



## **NHS Lanarkshire**

# Annual Report to Lanarkshire Health Board & the Auditor General for Scotland 2011/12

July 2012



# NHS Lanarkshire

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# Executive summary

## Financial statements

Our audit of the 2011/12 financial statements is complete and our audit opinions are unqualified. The Board achieved all of its financial targets and delivered a saving against the Revenue Resource Limit (RRL) of £2.046m (0.2%), consistent with financial forecasts.

We identified one unadjusted difference on the financial statements, relating to the Board's treatment of £1.66m of ring-fenced funding allocations from SGHSCD. The Board's treatment is consistent with its approach in previous years and the difference is not considered material.

In 2006/07 the Board recorded the sale of the Law Hospital site, but the sale was not completed as expected. In 2011/12 the Board has re-recognised Law Hospital as a non-current asset and we have agreed that this treatment is appropriate.

We have reviewed the accounting and disclosure for the Board's PFI hospitals and are satisfied that these have been accounted for appropriately.

## Use of resources

2011/12 has been financially challenging across NHS Scotland. In line with recent years, there was a gap in the initial plan between the forecast growth in cost of Board activities and the core, recurring funding received. NHS Lanarkshire's outturn position has been supported by efficiency savings and through the carry forward of a cumulated surplus stretching back to 2006/07, part of a planned approach by the Board to utilise this surplus. It is important that financial performance continues to be monitored closely as there will not be a brought forward surplus available to support the position in future periods.

The Board broke even against its capital target, with total capital expenditure of £22.247m. The largest project during the year was the ongoing development of Airdrie Community Health Centre, which incurred expenditure of £13.81m. Expenditure was also incurred on backlog maintenance at Monklands Hospital and the replacement of medical equipment.

During 2011/12 the Board offered a voluntary severance scheme. This led to 58 individuals agreeing to exit packages in the year, costing £2.022m in total.

The Board achieved savings totalling £18.4m against its £18.206m requirement. This has helped meet the efficient government target of 3% total efficiency savings for the year.

## Performance

NHS Lanarkshire has developed and implemented a good overall performance management framework covering all areas of the organisation. The framework is aligned with the Local Delivery

Plan and corporate objectives. The Board's sub-committees are responsible for delivering performance against HEAT targets and local objectives. Progress is reported to the Board on a quarterly basis through the corporate performance reports. In addition, the Board receives detailed reports from its executive directors on relevant performance information on an exception basis.

There are opportunities for the Board to enhance how it implements certain aspects of its arrangements. The Board should consider whether wider use of prior year comparisons would help manage current performance. In addition, the Board should consider whether the presentation of performance data within the corporate quarterly performance report could be enhanced to highlight significant changes in performance to follow up in more detail. For example, this could set out what action management is taking to address under performance and the timescales for completion.

## **Governance**

Our work on corporate governance focussed on reviewing the Board's arrangements to ensure effective systems are in place for internal control, prevention and detection of fraud and irregularity and standards of conduct. We are pleased to report that, in our opinion, governance arrangements at NHS Lanarkshire are sufficient and appropriate.

## **Looking forward**

The Board is projecting a breakeven position in 2012/13 and for the remainder of the current five year plan. This is predicated on significant in-year savings and has been supported by the carry forward of the 2011/12 surplus of £2.046m. The Board will also continue to tackle backlog maintenance issues at Monklands Hospital and is at the early stage of developing business cases to explore potential funding from the Scottish Government's fiscal stimulus initiative, to allow it to develop health centre provision.

Arrangements will also be taken forward over the coming months to clarify the longer term implications of the recent changes in the Board's governance and senior management structure.

## **Conclusion**

This report concludes our audit of NHS Lanarkshire for 2011/12. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards. This report has been discussed and agreed with the Acting Chief Executive and Director of Finance and we would like to thank all management and staff for their co-operation and assistance during our audit.

## **Scott-Moncrieff**

**July 2012**

# Introduction

1. This report summarises the findings from our 2011/12 audit of Lanarkshire Health Board, commonly known as NHS Lanarkshire. The scope of our audit was set out in our External Audit Strategy and Plan, which was presented to the Audit Committee at the outset of our audit.
2. The main elements of our audit work in 2011/12 have been:
  - Audit of the financial statements, including a review of the Governance Statement.
  - Review of governance arrangements, internal controls and financial systems.
  - Best Value review of performance management.
  - Follow up of certain Audit Scotland National Study reports.
3. In addition to this annual report, we have delivered the following outputs during 2011/12:
  - Interim management report.
  - Best value report on performance management.
  - Report on the audit of the financial statements (ISA 260 report).
  - Targeted follow up reports on Audit Scotland National Study reports on *The Role of Boards* and *The Use of Locums*.
  - Pro-forma returns on the Board's response to other Audit Scotland National Study reports.

The key issues from these outputs are summarised in this annual report.
4. As part of our audit, we have also made use of the work of other inspection bodies including the Board's internal audit service and Audit Scotland's Public Reporting Group.
5. This report is addressed to both the Board and to the Auditor General for Scotland and will be published on Audit Scotland's website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Financial statements

## Introduction

6. The annual financial statements are the principal means of accounting for the stewardship of the resources made available to the Board. In this section we summarise the issues arising from our audit of the 2011/12 financial statements.

## Our responsibilities

7. We audit the financial statements and give an opinion on:
  - whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question
  - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
  - whether the information in the operating and financial review is consistent with the financial statements
  - whether expenditure and income have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).
8. We also review the Board's Governance Statement:
  - considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control
  - assessing whether disclosures in the statement are consistent with our knowledge of the Board.
9. These responsibilities, and those of the Board, were confirmed in our external audit plan, as presented to the Audit Committee at the outset of our audit.

## Overall conclusion

### An unqualified audit opinion

10. The Board approved its annual accounts on 27 June 2012. Our independent auditors' report expresses an unqualified opinion on the financial statements of the Board for the year ended 31 March 2012 and on the regularity of transactions reflected in those financial statements.
11. The annual accounts were submitted to the Scottish Government Health and Social Care Directorates (SGHSCD) and the Auditor General for Scotland prior to the 30 June 2012 deadline.

12. We are pleased to report that we were presented with draft financial statements and the majority of the supporting working papers by the agreed date and note that these were generally of a high standard. We did not receive working papers on the Boards non-current assets or lease commitments until after the agreed date, but this was addressed during the course of the audit.

### **Issues arising from the audit**

13. We are required by auditing standards to report to the Board the main issues arising from our audit of the financial statements. We presented our Report on the Audit of the Financial Statements to the Audit Committee on 27 June 2012. Only one issue identified during the audit has not been reflected in the financial statements. This relates to the Board's treatment of £1.66m of ring fenced funding allocations from SGHSCD in respect of its eHealth and the HepC action plans.

### **A £1.66m unadjusted difference in respect of ring-fenced funding carried forward**

14. This funding had been committed and contracted for with third parties but no service had been received at the year end. The allocations have been accounted for as deferred income within current liabilities to allow them to be carried forward to the next financial year to pay for the services once they have been received. We do not agree with this accounting treatment as core government funding should not be treated as income or deferred income and no obligation existed at the year end to justify treatment as a liability. In our view, these allocations should have been reflected within an increased surplus against the RRL. The risk to the Board of increasing the RRL surplus would have been that the Scottish Government may not have allowed the full surplus to be carried forward to next year, which would have created an unfunded cost pressure in 2012/13.
15. The Board's accounting treatment in this area was consistent with previous years and neither we nor the Board considered this unadjusted difference to be material, and so no adjustment was made to the financial statements. A small number of other adjustments were made to the draft accounts presented for audit, but there was no impact on the outturn position. These were mainly of a presentational and disclosure nature.

### **The NHS Superannuation Scheme for Scotland actuarial valuation is out of date**

16. NHS Lanarkshire participates in the NHS Superannuation Scheme for Scotland, as disclosed in Note 24 to the accounts. The amount charged to expenditure each year in respect of this scheme equates to the Board's annual contributions to the scheme which are based on a five yearly actuarial valuation. The most recently published actuarial valuation was for the year ended 31 March 2004. A more up to date valuation should have been received by now and reflected in the 2011/12 accounts. The periodic actuarial valuation is key to determining the adequacy of employer and employee contributions to the scheme.

17. In common with all health boards in Scotland, the information in relation to the scheme, as disclosed in the Board's accounts, is therefore out of date. There is a risk that, as the level of contributions from employers and employees have not been recently revised, there is uncertainty as to the adequacy of current contribution levels for meeting the future commitments of the pension scheme.
18. Whilst this situation is outwith the direct control of the Board, we recommend that NHS Lanarkshire raises the issue with the NHS Directors of Finance group and requests an updated valuation for the NHS Superannuation Scheme from the Scottish Public Pensions Authority as soon as possible.

***Action plan point 1***

**Further work remains to establish the status of existing equal pay claims**

19. The National Health Service in Scotland has received in excess of 10,000 claims for equal pay and NHS Lanarkshire has 816 claims with the NHS Scotland Equal Pay Unit, which is working with the Central Legal Office (CLO) in coordinating a national response to this issue.
20. Developments over the past year have slowed the progress of claims and led to a reduction in the overall number of claims going forward within Scotland. The CLO has stated that claims still do not provide sufficient detail about the comparator jobs to allow an estimate to be made of the likelihood of the success of the claims or of any financial impact that they may have. The CLO and Equal Pay Unit are monitoring the progress of claims as well as developments relating to NHS equal pay claims elsewhere that may further inform the position.
21. Discussions have been held between Audit Scotland, partner audit firms, the Scottish Government, the CLO and Board representatives to ascertain the appropriate accounting treatment of equal pay claims in previous years. Given CLO advice that, although some liability is probable, it is not possible to estimate the impact of the claims, it has been agreed that disclosure as an unquantified contingent liability (note 19 to the accounts) remains appropriate for the 2011/12 financial statements of affected NHS Boards.

**The sale missives for Law Hospital have been terminated**

22. In 2006/07 the Board recorded the sale of the Law Hospital but the sale has never been completed. Between 2006/07 and 2010/11, the Board has recognised a receivable for the expected sale proceeds. It became clearer during 2011/12 that the sale would be formally cancelled and as a result the Board has re-recognised Law Hospital as a non-current asset and written back the receivable balance. In June 2012 the missives with the consortium for the sale were formally terminated.
23. The Board highlighted the proposed approach for Law Hospital during our audit planning process and we agree that the Board's treatment of the sale termination is appropriate.



## **The Board has properly accounted for its PFI hospitals**

24. The Board has three hospitals which have been funded through Private Finance Initiatives (PFIs). The PFI assets are valued at £221.55m on the Board's balance sheet and, in line with the NHS Capital Accounting Manual (CAM), the Board is required to disclose the value and commitments related to these hospitals. We have reviewed the accounting and disclosure for Stonehouse, Wishaw and Hairmyres Hospitals within the 2011/12 financial statements and are satisfied that these have been accounted for appropriately.

## **Governance Statement**

25. We are satisfied that the statement complies with the Scottish Ministers' guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work. The Board has a good overall framework in place to support an effective internal control environment.
26. We identified four moderate-to-low risk issues in our ISA 260 report to the Board, all of which have been agreed for action with management. These relate to:
- Formal documentation of the valuation basis for all inventories
  - Matching and clearance of system-generated accruals
  - Undertaking periodic asset verification exercises
  - Loading authorised signatory sheets onto the Board's Genysis system.

## **Regularity and other audit opinions**

27. We have issued an unqualified opinion on the regularity of transactions. This means that the Board has applied public funding for the correct purposes in accordance with Scottish Ministers' guidance.
28. We have also concluded that the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and related directions, and that information which comprises the Annual Report included in the Annual Accounts is consistent with the financial statements.

# Use of resources

29. This section of the report sets out the main findings from our review of how the Board manages its key resources in terms of financial performance and management of assets.

## The Board's financial performance in 2011/12

### The Board has met its key targets in the year

30. The Board is required to work within the resource limits and cash requirements set by SGHSCD. As shown in Table 1 below, NHS Lanarkshire has met all of its financial targets.

**Table 1 – Performance against financial targets**

Financial Target	Target £000	Actual £000	Underspend £000	Target achieved
Revenue Resource Limit	857,228	855,182	2,046	Yes
Capital Resource Limit	22,247	22,247	0	Yes
Cash Requirement	994,139	994,139	0	Yes

Source: Lanarkshire Health Board Annual Accounts 2011/12

31. The Board achieved a surplus against its Revenue Resource Limit (RRL) of £2.046m. This surplus represents an underspend of 0.2% against the total RRL allocation and is consistent with the Board's 2011/12 budgeted outturn. This outturn position was achieved after taking several steps to balance 2011/12 revenue spend against capital and future pressures, including:
- Brokering £1.8m with SGHSCD, so that it could be returned to the Board in 2012/13 to support the development of an Intensive Psychiatric Care Unit.
  - Virement of £3.65m to capital, to allow prioritised equipment purchases and capital grants that had been unable to be funded in the opening capital plan because of the national shortage of capital.
  - Spending £2.022m for voluntary severance, to reduce future pay pressures.
  - Allocating an additional £3m over original 2011/12 budgets to address backlog maintenance, dementia initiatives and HEI priorities, reducing future anticipated spend.
32. We have analysed the Board's 2011/12 outturn into recurring and non-recurring items. This is as shown in Table 2, confirming an in-year recurring surplus. Overall, there is a gap between the 2011/12 cost of Board activities and the core funding received. However, this was planned

for by the Board and has been supported through efficiency savings and the carry forward of a cumulated surplus stretching back to 2006/07, when a surplus of £8m was recognised. The difference between the deficit shown below and the surplus recognised in the accounts of £2.046m relates to the carry forward surplus of £7.6m from 2010/11. The Board receives the carry forward surplus as an allocation in the year, and as a result the saving against RRL in the accounts shows the cumulated position for 2011/12.

**Table 2 – Achievement of 2011/12 surplus**

	<b>£000</b>
Recurring income	873,613
Recurring expenditure	(891,661)
Recurring savings	18,116
<b>Underlying recurring surplus/(deficit)</b>	<b>68</b>
Non-recurring income	191,679
Non-recurring expenditure	(197,606)
Non-recurring savings	284
<b>Non-recurring surplus/(deficit)</b>	<b>(5,643)</b>
<b>Financial surplus/(deficit)</b>	<b>(5,575)</b>
<b>Underlying recurring surplus/(deficit) as percentage of recurring income</b>	<b>0.01%</b>

Source: Senior Management Accountant / Director of Finance

33. The forecast for 2012/13 shows that the Board expects to be in recurring financial balance, with a recurring surplus of £0.248m. There is a projected overall surplus of £0.2m. This includes the carry forward of the 2011/12 surplus of £2.046m to more than offset a non-recurring in-year deficit of £1.75m.

## **Capital Resource Limit**

### **The Board delivered a breakeven position against CRL for 2011/12**

34. The Board broke even against CRL in 2011/12 with total capital expenditure of £22.247m. The allocation was made up of a starting formula allocation of £18.5m, a carry forward of £1.4m from 2010/11, a revenue to capital transfer of £3.65m, a reduction in allocation of £1.6m for capital grants given to other bodies and some sundry low value allocations.

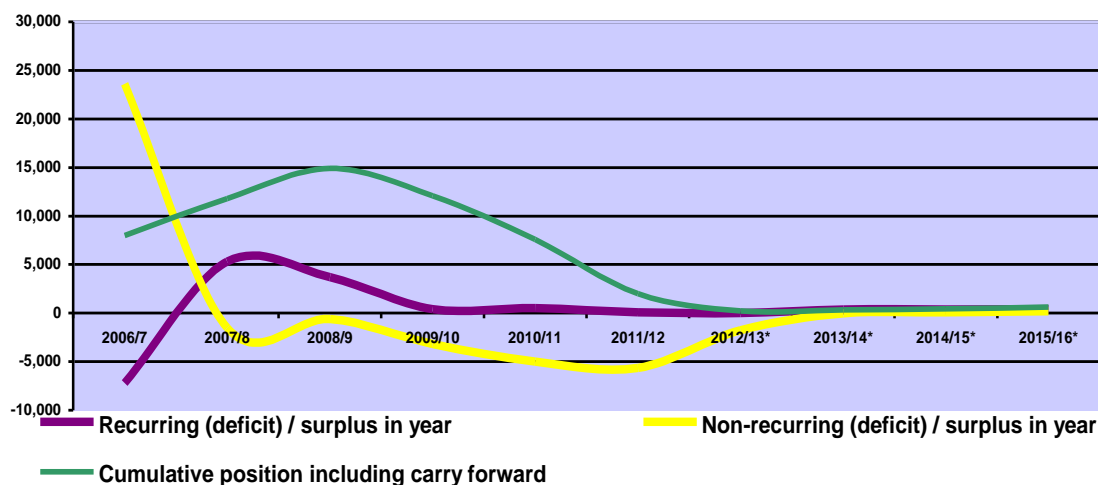
35. The largest capital project during the year was the ongoing development of the Airdrie Community Health Centre. Capital additions of £13.81m were recognised in the year for this project, with a £1m capital grant being awarded to North Lanarkshire Council towards the provision of car parking at the site. The development is progressing in line with expectations.
36. The Monklands Hospital site needs significant investment in the short-to-medium term. During 2011/12 £4m of capital funding has been invested on a risk based/prioritised basis, in addition to maintenance work funded through revenue. The 2011/12 revenue to capital transfer of £3.65m has enabled the Board to invest £4.5m in the cyclical replacement of medical equipment. These investments are in line with the capital plan agreed with SGHSCD for the year.

## Financial plans

### The 5 year financial plan reflects the increasingly challenging financial climate

37. The Board prepared a 5 year financial plan covering the period 2010/11 to 2015/16 as part of its Local Delivery Plan (LDP) submission to the Scottish Government.
38. Diagram 1 shows that the Board is forecasting a recurring break even position in the coming years. It also shows that surpluses carried forward in previous years have been used to support non-recurring in year deficits, but this is part of a planned and managed programme by the Board. By 2012/13 it is expected that the cumulated surplus will have been brought close to nil. It is important that financial performance is monitored closely as there will not be an accumulated surplus available to support the position in future years.

**Diagram 1 – In year recurring and non-recurring surplus/deficit analysis 2006–16 (£'000)**



(Source: Previous annual audit reports, \*: Based on Board-approved financial plan/LDP)

## Funding

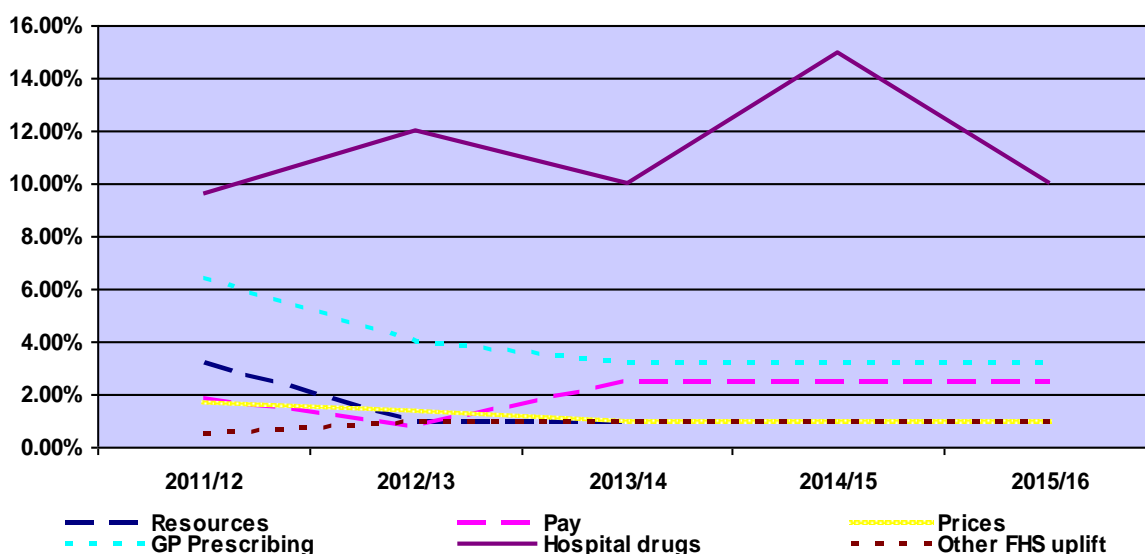
39. NHS Lanarkshire receives less than its target allocation under the National Resource Allocation Committee (NRAC) formula. The Board's funding allocation for 2012/13 includes £4.385m additional funding to move it towards its full share and there is potential for a further 0.5% annual movement towards NRAC parity over the life of the financial plan.

## Cost pressures

### Cost increases exceed funding increases

40. NHS Lanarkshire faces significant financial challenges in the coming years. Implementing the LDP must be managed alongside wider challenges such as demographic changes, pay modernisation, price and prescribing increases and more general health improvement initiative costs. The financial plan has been constructed on the basis of the financial assumptions shown in Diagram 2.

**Diagram 2 - Price increase assumptions**



Source: Board-approved Financial Plan/LDP

41. The Board faced some unexpected cost pressures during 2011/12 which it was able to manage as part of the overall financial position. The most significant of these was an overspend on GP prescribing of £2.680m. The overspend was due to both higher market prices and a higher than expected volume of prescribing. This is an area which has been discussed at senior management and non-executive level. Whilst acknowledging this is not within the full control of the Board, programmes and initiatives to work with GPs to deal with this issue are ongoing.
42. Cumulatively, the gap between additional funding received and identified cost pressures is currently a shortfall of £19.221m (approx. 2.3% of RRL) for 2012/13, which will require to be met by cash savings.

## Savings plans

### Savings targets were met in 2011/12 but similarly challenging savings are required in 2012/13

43. Table 3 sets out the savings programme delivered during 2011/12, showing how the required cash releasing efficiency savings (CRES) were achieved.

**Table 3 – Cash Releasing Efficiency Savings - 2011/12**

Targeted Area	Plan (£000's)	Achieved (£000's)	Achieved (%)
Corporate Functions	2,086	2,073	99%
Property	2,520	2,539	101%
Better Procurement and product use	1,055	1,025	97%
Administration, IT and staff travel within the divisions	2,892	2,826	98%
Pharmacy and Drugs	3,021	3,506	116%
<b>Service Redesign</b>			
Allied Health Professionals	855	654	76%
Children's services	68	68	100%
Community Services and Anticipatory care	1,741	1,741	100%
Diagnostic Services	545	545	100%
Medicine and Older People's beds	452	452	100%
Mental Health Services	880	880	100%
National, Regional and contracted services	881	881	100%
Surgery and Waiting List Management	1,200	1,200	100%
Other Acute Specialties	10	10	100%
<b>Total</b>	<b>18,206</b>	<b>18,400</b>	<b>101%</b>

Source: Director of Finance and Year-End Board Finance Report

44. The Board met its cash releasing requirement and efficient government target of 3% total efficiency savings (£24.468m) for 2011/12.
45. To balance the 2012/13 financial plan the Board will need to make cash-releasing efficiency savings of £19.211m. In the 2012/13 LDP the Board reports that £17.398m of savings have

already been identified, leaving a further £1.813m to be identified in-year. There remains a risk that the required efficiency savings are not made as formal plans do not cover the full savings required. The Board should ensure that formal savings plans are fully identified and taken forward as soon as possible to cover the full savings required for 2012/13.

***Action plan point 2***

46. All savings identified by the Board are risk assessed, supported by a detailed plan and subject to regular progress monitoring. Just over half of the 2012/13 savings are assessed as low risk, with 44% medium risk and the remaining 3% as high risk. The progress monitoring includes analysis within the monthly finance report. The situation is regularly presented to the Board for scrutiny and challenge.

## **People and workforce management**

### **The 2011/12 voluntary severance scheme cost £2.022m**

47. During 2011/12 the Board offered a voluntary severance scheme. This led to 58 individuals agreeing exit packages in the year, at a total cost of £2.022m. The terms of the scheme were approved by the Remuneration Committee and the average pay back period was around one year. NHS Lanarkshire has a workforce modernisation plan in place, aligned with the Board's corporate plans. An updated plan is due to be completed around the time of writing and will be informed by the Board's new strategic framework. The severance exercise was undertaken mindful of the aims and context of the workforce plan.

## **Overall conclusion on financial management and use of resources**

### **The Board has effective financial management arrangements in place, but there are ongoing risks which need close management**

48. Our overall conclusion from our review of the Board's financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets is that the Board has effective financial management processes in place.
49. In our opinion, NHS Lanarkshire is in a reasonable position to manage its financial pressures. However, future financial targets will depend on continuing tight control of expenditure, delivery of very challenging savings plans and may require some difficult decisions in areas such as maintaining performance across all HEAT and related targets and in relation to workforce planning. This will be a key area which the Board will have to monitor very closely.

# Performance

## Introduction

50. This section of the report looks at performance management arrangements within NHS Lanarkshire. An effective performance management system is key to the delivery of safe, effective, person-centred healthcare.

## **NHS Lanarkshire can demonstrate a sound overall performance management framework**

51. In 2011/12 we carried out a best value review of NHS Lanarkshire's performance management arrangements. This review was based on the Audit Scotland best value toolkit on performance management, which provides an evaluation framework to help auditors reach robust judgements structured around five key areas. These five areas are as follows:

- What is the impact of performance management?
- To what extent is there a culture of performance management across the organisation?
- To what extent is the organisation aware of its relative performance?
- To what extent is performance management integrated with organisational activities?
- How effective are performance measures?

52. Our review found that NHS Lanarkshire has developed and implemented a robust overall performance management framework, which encompasses all areas of the organisation. The framework is aligned with the Local Delivery Plan and corporate objectives. The LDP sets out NHS Lanarkshire's contributions towards achieving the Scottish Government's national Health, Efficiency, Access, and Treatment (HEAT) targets. Each of the Board's corporate objectives is allocated to an executive director, who is responsible for ensuring the objective is achieved.

53. The Board's sub-committees are responsible for delivering performance against HEAT targets and local objectives. Progress against these is reported to the Board on a quarterly basis through the Board's corporate performance reports. In addition, the Board receives detailed reports from its executive directors on relevant performance information on an exception basis.

54. Our best value review identified areas where the Board's performance management framework arrangements could be enhanced. The quarterly Corporate Performance Reports could set out more comparison against prior year performance and relative performance against other health boards. In addition, there could be more explicit justification for local retention (or otherwise) of former HEAT targets and explanations for any incomplete performance data. This will allow NHS Lanarkshire to move further towards "advanced practice" in its performance management arrangements.



## Two thirds of the Board's HEAT targets were on target or had been achieved by 31 March 2012

55. Two out of 21 indicators (9.5%) were "Off trajectory by more than 5%" at the end of March 2012 and a further five of the 21 indicators (23.8%) had no data available at the time of the report (Table 5).

**Table 5 - Progress against HEAT targets as at 31 March 2012**

Progress	Number	Percentage
Fully Achieved	9	42.9%
Above or on trajectory	5	23.8%
Off trajectory by 5% or less	0	0%
Off trajectory by more than 5%	2	9.5%
Data not available	5	23.8%

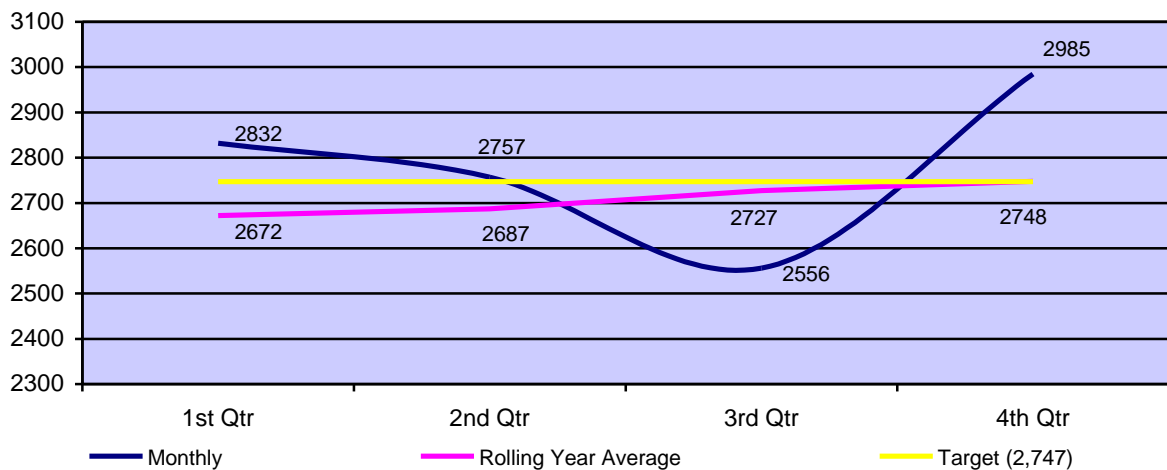
Source: NHS Lanarkshire May 2012 Board QCPR

56. Our review of the performance management data has also led us to observe the following:

### **The Board's quarterly performance report does not currently provide a stand alone summary of board performance as it is intended**

57. As reported above, the Board receives quarterly corporate performance reports and additional reports on specific areas of performance as and when required. The frequency of these latter reports varies depending on context and circumstance. For example, performance against waiting times guarantees was reported bi-monthly for the first 9 months of 2011/12 but returned to a monthly cycle in response to local and national factors. These additional reports provide board members with detailed information and explanation on changes in performance or changes in performance targets.
58. An example of this is the Board's performance against the national HEAT target to reduce Accident and Emergency (A&E) admission rates. As part of its performance monitoring arrangements the Board reviews monthly and yearly rolling average figures. For the first three quarters of 2011/12 the Board was on track to exceed this target. However, a large surge in attendees in the fourth quarter resulted in an excess of 237 admissions above the target of 2,747 (Diagram 3).

**Diagram 3 – A&E attendance over 2011/12**



Source: Quarterly Corporate Performance Reports

59. NHS Lanarkshire has routinely reported A&E admissions exclusive of patients who erroneously arrive at A&E but as they only need GP treatment are transferred to GP out of hours services. In the final quarter of 2011/12 the Scottish Government advised NHS Lanarkshire that patients transferred from A&E to GP out of hours services were not to be excluded from the data reported. This was a significant contributory factor in the increase in A&E admission rates in the final quarter of 2011/12. A report on the Scottish Government's advised change was presented to the Board and informed members that a specific group had been set up to consider options to counter the increase in A&E attendance levels. However, no explanation for this sudden change in performance was included in the Board's quarterly corporate performance report.
60. The quarterly corporate performance report is intended to provide a stand alone summary of the Board's overall performance. For it to remain an effective tool for board members it must provide a comprehensive summary of the performance information reported to the Board and its sub-committees. The quarterly performance reports should therefore contain summary explanations for significant changes in performance and actions taken to address these, even if this information is contained within separate stand alone reports.

**Action plan point 3**

**Where performance data is not available it is important that management sets out what action it has taken to obtain this information**

61. The Board was unable to report performance data for almost one quarter of the Scottish Government's national HEAT targets. This is often due to circumstances out with the Board's control. For example, in 2010 NHS Lanarkshire set a target of providing fluoride varnishing twice a year to at least 60% of three and four year olds by March 2014. For the two years this target has been in place no data has been provided to the Board showing progress towards this target. The Scottish Government, through engagement with boards, has recognised that the current arrangements for this target do not provide boards with meaningful performance data. Under existing arrangements children could receive fluoride varnishing twice a year but not be recorded

as having done so. Therefore boards have experienced difficulties in effectively monitoring performance and plan future target levels. In addition to this area, NHS Lanarkshire does not publicly report performance against national targets where data is not validated or could be subject to significant change due to changes in data collection.

62. Where a new target has been introduced or where no data is available management must outline the actions it is taking to obtain performance data and set out the timescales for when this will be reported to the Board. This will ensure that management can demonstrate that a nil return against a HEAT targets does not mean that the organisation is not actively seeking to monitor or report performance in these areas.

**Action plan point 4**

**The Board cannot demonstrate whether all performance is in line or above expectations**

63. NHS Lanarkshire set a corporate objective to monitor the level of colorectal (bowel) screening throughout the year. The monthly figures for March 2012 show the uptake of screening has increased to 56% in March 2012. This is an increase of 9% since April 2011. However, the corporate objective set for 2011/12 does not specify what target intake the Board aimed to achieve. The Board has therefore increased the number of people receiving colorectal (bowel) screening but cannot demonstrate if this is in line or above expectations.
64. In 2010/11 the Board's absence level was 4.6%. Whilst the Board has reduced its absence level to 4.2% it is still above the target of 4.0%. The Board had not identified whether it could realistically achieve the 4.0% target within 2011/12. Therefore the Board cannot demonstrate whether a 0.4% reduction in absence levels was below, in line or above expectations. Further, reducing sickness absence levels could potentially deliver significant levels of efficiency savings.
65. The Board should set clear targets for all its performance measures. These targets should be linked to medium and long term objectives and enable the Board to demonstrate if performance is in line with expectations.

**Action plan point 5**

**Use of locums - Follow-up review**

66. During the year we carried out a follow-up review of the Audit Scotland National Study report *The Use of Locums*. Our findings are the subject of a stand alone report to the Board, as summarised below.

**NHS Lanarkshire has adopted a centralised, proactive approach to managing expenditure on locum doctors**

67. The Board has a detailed corporate policy for the management of locum doctors, which sets out the requirements for the use of locums and steps to be followed in contracting them. Compliance with this policy is monitored through the centralised staffing structure of the Medical

Staffing department. These include procedures to ensure that locum doctors are fit for the role they are being hired for and that they perform in accordance with the Board's requirements of the position. A range of employment checks are also required to be performed before the locum is hired. NHS Lanarkshire's centralised, proactive approach to managing expenditure on locum doctors has led to notable reductions in locum costs over recent years.

68. Opportunities do exist for the Board to obtain greater formal feedback on the performance of locums after appointments have ended. This will further enhance the Board's performance arrangements and ensure patient safety is further safeguarded.

# Governance

69. This section sets out the main findings from our review of NHS Lanarkshire's governance arrangements as they relate to:
- Corporate governance and systems of internal control
  - Risk management
  - Internal audit
  - Prevention and detection of fraud and irregularity
  - Standards of conduct and arrangements for the prevention and detection of bribery and corruption.

## **The Role of Boards – Follow Up review**

70. During the year we carried out a follow-up review of the Audit Scotland National Study report *The Role of Boards*, issued in September 2010. Our findings are the subject of a separate report to the Board and are summarised below.

### **NHS Lanarkshire has good arrangements in place, addressing the key issues of the Role of Boards report**

71. The Board receives regular reports on key performance and clinical areas. The Board places a high priority on ensuring that reports are relevant and as informative as possible to support effective challenge and decision-making. In line with the good practice identified in the Audit Scotland report the Board receives reports on performance management and financial management. Responsibility for risk management is delegated to the Audit Committee.
72. NHS Lanarkshire provides ongoing training and support for all Board members. Board seminars are arranged to inform Board members on new developments and key changes in healthcare guidance. All Board members are subject to an annual review and assessment. These are used to assess performance over the previous year and to identify any gaps in skills and knowledge. Board member training is then developed based on these assessments.

## **Corporate governance and systems of internal control**

### **No disclosable issues identified**

73. We are pleased to report that, in our view, governance arrangements at NHS Lanarkshire are effective and in line with expectations. The Board continues to receive regular and detailed performance and financial information which facilitates scrutiny and challenge. Key risk factors which may impact on achievement of financial and non-financial outcomes are also identified and discussed.

74. In recent years all NHS boards have been required to produce an annual Statement on Internal Control within the annual accounts. This has been replaced by a Governance Statement for 2011/12 onwards. We have reviewed the Board's Governance Statement and concluded that the content is consistent with the information gathered during the course of our audit and with guidance from the Scottish Government.
75. The Chief Executive has overall responsibility for maintaining a sound system of internal control and the Governance Statement disclosed no material internal control weaknesses. This is in keeping with internal audit's annual report, which found that the Board continues to operate effective overall governance arrangements.
76. Through our work on related parties we identified that the Board members' register of interests held on the Board's website has not been kept up to date. There is a risk that disclosures of interest are not as transparent as possible. The Board should ensure that when Board members' interests are formally reviewed (at least annually), the latest information should be made available on the website.

**Action plan point 6**

## **Risk management**

77. Effective risk management is especially critical in the health service, where adverse incidents could result in poor quality healthcare as well as putting a strain on staff and financial resources.
78. Internal audit reviewed risk management during the year and found that the system provides adequate assurance that objectives are being met. Four recommendations were raised, one of which requires action to avoid exposure to significant risks in achieving the organisation's risk management objectives. We endorse the recommendations raised to further strengthen the control environment, which are in keeping with our own high level observations of arrangements in place.
79. In addition, our follow-up review of the Audit Scotland National Study report *The Role of Boards* recommends that the Board should be given the opportunity to review the corporate risk register on a regular basis and at least once a year as part of its strategic planning arrangements. This action has been agreed by management and arrangements will be in place by October 2012 to address this issue.

**Action plan point 7**

## **Internal audit**

80. The Board's internal audit service is provided by FTF Audit and Management Services (FTF).
81. In accordance with International Standard on Auditing (ISA) 610 – Considering the work of internal audit, "the external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment." Coupled with the work of Audit Scotland (who are the lead external auditor for boards that are part of the FTF

consortium) we concluded that FTF provides a service which complies with Government Internal Audit Standards and which we can rely upon. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate and we are grateful to the FTF internal audit team for their assistance during the course of our audit work.

## **Prevention and detection of fraud and irregularity**

82. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. As part of our governance work we reviewed the Board's arrangements in this area. We did not find any indication of material fraud and irregularity and concluded that the Board's internal controls and financial procedures were reasonable and adequate to prevent and detect material fraud and irregularity. However, we did note that the Board should formally document its overall approach to fraud risk assessment.

*Action plan point 8*

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

83. We have reviewed 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 disposal of assets. We are pleased to report that our audit identified no significant issues of concern in relation to standards of conduct and the arrangements for prevention and detection of bribery and corruption.

# Looking forward

## Finance and Use of Resources

84. The Board is projecting a breakeven position in 2012/13 and for the remainder of the current five year plan. This is predicated on significant in-year savings and has been supported by the carry forward of the current year surplus against RRL. Since 2007/08 NHS Lanarkshire's financial position has been supported through the carry forward of accumulated funds. Under the current LDP these accumulated funds will be almost fully utilised by 2012/13. It is therefore vital that the Board monitors this position closely.
85. In our interim audit report we noted that NHS Lanarkshire has undertaken an upgrade and renovation assessment of the Monklands site, which identified substantial backlog maintenance. Due to capital constraints, the project will have to be delivered on a risk based/prioritised basis, with targeted annual investment of around £5m per year between 2011/12 and 2015/16.
86. NHS Lanarkshire is in discussion with SGHSCD and the Scottish Futures Trust (SFT) over possible funding for the provision of new health centres in the Lanarkshire area. Part of a strategic fiscal stimulus initiative by the government, this particular funding is only expected to be available in the short term. Management are developing outline business cases, for proposals to be brought before the Board in the last quarter of 2012. The short timescales bring added complexity to what is a relatively new funding model and will require cooperation across bodies in Lanarkshire, particularly North and South Lanarkshire Councils for planning issues.

## Governance

87. NHS Lanarkshire has been impacted in early 2012/13 by the death of the Board Chair and by the secondment of the Chief Executive to NHS Lothian. The Acting Chair and Acting Chief Executive are very experienced in both NHS and Board-specific matters. Going forward, it is important that the interim arrangements, including related reallocation of roles and responsibilities, are subject to further review to put a sufficiently sustainable long term structure in place.

*Action plan point 9*



# Action Plan

Our annual report action plan details the more significant control weaknesses and opportunities for improvement that we have identified during our audit in addition to any reportable matters arising from our review of performance and governance systems.

The action plans detail the officers responsible for implementing the recommendations and implementation dates. The Board should assess these recommendations for their wider implications before approving the action plan.

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

## Grading

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been graded, as follows:

- Grade 5      Very high risk exposure - Major concerns requiring Board attention.
- Grade 4      High risk exposure - Material observations requiring management attention.
- Grade 3      Moderate risk exposure - Significant observations requiring management attention.
- Grade 2      Limited risk exposure - Minor observations requiring management attention
- Grade 1      Efficiency / housekeeping point.

## Issues arising from our 2011/12 audit

No	Title	Issue identified	Risk and recommendation	Management comments
1.	<b>NHS Superannuation Scheme for Scotland (Para 18)</b>	<p>The most recently published actuarial valuation for the NHS Superannuation Scheme was as at 31 March 2004. Given that the Scheme ought to be subject to a full actuarial valuation every five years, a more up to date valuation should have been received by now and reflected in the 2011/12 accounts.</p>	<p>There is a risk that, as the level of contributions from employers and employees have not been recently revised, there is uncertainty as to the adequacy of the current contribution levels to meet the future commitments of the Scheme.</p> <p>NHS Lanarkshire should raise the issue with the NHS Directors of Finance group and request an updated valuation for the NHS Superannuation Scheme from the Scottish Public Pensions Authority as soon as possible.</p> <p><b>Grade 3</b></p>	<p>This will be raised at national Directors of Finance meeting.</p> <p><b>Responsible officer:</b> Director of Finance</p> <p><b>Deadline:</b> July 2012</p>

No	Title	Issue identified	Risk and recommendation	Management comments
2.	<b>Savings plans (Para 45)</b>	To balance the 2012/13 financial plan the Board will need to make CRES of £19.221m. In the 2012/13 LDP the Board reports that £17.389m of savings have already been identified, leaving a further £1.813m to be identified in-year.	<p>There remains a risk that the required efficiency savings are not made as formal plans do not cover the full savings required.</p> <p>The Board should ensure that formal savings plans are fully identified and taken forward as soon as possible to cover the full savings required for 2012/13.</p> <p><b>Grade 3</b></p>	<p>Noted and agreed. Plans to balance the financial plan for 2012/13 have been identified by July 2012 so the risk to the 2012/13 RRL target is perceived to be very low. There is still a need to replace some non-recurring savings with recurring plans and work will continue on this.</p> <p><b>Responsible officer:</b> Director of Finance</p> <p><b>Deadline:</b> February 2013</p>
3.	<b>Significant changes in performance (Para 60)</b>	The quarterly corporate performance report is intended to provide a stand alone summary of the Board's overall performance. For it to remain an effective tool for board members it must provide a comprehensive summary of the performance information reported to the Board and its sub-committees.	<p>We recommend that quarterly performance reports should contain summary explanations for significant changes in performance and actions taken to address these, even if this information is contained within separate stand alone reports.</p> <p><b>Grade 4</b></p>	<p>Agreed. Future quarterly performance reports will ensure they contain sufficient summary information on performance reports to allow the quarterly report to standalone rather than rely on information reported in previous monthly reports.</p> <p><b>Responsible officer:</b> Head of Performance Management</p> <p><b>Deadline:</b> August 2012</p>

No	Title	Issue identified	Risk and recommendation	Management comments
4.	<b>Obtaining performance data for all HEAT targets (Para 62)</b>	The Board was unable to report performance data for almost one quarter of the Scottish Government's national HEAT targets. This is often due to circumstances out with the Board's control.	Where a new target has been introduced or where no data is available management must outline the actions it is taking to obtain performance data and set out the timescales for when this will be reported to the Board.  <b>Grade 3</b>	Agreed. Where data is not available for reporting the quarterly performance report will include details of what will be done to resolve the data deficit. We will also do a catch up year-end report to supplement the one immediately preceding the year-end, to catch up on any data that was in arrears at the time for the first report.  <b>Responsible officer:</b> Head of Performance Management  <b>Deadline:</b> August 2012

No	Title	Issue identified	Risk and recommendation	Management comments
5.	<b>Inability to demonstrate if performance exceeded expectations (Para 65)</b>	Not all corporate objectives set for 2011/12 specified what target the Board aimed to achieve. Therefore the Board cannot demonstrate if actual performance levels were in line with expectations.	<p>The Board should set clear targets for all its performance measures. These targets should be linked to medium and long term objectives and enable the Board to demonstrate if performance is in line with expectations.</p> <p><b>Grade 3</b></p>	<p>Noted. Where possible more thought will be given to indicating the expected trajectory. There will be times with completely new services, such as the colorectal screening programme, where this trajectory may be a provisional estimate and may need to be adjusted with experience.</p> <p><b>Responsible officer:</b> Head of Performance Management</p> <p><b>Deadline:</b> March 2013 (for next version of corporate objectives being signed off by Board)</p>
6.	<b>Board members' interests (Para 76)</b>	Through our work on related parties we identified that the registers of interests held on the Board's website have not been kept up to date.	<p>There is a risk that disclosures of interest are not as transparent as possible.</p> <p>The Board should ensure that when Board members' interests are formally reviewed (at least annually), the latest information should be made available on the website.</p> <p><b>Grade 2</b></p>	<p>Updated declarations of interest will go to the Board on 22 August. They will be uploaded to the public website thereafter.</p> <p><b>Responsible officer:</b> Board Secretary</p> <p><b>Deadline:</b> September 2012</p>

No	Title	Issue identified	Risk and recommendation	Management comments
7.	<b>Risk management (Para 79)</b>	Where risk management is overseen by an audit committee a board should ensure it has regular opportunities to consider risks and take relevant actions. The Board of NHS Lanarkshire receives regular updates on risk management through its committees. However, the Board itself does not review the strategic risk register periodically.	The Board should review its strategic risk register on a periodic basis and at least once a year as part of its strategic planning arrangements.  <b>Grade 3</b>	Agreed.  <b>Responsible officer:</b> Medical Director  <b>Deadline:</b> October 2012
8.	<b>Fraud risk assessment (Para 82)</b>	The Board has not carried out and documented a formal fraud risk assessment.	The Board is keen to work in partnership with NHS Counter Fraud Services (CFS) in this area. Whilst we have not identified any specific areas of concern in relation to fraud, we recommend that the Board conducts a comprehensive fraud risk assessment, preferably with specialist input by CFS. However, if CFS input cannot be achieved, the Board should undertake its own fraud risk assessment.  <b>Grade 3</b>	Local work has commenced. The Board will link with CFS as appropriate.  <b>Responsible officer:</b> Head of Internal Audit  <b>Implementation date:</b> 31 July 2012

No	Title	Issue identified	Risk and recommendation	Management comments
9.	<b>Governance structure (Para 87)</b>	NHS Lanarkshire has been impacted in early 2012/13 by the death of the Board Chair and by the secondment of the Chief Executive to NHS Lothian.	<p>The Acting Chair and Acting Chief Executive are very experienced in both NHS and Board-specific matters. Going forward, it is important that the interim arrangements, including related reallocation of roles and responsibilities, are subject to further review to put a sufficiently sustainable long term structure in place.</p> <p><b>Grade 3</b></p>	<p>Agreed. The appointments process for the Chair has been initiated. It is governed by the Public Appointments Committee who have advised it may not be completed till early 2013. Clarity on the secondment to NHS Lothian is expected by early August 2012. The Board has recognised the need to ensure sustainable arrangements are in place and workloads will be kept under review.</p> <p><b>Responsible officer:</b> Acting Chief Executive and Interim Chair</p> <p><b>Deadline:</b> early 2013</p>

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