire has been anticipating clearing its brought forward deficit through gains from the sale of surplus land. Land with potentially high market value which is currently up for sale includes the sites at Law Hospital (see section 5.13) and Hairmyres Hospital (Phase 3). Since 2002/03, new NHS accounting rules as set out in the Resource Accounting Manual (RAM) have made it more difficult for Boards to use gains from the sale of land to either clear brought forward revenue deficits or fund revenue costs such as estates maintenance. This will have significant implications for NHS Lanarkshire, which has a £20m brought forward deficit and anticipates substantial ongoing maintenance costs.

The RAM, in common with previous NHS accounting policy, requires that all property declared surplus to requirement must be re-valued to open market value at the end of the year. The amount of any upward revaluation is taken to the Revaluation Reserve. When the property is subsequently sold, the only gain recognised in the Operating Cost Statement is the difference between the sale proceeds and the new open market value. This difference could be minimal.

Prior to the introduction of the RAM, the remainder of the gain (i.e the amount in the Revaluation Reserve) could be transferred from the Revaluation Reserve to the Income and Expenditure Reserve, thereby assisting with the achievement of revenue targets. The RAM replaced the income and expenditure reserve with the General Fund. The problem for NHS Boards is that transfers from the Revaluation Reserve on disposal of properties no longer have any impact on the achievement of an NHS Board's Revenue Resource Limit target.

Surplus capital funding

Any gains from land sales that are not available for revenue purposes will be available for capital purposes. In NHS Lanarkshire's case, however, this is of limited value as two of the Board's three main hospitals are operated under the Private Finance Initiative. This means that they are not owned by the Board and so any improvements or additions to the hospitals cannot be capitalised but are instead life-cycle maintenance costs and treated as a revenue charge. The Board's Capital Investment Plan identifies potential surplus capital funding of almost £67m over the next five years. Over the same period, the Board's revenue position will be under severe pressure.

Implications for NHS Boards – value for money and patient care

In our view, current NHS accounting policy could provide a disincentive for NHS Boards to obtain best value from land sales. In order for an NHS Board to maximise the revenue benefit of a land sale, it would need to take the surplus land out of operational use and sell it in the same financial year, thereby avoiding the need to revalue it to open market value at the end of the year. This could encourage NHS Boards to complete sales more quickly than they would otherwise like. This in turn may mitigate against the achievement of best value in the NHS.

In addition, the current accounting regime could have implications for patient care, as decisions on the timing of hospital closures could be driven by the accounting treatment rather than operational objectives and sound asset management principles.

5.10 Financial planning, budgetary control and reporting

NHS Lanarkshire has a responsibility to conduct its financial affairs in a proper manner. As part of our audit, we are required to consider NHS Lanarkshire's arrangements in place for financial planning, budgetary control and financial reporting.

5.10.1 Background

PricewaterhouseCoopers conducted a Budget Reset Position Review in 2003/04. This commented on:

- the culture and acceptance of overspending within the former three organisations in NHS Lanarkshire,
- a lack of ownership of savings plans and budgets at an operational level, and
- a reliance on capital transfers, accounting adjustments and non-recurring funding to achieve savings targets.

5.10.2 Budgetary control and reporting

As described above, NHS Lanarkshire delivered a sizeable programme of cost savings and other actions in 2004/05 and successfully managed a potential in-year deficit of £48m. In order to achieve this, the Board required to make substantial improvements to its budgetary control and reporting systems. Some of these improvements have been made easier by the move to a unified Board and the benefits of having a single body, the Performance Review Committee, overseeing the financial position on a pan-Lanarkshire basis.

In addition, the improved 2004/05 financial performance is partly due to the implementation of robust divisional reporting through the Operational Management Committee. This has improved financial awareness at an operational level and individuals are now held to account at committee. Overspending is no longer seen as acceptable and ownership of savings plans is taken at an operational level.

5.10.3 Budget setting

Arrangements for budget setting currently differ between operating divisions for historical reasons. This followed a decision taken by NHS Lanarkshire based on a risk assessment and knowledge of the previous and developing organisational culture. The unification of NHS Lanarkshire provides an excellent opportunity to harmonise the Board's overall arrangements for financial planning to ensure that the benefits of single system working are achieved. Our recommendations to address these issues are noted in our management action plan (section 6).

5.11 Unification of Finance Department

The financial services department staff are currently split between Monklands Hospital (Acute Operating Division's finance staff) and Strathclyde Hospital (Primary Care Operating Division and Corporate Division). The financial services department is still operating as three separate units with working practices relatively unchanged since the unification of NHS Lanarkshire on 1 April 2005.

The Board has established project groups and regular meetings have been held to manage the financial services department unification process.

Monklands Hospital has been selected as the most appropriate location for the unified financial services department. Financial accounting staff currently expect to be relocated to Monklands by mid August 2005, with payroll also moving to Monklands shortly thereafter.

Following the co-location of all financial services and payroll staff, the Board needs to harmonise existing financial operating procedures to ensure that all staff are working towards consistent standards and processes, which represent best practice.

5.12 Finance System

NHS Lanarkshire implemented their current web-based finance system, Efinancials V3, in December 2003. Our previous reports, issued in 2002/03 and 2003/04, were critical of the approach taken by NHS Lanarkshire in the procurement and implementation of Efinancials.

Initially, NHS Lanarkshire encountered a number of teething problems when the system went live. Subsequently, there have been a number of issues with the Efinancials application failing to operate as intended. This has resulted in staff having to find workarounds to allow transaction processing to continue.

5.12.1 Reasons for operating problems

Neither NHS Lanarkshire nor Cedardata, the software provider, have been able to identify the reasons for the application not operating as intended. In order to avoid systems downtime, patches have not been applied to the Efinancials application since October 2004. Instead of adding patches to the existing system, the Efinancials application has been completely rebuilt. The plan, as reported in our Interim Management Report, was to have the rebuild completed, fully tested and implemented by 25 April 2005.

We note that the rebuilt system has still not gone live. The rebuild is now complete and extensive testing has been performed. The remaining problems are expected to be resolved shortly and a revised timescale for going live will be agreed.

5.12.2 Further work required

We are concerned that system problems continue to be experienced some 19 months after implementation of Efinancials.

As well as causing operational problems within the Finance Department, the problems have delayed the integration of the financial ledgers. NHS Lanarkshire therefore continues to operate separate financial ledgers, albeit within the same system, for each of the three previous Lanarkshire NHS bodies. This makes unified financial reporting more difficult as a consolidation exercise is required in order to identify the overall Lanarkshire-wide financial position.

5.13 Law Hospital

Lanarkshire Acute Hospital Trust closed Law Hospital and declared the property surplus to requirements in March 2001. The property has been available for sale since closure. NHS

Lanarkshire's previous valuers considered the site to be of no value and the land was written down to nil in the Trust's 2000/01 accounts.

There has been little commercial interest in the property either from commercial parties or other public sector bodies prior to 31 March 2004. The Valuation Office Agency, NHS Lanarkshire's current property valuers, assessed the property's value at £200,000 as at 31 March 2004. Lanarkshire Acute Hospital Trust incorporated this value into its 2003/04 accounts.

South Lanarkshire Council identified the Law area for development in its 2004/05 Local Plan. This has resulted in an increase in commercial interest in the property. NHS Lanarkshire invited tender bids and the Board approved the acceptance of the successful tender in December 2004.

Subsequent negotiations with the prospective developer were completed and missives were signed on 31 March 2005. Completion of the sale and the date of entry is dependent on the purchaser obtaining planning permission from South Lanarkshire Council. The proceeds NHS Lanarkshire will receive on completion of contract are variable dependent on the developable acreage agreed in the planning permission. The maximum gain which may be achieved as a result of this contract is approximately £30 million less enabling costs, which are capped as £6.4 million. The Board's property advisors estimate the anticipated net receipts to be approximately £20 million.

Whilst missives were signed on 31 March, the disposal can only be recognised in 2004/05 if the conditions of the sale are virtually certain to be satisfied. As the developers have not to date submitted planning permission, there is uncertainty whether the principle condition of sale will be met. Therefore the disposal has not been recognised in the 2004/05 accounts.

Law Hospital land remains an asset on NHS Lanarkshire's balance sheet and has therefore been revalued along with all other land. This has resulted in the land being revalued to £4.95 million.

We have audited the accounting treatment of this transaction in 2004/05 and are satisfied that it has been properly reflected in the financial statements.

5.14 Procurement and creditors management arrangements

We have previously reported on a backlog with invoice processing within the Creditors departments due to departmental orders not raised per procurement and purchasing procedures. At December 2004 the backlog of invoices stood at 1300 invoices, totalling approximately £900,000. We are concerned to note that the backlog of invoices as at 5 July 2005 has risen to 2981 totalling approximately £2 million.

NHS Lanarkshire should allocate the appropriate resources to address this issue as this may lead a material misstatements of expenditure. Non or late payment of suppliers will damage supplier relations and may result in future orders not being met.

5.15 Efficient Government

NHS Lanarkshire in common with the rest of NHSScotland is required to deliver significant efficiency savings as part of the Scottish Executive *Building a Better Government-Efficient Government*.

The level of efficiency savings to be delivered by NHS Lanarkshire amount to:

Table 5.15-1 - Efficiency savings to be delivered

Year	£ million
2005/6	6.373
2006/7	13.177
2007/8	20.389

The total recurring savings NHS Lanarkshire anticipate to achieve over the next three years exceeds the efficient government targets. NHSL have been assured that these savings are not in addition to the savings programme already put in place by the Board.

6 ACTION PLAN

Our annual report action plan details the key, priority one control weaknesses and opportunities for improvement that we have identified during 2004/05. These are the issues that we believe need to be brought to the attention of the Board.

We have followed-up the key points from our previous years' action plans to ensure they have been implemented as agreed. A number of issues from previous years remain outstanding and these have been repeated in this year's action plan.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

6.1 High priority issues from 2004/05 final audit

Title	Issue Identified	Risk and Recommendation	Management Comments
6.1.1 Performance Management	<p>Substantial improvements have been made by NHS Lanarkshire to its performance management arrangements. The establishment of the PRC, OMC and Performance Directorate allow areas of poor performance or failures to achieve local or national priorities to be identified quickly. Despite improvements in some key areas of performance over the last three years there are still a number of areas where NHS Lanarkshire is not meeting stipulated targets or are below the national average as set out in the Performance Assessment Framework.</p> <p>Priority 1</p>	The Board needs to continue to develop its performance management arrangements to ensure that all the necessary steps are being taken to meet the agreed targets.	<p>PRC systematically taken through each field of the PAF and specific attention drawn to areas of under achievement and the identified corrective action needed or planned.</p> <p>Responsible Officer: Performance Director</p> <p>No Later Than: 31 March 2006</p>
6.1.2 Single System Working	<p>At a strategic level NHS Lanarkshire has successfully implemented single system working. However at an operational level the Board is still functioning as three separate organisations including:</p> <ul style="list-style-type: none"> • Budget setting • Integration of the financial ledger • Existing risk management arrangements. <p>Priority 1</p>	<p>To maximise the benefits of single system working all operational activities should be harmonised.</p> <p>We recommend that a timetable is agreed to bring all remaining inherited procedures and systems together.</p>	<p>See 6.1.7</p> <p>See 6.3.1</p> <p>See 6.1.4</p>

Title	Issue Identified	Risk and Recommendation	Management Comments
6.1.3 Statement of Internal Controls	<p>The Statement of Internal controls describes the following measures to be taken by NHS Lanarkshire to improve internal controls during 2005/6.</p> <ul style="list-style-type: none"> • The development of a consolidated risk register. • Security control issues in relation to the Board's financial systems. <p>Priority 1</p>	<p>We will follow-up the Board's progress in implementing these internal controls during 2005/6.</p>	<p>Issues included in SIC for 2004/05 Final Accounts.</p> <p>See 6.1.4 See 6.3.5</p>
6.1.4 Risk management	<p>NHS Quality Improvement Scotland (NHS QIS) conducted a peer review of NHS Lanarkshire's risk management arrangements in February 2005. Their overall finding was that NHS Lanarkshire had made progress implementing single system risk management arrangements at a strategic level.</p> <p>However, this was not reflected in the operating structure. In particular:</p> <ul style="list-style-type: none"> • Links between the divisional risk management committees and the Board committee were not fully apparent. • Discussion of risk appears to be inconsistent. <p>Priority 1</p>	<p>Effective risk management and risk reduction is essential to good governance.</p> <p>The Board should:</p> <ul style="list-style-type: none"> • Establish clear reporting links between the risk management committee and the Board. • Develop action plans to address the risks identified in the unified risk register. 	<p>Noted.</p> <p>The Board is currently reviewing the reporting structure.</p> <p>It has been agreed that action plans will now be developed.</p> <p>Responsible Officer: Medical Director</p> <p>No later than: 31 March 2006</p>

Title	Issue Identified	Risk and Recommendation	Management Comments
6.1.5 Law Hospital	<p>As noted at 5.13, the Board concluded missives for the disposal of Law Hospital 31 March 2005.</p> <p>The completion of the sale is dependent upon the developer receiving planning permission. Due to the uncertainty of completion of the contract the disposal cannot be reflected in the 2004/05 financial statements.</p> <p>As the disposal of Law Hospital has not been recognised in the 2004/5 accounts, the Board must continue to report the land as its asset as at 31 March. The land has been revalued as at 31 March 2005. This has increased the land's carrying value to £4.95 million.</p> <p>We were made aware of the conclusion of missives on 6 May 2005. Considerable time was spent by both NHS Lanarkshire's senior finance staff and us in determining the facts of the disposal. Copies of the missives were received on 14 June 2005.</p> <p>Priority 1</p>	<p>This asset disposal has involved considerable work on an accounting level due to the size and complexity of the transaction.</p> <p>We recommend that in future the Board discusses proposed transactions of this magnitude with us prior to the legal process being completed. This will allow the Board to identify at an early stage any potential accounting and audit problems which may arise and to take appropriate action to address these issues.</p>	Agreed.

Title	Issue Identified	Risk and Recommendation	Management Comments
<p>6.1.6 Family Health Service Expenditure</p>	<p>Payments to Family Health Services practitioners, such as GPs and Pharmacists, are made by the Patient Services Division (PSD) of NHS National Services Scotland (previously the Common Services Agency). Payments to NHS Lanarkshire's FHS practitioners are made by the PSD's divisional office in Glasgow.</p> <p>The PSD's divisional office provide NHS Lanarkshire with detailed monthly reports on its cash payments. The Primary Care Operating Division's management accounting staff use these reports to update NHS Lanarkshire's financial records.</p> <p>The PSD's Central Office also provide monthly summary reports (form 12s) to NHS Lanarkshire which detail cumulative cash expenditure to date. There are often differences between the divisional office reports and the central office report. The central office reports include any late adjustments and are considered to be more accurate.</p> <p>The FHS management accountants do not reconcile the form 12s to NHS Lanarkshire's accounting records. The form 12s reported cumulative cash payments in 2004/05 to General Medical Services practitioners of approximately £1m more than recorded in NHS Lanarkshire's accounting records. This difference had not been identified prior to our audit.</p> <p>Upon investigation the FHS management accountants were able to provide explanations for the majority of the difference. However, £400,000 related to expenditure in the year which NHS Lanarkshire had not reported in its accounting records. This error is not considered material and no adjustment has been made to the accounts.</p> <p>Priority 1</p>	<p>In the absence of adequate controls to ensure the completeness and accuracy of it FHS expenditure there is a risk that the Board will materially misstate its financial position.</p> <p>We recommend that the FHS management accountants reconcile the form 12s to the ledger every month to ensure the accuracy of the accounting records.</p>	<p>Accepted. A formal reconciliation of form 12s to the ledger will form part of the monthly reporting process.</p> <p>Responsible Officer: Depute Director of Finance (PCOD)</p> <p>No later than: 31 August 2005</p>

Title	Issue Identified	Risk and Recommendation	Management Comments
<p>6.1.7 Budget setting and monitoring</p>	<p>The financial difficulties facing NHS Lanarkshire are well documented and reported. A failure to manage expenditure within available resources has lead to a cumulative deficit position as at 31 March 2005 of £20,042,000.</p> <p>The Board has successfully managed its in year financial position and has managed to generate a small surplus in 2004/05. However, this success has included a significant reliance on non-recurring funding.</p> <p>Currently budgets are set on an incremental basis and are based on a break-even basis in the primary care division and the achievement of an overall savings target basis in the acute division.</p> <p>Priority 1</p>	<p>To be effective budget setting processes must address existing as well as new expenditure priorities.</p> <p>We recommend that the Board review its current budget setting arrangements and consider:</p> <ul style="list-style-type: none"> • Alternative ways of establishing agreed expenditure budgets eg zero-based budgeting techniques • Ensure budgets are drawn-up on a consistent basis across all divisions. 	<p>Agreed, budget setting will be taken forward on a pan-Lanarkshire basis for 2006/07.</p> <p>In the interim we will also be reviewing the different approaches to how budgets are set for 2005/06.</p> <p>Responsible Officer: Director of Finance</p> <p>No later than: 30 September 2005</p>

Title	Issue Identified	Risk and Recommendation	Management Comments
<p>6.1.8 FHS Income</p>	<p>We noted that the Board reflects FHS income on a calendar basis, whilst it does account for FHS expenditure on a financial year basis. This accounting policy has not resulted in a material misstatement of net operating costs.</p> <p>Additionally, FHS Income is not recorded in the Board's financial ledger. The management accountants instead record this income on spreadsheets.</p> <p>GDS income is non-discretionary income. The SEHD has agreed to provide funding to match the Board's discretionary expenditure less discretionary income. Therefore GDS income does not impact on the Board's revenue position.</p> <p>However GPS income is unified budget income and does therefore impact upon the Board's final revenue position.</p> <p>Priority 1</p>	<p>We recommend that FHS income is accrued up to 31 March in line with expenditure.</p> <p>There is also a risk that FHS income is not being accurately recorded and reported as it is not recorded in the ledger. We recommend that FHS income be recorded in the ledger.</p>	<p>Agreed.</p> <p>Responsible Officer: Depute Director of Finance (PCOD)</p> <p>No later than: 31 August 2005</p>

Title	Issue Identified	Risk and Recommendation	Management Comments
<p>6.1.9</p> <p>Reporting performance indicators to the OMC</p>	<p>Non-financial performance indicators will be reported on, at least annually to the OMC.</p> <p>Priority 1</p>	<p>In our view, for performance indicators to be used effectively they need to be reported and monitored regularly.</p> <p>Whilst we acknowledge that much of the supporting ISD data is only published annually we recommend that where ever possible non-financial performance indicators are reported to the OMC either quarterly or on a six-monthly basis.</p>	<p>Noted.</p> <p>OMC are working through a process of identifying useful performance indicators and a timetable for considering these. Some indicators e.g. waiting times and delayed discharges are reviewed monthly but need to recognise that other indicators are published on an annual basis.</p> <p>Responsible Officer: Performance Director.</p> <p>No Later Than: 31 March 2006</p>
<p>6.1.10</p> <p>Information Management</p>	<p>The three legacy IM&T Security Policies still exist and consolidation of these is an outstanding task. Promoting awareness of information security also needs to be undertaken across NHS Lanarkshire. We noted that whilst contingency plans such as the Major Incident Plan exist, there are no formal documented Business Continuity Plans in place for business critical systems.</p> <p>Priority 1</p>	<p>In our view it is essential that formally documented Business Continuity Plans are put in place for all business critical systems.</p>	<p>It is recognised that Business Continuity Plans require to be reviewed and revised and this will be addressed in the workplan for 2005/6.</p> <p>Responsible Officer: General Manager IM&T</p> <p>No Later Than: 31 December 2005</p>

Title	Issue Identified	Risk and Recommendation	Management Comments
6.1.11 Staff Governance	<p>Our report on Staff Governance included the action plan developed by NHS Lanarkshire to improve arrangements for staff governance. The action plan contains a number of high priority actions planned by the Board to ensure it complies with the Staff Governance Standard and best practice.</p> <p>Priority 1</p>	<p>The Staff Governance action plan included a number of high priority matters which required to be addressed in 2005/6. It is essential that the agreed timetable is met. We recommend that an update of the action plan is included as a regular item on the Staff Governance Committee's agenda.</p> <p>We are required to revisit the action plan as part of our 2005/6 audit to assess NHS Lanarkshire's progress in addressing the requirements of the Staff Governance Standard.</p>	<p>The Staff Governance Action Plan is an agreed Plan which will be implemented in 2005/2006 by the Human Resources Forum. The HRF reports regularly to the Staff Governance Committee and the quarterly report includes an update of progress against the Action Plan.</p> <p>Responsible Officer: Director of HR</p> <p>No later than: 31 March 2006</p>

6.2 Follow-up of high priority issues included in our priorities and risk framework action plan

Original Recommendation	Action by	Timescale	Update
The Board should continue its efforts to ensure that the Financial Governance Committee includes a non-executive member with significant, recent financial expertise and experience.	Chairman	At time of recruitment	<p>2 new non-executive members have recently been appointed to the Board of NHS Lanarkshire.</p> <p>Neither of these new members have significant, recent financial expertise and experience.</p> <p>We reiterate our original recommendation.</p> <p>Action outstanding</p> <p>No further update</p>
All non-executive directors should have a personalised training and development programme.	Director of Organisational Development	June 2005	<p>NHS Lanarkshire's members have all had some form of development training. The Board is currently reviewing its committee structure and membership. Once this has been agreed then personalised training programmes for each non-executive member will be developed.</p> <p>Action outstanding</p> <p>No further update</p>
The Board should monitor progress towards implementation of regional planning through regular reporting from the Strategic Development and Re-design Committee.	Chief Executive	Immediate	<p>Reporting on regional planning is currently on an ad-hoc basis. As regional planning increases in importance it will be added as a standard agenda item</p> <p>Action outstanding.</p> <p>No further update</p>
The Board should continue to address health improvement issues and encourage the development of lifestyle strategies.	Director of Public Health	Immediate	<p>The Health Improvement Strategy is currently being developed. This will include recommendations for the improvement of Health in Lanarkshire. Once issued, we recommend that the Board regularly reviews progress against these recommendations.</p> <p>Action on-going</p> <p>No further update</p>

Original Recommendation	Action by	Timescale	Update
Clinical risk procedures should be integrated into a NHS Lanarkshire risk management framework to ensure consistency of application	Risk Management Steering Group	March 2006	This will form part of the risk management action plans for 2005/06.
The under-reporting of clinical incidents should be investigated to ensure that the arrangements and procedures in place are operating adequately.	Risk Management steering Group	March 2006	Agreed
The Board should, in partnership with stakeholder partners, conduct an impact assessment exercise to gauge the effect of service redesign on social, economic and environmental levels of the local community.	Modernisation Director	Immediate	<p>The Board intends to undertake an impact assessment exercise on delivering the four main strands of 'A Picture of Health.' This will gauge the effect of service redesign on social, economic and environmental levels of the local community.</p> <p>Action outstanding</p> <p>No further update</p>

6.3 Actions outstanding from previous years' action plans – high priority issues

Title	Our original recommendation	Original management response (January 2005)	Update at July 2005
6.3.1 Finance Department Unification	<p>NHS Lanarkshire must develop an action plan and risk register to manage the finance department unification process. Responsibilities and deadlines should be assigned.</p> <p>The co-location of departments, development of single-system working and a review of working practices to ensure consistency and best practice should be prioritised.</p> <p>Priority 1</p>	<p>NHS Lanarkshire will be setting up a partnership project group that will deal with the unification of the Financial Services Department and prepare for the national shared services agenda.</p> <p>Responsible officer: Deputy Director of Finance – AOD</p> <p>No later than: Plan in place by 30 Sept 2005</p>	<p>No formal action plan or risk register was agreed.</p> <p>NHS Lanarkshire has established a partnership group to manage the unification of the finance department.</p> <p>The finance staff are scheduled to move to the Monklands site in August 2005</p> <p>Action outstanding</p> <p>Financial Accounting staff co-locating 13/14 August 2005. Payroll will co-locate at end of August. This will facilitate integration of working practices and procedures.</p> <p>Responsible Officer: Deputy Director of Finance AOD.</p> <p>No Later Than: 30 September 2005.</p>

Title	Our original recommendation	Original management response (January 2005)	Update at July 2005
<p>6.3.2 Finance and Procurement Management Arrangements</p>	<p>During our 2004/05 interim audit, it was identified that a substantial number of queries had arisen within Creditors. Queries had risen to 1300 against a target of 500, with a value of approximately £900,000.</p> <p>The backlog of invoices had been caused by departments failing to use correct procurement procedures or documents. Consequently invoices could not be paid as they could not be matched to a valid Purchase Order or Goods Received Note raised on the e-Financials system.</p> <p>This issue is an ongoing problem and was noted in both 2002/03 and 2003/04 management letters.</p> <p>We recommended that a review of management arrangements should be undertaken. The benefits of unifying the Procurement and Creditors departments should be investigated.</p> <p>Departments should be reminded of the need to use the correct procedure when ordering goods and services.</p> <p>Priority 1</p>	<p>A member of the procurement systems team will now work alongside the systems accountants to assist in progressing this issue.</p> <p>Responsible officer: Deputy Director of Finance – AOD</p> <p>No later than: By 30-09-05</p>	<p>As at 5 July 2005, the number of queries within creditors had risen again to 2981 with a value of approximately £2,000,000. These figures only include queries where the 30 day payment terms have elapsed.</p> <p>Staffing problems in both the creditors and procurement departments have caused the increase in the number of invoices held on query.</p> <p>An exercise was performed at the year end to ensure that all invoices held on query have been accrued. However, these invoices are not accrued during the year. There is a high risk that the Board is misstating its expenditure during the year.</p> <p>Action must be taken to resolve this ongoing issue. We reiterate our original recommendation.</p> <p>Action outstanding</p> <p>An action plan will be put in place to ensure a reduction in invoice queries to an acceptable level.</p> <p>Responsible Officer: Deputy Director of Finance AOD</p> <p>No later than: 31 October 2005</p>

Title	Our original recommendation	Original management response (January 2005)	Update at July 2005
<p>6.3.3 Fixed Asset Register</p>	<p>During our 2004/05 interim audit we noted that NHS Lanarkshire did not have a unified fixed asset register in place. The three registers operated before unification ceased to operate as of 31 March 2004.</p> <p>We recommended that NHS Lanarkshire should pursue a unified Fixed Asset Register as a priority.</p> <p>We further recommended that NHS Lanarkshire should consider contacting other Boards for advice regarding the implementation of the Fixed Assets Module. If it is decided to implement the Fixed Assets Module, appropriate contingency arrangements should be put in place in the event the implementation causes problems in other areas of the system.</p> <p>Priority 1</p>	<p>CedAr e-financials Fixed Asset Module was installed on 28 February 2005</p> <p>Details of all fixed assets held by NHS Lanarkshire as at 31 March 2004 have been loaded on to the module. Work is now underway to update the module with all additions, deletions and transfers during 2004/05.</p> <p>The functionality of the module is also being tested. The installation and running of the module has had no adverse impact on the operation of e-financials.</p> <p>Responsible officer: Deputy Director of Finance - PCOD</p> <p>No later than: Immediate</p>	<p>All assets were loaded onto the fixed asset register in March 2005. Errors were identified when the depreciation charge was calculated. The errors resulted from the fixed asset module using the incorrect dates for the calculation of remaining useful lives. With the exception of the depreciation calculation the fixed asset module is operating satisfactory.</p> <p>The Board's depreciation charge both for annual accounts purposes and for monthly management accounts purposes has been calculated using spreadsheets rather than the fixed asset register. We were therefore able to obtain sufficient assurance that the depreciation charge was correctly calculated.</p> <p>No deadline for fixing the fixed asset module has yet been agreed due to finance department unification taking priority.</p> <p>Further action required</p> <p>This issue will be picked up after co-location of Financial Accounting staff.</p> <p>Responsible Officer: Deputy Director of Finance AOD.</p> <p>No Later Than: 31 October 2005.</p>

Title	Our original recommendation	Original management response (January 2005)	Update at July 2005
<p>6.3.4 Efinancials Change Control</p>	<p>Internal Audit in their review of the IT environment surrounding Efinancials criticised IM&T for the lack of change procedures and documentation in relation to changes made to the Efinancials system by the database administrator within IM&T. In their application review of Efinancials, they have commented that no action has been taken by IM&T to remedy this situation.</p> <p>Endorsing Internal Audit's previous recommendations we recommended, as a priority, IM&T management develop and agree change control procedures and that these are used for all changes and patches applied for both the Efinancials rebuild project and all other NHS Lanarkshire systems.</p> <p>Standard documentation should include:</p> <ul style="list-style-type: none"> • impact analysis; • risk assessment; • test plans and scripts developed; • results of testing conducted; and • sign off by users to confirm acceptance. <p>Priority 1</p>	<p>The points are accepted by management.</p> <p>A control change process is already underway and revised procedures will be in place by 01-04-05.</p> <p>Responsible officer: General Manager – IM&T</p> <p>No later than: 01-04-05</p>	<p>We are pleased to note that control change procedures are now in place and that all changes are now recorded on standard documentation. However, the standard documentation only details the changes performed.</p> <p>We reiterate our original recommendation that the standard documentation should include:</p> <ul style="list-style-type: none"> • impact analysis; • risk assessment; • test plans and scripts developed; • results of testing conducted; and • sign off by users to confirm acceptance. <p>Action outstanding</p> <p>This issue will form part of the project plan to be developed around the e-financials "rebuild" project.</p> <p>Responsible Officer: Corporate Systems Manager,</p> <p>No Later Than: 31 October 2005</p>

Title	Our original recommendation	Original management response (January 2005)	Update at July 2005
<p>6.3.5 Efinancials Rebuild Project</p>	<p>NHS Lanarkshire initially set a deadline of 31 March 2005 for the complete rebuild and test of the Efinancials application.</p> <p>At the time of our 2004/05 interim audit there was no formal project plan with key project milestones. The first project meeting was held on 14 February 2005 and although suppliers were aware of the project the Board had yet to get firm commitments to dates for their involvement.</p> <p>We recommended that Management ensure a formal project plan is finalised which guarantees delivery of resource to all aspects of the project. Management should also ensure appropriate contingencies are provided for.</p> <p>Priority 1</p>	<p>Since the date of the audit, first project meeting agreed the process that will be taken including key milestones.</p> <p>The rebuild of the system was completed by CedAr, as a single exercise, on 3rd / 4th March 2005.</p> <p>This was a change from the original proposal and there was no further need to coordinate and timetable suppliers.</p> <p>The rebuild includes all patches and fixes recommended by CedAr for installation.</p> <p>A timetable for joint testing has been agreed locally and has been passed to CedAr for their agreement.</p> <p>It is anticipated that testing will commence week beginning 21 March 2005 and is scheduled to complete by 15 April 2005.</p> <p>Once the test results have been jointly reviewed and confirmed as robust the transfer of users to the new server will take place.</p> <p>It is hoped that 'go live' will be 25 April 2005.</p> <p>Responsible officer: Corporate Systems Manager</p> <p>No later than: Immediate</p>	<p>No formal project plan was approved for the rebuild exercise.</p> <p>The rebuild exercise was completed on 3rd / 4th March 2005. Testing of the system identified a number of issues. These issues have not all been addressed as yet.</p> <p>NHS Lanarkshire recently appointed Explore IT to review the implementation of eFinancials. Explore IT and IM&T are currently discussing the potential way forward with the Deputy Director of Finance (PCOD).</p> <p>The eFinancial rebuild and the consolidation of the ledger is fundamental to effective single system working of the finance department.</p> <p>As a matter of priority, management should agree on a formal plan to launch the 'live' system.</p> <p>Action outstanding</p> <p>Update</p> <p>From discussions taking place it is intended to draw-up a project plan with agreed timescales for launching the live system.</p> <p>Responsible officer: Depute Director of Finance (PCOD)/ Corporate Systems Manager.</p> <p>No later than: 31 August 2005</p>

Title	Our original recommendation	Original management response (July 2004)	Update at July 2005
<p>6.3.6 Revaluation Reserve</p>	<p>We noted during our final audit 2004/05 that NHS Lanarkshire has no clear record of the revaluation reserve history of individual properties. The only way to match elements of the revaluation reserve to individual properties was to analyse accounting entries from previous years.</p> <p>We recommended that an exercise should be performed to determine all elements making up the revaluation surplus which are attributable to assets held by NHS Lanarkshire. This will ensure that future revaluations, impairments or disposals can be correctly accounted for.</p> <p>Priority 1</p>	<p>Current computerised system does not allow for this</p> <p>Module of new Financial System does and this will be implemented</p> <p>Responsible Officer:</p> <p>Deputy Director of Finance – Acute Division</p> <p>Implementation Date:</p> <p>By 31 March 2005</p> <p>Updated at January 2005:</p> <p>Fixed asset module has now been implemented.</p> <p>The revaluation reserve will be analysed to identify the assets that the reserve represents.</p> <p>Responsible Officer: Deputy Director of Finance – PCOD</p> <p>Implementation Date: 31 May 2005</p>	<p>As noted at 6.3.4, the fixed asset register is not fully operational. Consequently no exercise has been performed to analyse the revaluation reserve.</p> <p>Action outstanding</p> <p>This issue will be picked up after co-location of Financial Accounting staff.</p> <p>Responsible Officer: Deputy Directors of Finance AOD & PCOD</p> <p>No Later Than: 31 October 2005.</p>

Title	Our original recommendation	Original management response (July 2004)	Update at July 2005
<p>6.3.7 Injury Benefit Provision</p>	<p>The SEHD Dear Colleague letter 'Guidance for Calculating injury benefit provision' details that life expectancy should now be calculated using new government actuarial tables and discounted at 3.5% rate.</p> <p>NHS Lanarkshire have continued to base their injury benefit provision on an average life expectancy of 75 with no discount factor.</p> <p>We recommended that NHS Lanarkshire should pursue the correct information from the SPPA and calculate the provision in accordance with the guidance issued by SEHD.</p> <p>Priority 1</p>	<p>Agreed.</p> <p>Responsible Officer:</p> <p>Deputy Director of Finance – Corporate & Modernisation</p> <p>Implementation Date:</p> <p>By 31 March 2005</p> <p>Update at January 2005:</p> <p>This issue has been accepted by management and will be reviewed during 2004/05 final audit.</p> <p>Responsible Officer:</p> <p>Deputy Director of Finance – Corporate & Modernisation</p> <p>Implementation Date:</p> <p>By 31 March 2005</p>	<p>The permanent injury benefit provisions are still calculated using a life expectancy of 75 with no discount factor.</p> <p>We reiterate our original recommendation.</p> <p>Action outstanding</p> <p>Noted.</p> <p>NHS Lanarkshire will continue to pursue SPPA for actual information. Once information available will review calculation of provision with External Auditor.</p>

Title	Our original recommendation	Original management response (July 2004)	Update at July 2005
<p>6.3.8 Accounts Preparation and Working Papers</p>	<p>We experienced delays obtained adequate working papers and accounts during 2003/04 final audit. In addition a number of material adjustments were required to the draft accounts.</p> <p>These problems resulted in additional work being performed by ourselves to obtain appropriate evidence to form an opinion on the financial statements.</p> <p>We recommended that:</p> <p>The finance department should ensure that working papers are prepared as agreed; Accounts and working papers are reviewed before the audit visit to ensure any errors are identified.</p> <p>Priority 1</p>	<p>With finite resources the department has, over the past 7 months, implemented a new finance system, restructured with changes in key personnel due to national guidance for single system working, assisted in the management of the deficit position and revised the Clinical & Financial Sustainability plan in addition to preparing final accounts.</p> <p>Staff have had to prioritise workloads and the significant effort they have made to complete all these key tasks is noteworthy.</p> <p>Responsible Officer: Deputy Directors of Finance Implementation Date: By completion of 2004-05 annual accounts Update at January 2005:</p> <p>Responsibility for the preparation of the 2004/05 annual accounts has been allocated to the Technical Accountant and work is underway to ensure that the process will be managed effectively. Arrangements are now in place and External Audit have been notified.</p> <p>Responsible Officer: Deputy Directors of Finance Implementation Date: By completion of 2004-05 annual accounts.</p>	<p>Whilst there have been improvements to the 2004/05 accounts preparation process a number of the working papers which we requested in our audit deliverables letter date 12 April 2005 in advance of the audit were not provided. In particular the following working papers were not provided:</p> <ul style="list-style-type: none"> • Reconciliation of the trial balances to the accounts. • Our audit templates. • A list of debtors at year-end (PCOD). • Additionally, the accounts and working papers had not been reviewed prior to our audit. <p>The accounts for 2005/06 have to be submitted to the Scottish Parliament by 30 June 2006. Significant improvements require to be made to the annual accounts process for the Board to be in a position to meet this deadline.</p> <p>We reiterate our original recommendation.</p> <p>Action outstanding Exit meeting to be held with Scott-Moncrieff to discuss issues from 2004/05 audit and set plans to resolve issues for 2005/06 final audit.</p> <p>Responsible Officer: Deputy Director of Finance PCOD</p> <p>No Later Than: 31 March 2006.</p>