

A large blue circle is the central focus. It is surrounded by three 3D pie charts: one in the top left (purple, blue, red), one in the top right (green, purple, blue), and one in the bottom left (purple, red). A dotted line connects the top-left chart to the bottom-right of the circle.

NHS Lanarkshire

**External Audit Annual Report
to Lanarkshire Health Board &
the Auditor General for
Scotland 2012/13**

July 2013



Scott-Moncrieff
business advisers and accountants

NHS Lanarkshire

External Audit Annual Report to Lanarkshire Health Board & the Auditor General for Scotland 2012/13

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Executive Summary

Financial Statements

Our audit of the 2012/13 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 £4.530m.

We identified one adjustment which would have had an impact on the Board's surplus. NHS Lanarkshire has had difficulty in agreeing balances with NHS Greater Glasgow and Clyde (NHS GG&C) and has accrued £0.781m of additional expenditure, over and above the level claimed by NHS GG&C. The Board chose not to make any adjustment to the financial statements in respect of this on the basis that it is not material.

Whilst did not identify any significant issues with the 2012/13 accounting for the three PFI facilities, the Board should carry out a review of the financial models so assumptions used remain appropriate and amounts reflect the actual charges incurred.

Use of resources

The RRL surplus of £4.530m represents an underspend of 0.5% against RRL. It is £4.002m higher than originally planned in the 2012/13 Local Delivery Plan (LDP). The surplus was achieved against both recurring and non-recurring funding.

The revised year end position was agreed in advance with Scottish Government Health and Social Care Directorates (SGHSCD) and is a reflection of the Board's ongoing approach to financial planning. The Board has identified refurbishment works at Monklands Hospital and implementation costs of the adult mental health strategy, due to take place in 2013/14 and 2014/15, and has been given approval to carry forward this funding to address these requirements.

The Board was also able to agree with SGHSCD a transfer £1.612m from its RRL to Capital Resource Limit (CRL), following the mid-year review. The majority of the transfer (£1.037m) was used to fund additional medical equipment purchases and the remainder for capital grants (£0.575m).

The Board broke even against CRL in 2012/13 (£11.861m). The largest capital project during the year was the Monklands Hospital works, amounting to £6.467m. The Board also completed the Airdrie Community Health Centre during 2012/13, with £2.079m of in-year expenditure.

The Board achieved its 2012/13 efficiency savings target of £19.211m. To balance the 2013/14 financial plan the Board will need to make cash-releasing efficiency savings of £11.8m.

Performance

NHS Lanarkshire continues to have a good overall performance management framework. This is aligned with the Local Delivery Plan and corporate objectives. Progress is reported to the Board on a quarterly basis, with more detailed reports from executive directors on relevant performance information on an exception basis.

We carried out a best value review of NHS Lanarkshire's asset management arrangements and found that the Board can demonstrate good practice in this area.

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.

Conclusion

This report concludes our audit of NHS Lanarkshire for 2012/13. 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 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 2013

Introduction

1. This report summarises the findings from our 2012/13 external audit of Lanarkshire Health Board, commonly known as NHS Lanarkshire. The scope of our audit was outlined in our External Audit Plan, which was presented to the Audit Committee in November 2012.
2. The main elements of our audit work in 2012/13 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 asset management arrangements;
 - Assessment of performance management and detailed assessment of the arrangements surrounding the child healthy weight target; and
 - Follow up of certain Audit Scotland National Study reports, including *Scotland's Public Finances: Addressing the Challenges*.
3. In addition to this annual report, we have delivered the following outputs during 2012/13:
 - External audit plan;
 - Interim management report;
 - Report on the audit of the financial statements (ISA 260 report);
 - Best value report on asset management arrangements; and
 - Targeted follow up report of the Audit Scotland National Study report *Scotland's Public Finances: Addressing the Challenges* and related Audit Scotland National Study updates.

The key issues from these outputs are summarised in this annual report.

4. Wherever possible, and in line with our standard audit approach, 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.

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 2012/13 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 state of the Board's affairs and of its net operating cost for the year;
 - Whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - Whether the part of the Remuneration Report to be audited has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by Scottish Ministers;
 - Whether the information in the Operating and Financial Review and Directors' Report is consistent with the financial statements; and
 - Whether expenditure and income has been incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers (the regularity opinion).
8. We also review the Board's Governance Statement by:
 - Considering the adequacy of the process put in place by the Chief Executive, as Accountable Officer, to obtain assurances on systems of internal control; and
 - Assessing whether the disclosures in the statement are consistent with our knowledge of the Board and that they comply with guidance from the Scottish Ministers.
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.
10. We can also confirm that our independence and objectivity has been maintained throughout the audit.

Overall conclusion

An unqualified audit opinion

11. The Board approved its annual accounts on 26 June 2013. Our independent auditor's report expresses an unqualified opinion on the financial statements of the Board for the year ended 31 March 2013 and on the other matters referred to above.

12. The annual accounts were submitted to SGHSCD and the Auditor General for Scotland prior to the 30 June 2013 deadline.
13. We are pleased to report that we were presented with draft financial statements and supporting working papers by the agreed date and note that these were generally of a high standard.

Issues arising from the audit

14. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the Board's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.

Immaterial adjustments to the financial statements were made during the audit

15. In common with many Boards in Scotland, NHS Lanarkshire has historically not provided for staff to accrue annual leave for public holidays whilst on maternity leave. Recent guidance from the Scottish Terms and Conditions Committee has now confirmed that an accrual should be made to recognise these amounts, backdated to April 2008. This resulted in an accrual of £0.8m being required to the Board's draft financial statements presented for audit.
16. The audit also identified various disclosure and presentational adjustments, all of which have been reflected in the Board's updated financial statements. In the main these were adjustments between balance sheet lines. There were also minor changes to pensions and expenditure disclosures.

One unadjusted difference of £0.781m, in respect of inter-board expenditure

17. We identified one adjustment which would have had an impact on the Board's surplus. NHS Lanarkshire has had difficulty in agreeing balances with NHS Greater Glasgow and Clyde (NHS GG&C) and has accrued £0.781m of additional expenditure, over and above the level claimed by NHS GG&C. NHS Lanarkshire believes that its figures are an accurate representation of its balances with NHS Greater Glasgow and Clyde and has been able to provide evidence to support this assertion. The Board chose not to make any adjustment to the financial statements in respect of this on the basis that it is not material.
18. We agree that this is not a material issue. However, we recommend that NHS Lanarkshire further develops its system for agreement of balances with NHS Greater Glasgow & Clyde in future periods (as far as is possible, with NHS Lanarkshire being one of the two parties involved) to ensure that agreement is reached within the timescales set out in the NHS Board Accounts Manual.

Action plan point 1

The NHS Superannuation Scheme for Scotland actuarial valuation remains out of date

19. The Board participates in the NHS Superannuation Scheme for Scotland. The amount charged to expenditure each year in respect of this scheme equates to the Board's annual contributions to the scheme which should be 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 2012/13 accounts. The periodic actuarial valuation is key to determining the adequacy of employer and employee contributions to the scheme. This issue was initially raised through our Annual Report to Lanarkshire Health Board & the Auditor General for Scotland 2011/12 and remains relevant to the Board.

20. In common with all health boards in Scotland, the information in relation to the scheme is out of date. There is a risk that, as the level of contributions from employers has not been recently revised, there is uncertainty as to the adequacy of current contribution levels for meeting the future commitments of the pension scheme.
21. NHS Lanarkshire has already raised this issue with the NHS Directors of Finance group and requested an updated valuation for the NHS Superannuation Scheme from the Scottish Public Pensions Agency. We endorse this action and encourage the Board to continue with efforts to obtain an updated valuation.

Equal pay claims are still to be classified under contingent liabilities

22. The National Health Service in Scotland has received in excess of 10,000 claims for equal pay and NHS Lanarkshire has 714 claims with the NHS Scotland Equal Pay Unit. That unit is working with the Central Legal Office (CLO) in coordinating a national response.
23. The Scottish Government sent a letter to all Boards on 28 March 2013 to provide guidance on accounting for equal pay claims in the 2012/13 annual accounts. Representatives from the Scottish Government Health and Social Care Directorate (SGHSCD), the CLO and Audit Scotland met on 6 March 2013 to review the accounting treatment and disclosure requirements for the 2012/13 annual accounts.
24. It was agreed that Boards should continue to disclose equal pay claims as an unquantifiable contingent liability, consistent with prior years. The equal pay disclosure recommended by SGHSCD has been included in the 2012/13 annual accounts.

The Board has properly accounted for its PFI hospitals however the accounting model assumptions should be reviewed

25. The Board has three facilities which are funded through the PFI mechanism; Hairmyres, Wishaw and Stonehouse Hospitals. We have reviewed the accounting and disclosure for the PFI hospitals within the 2012/13 financial statements and are satisfied that these have been accounted for appropriately.
26. Whilst did not identify any significant issues with the Board's accounting, we noted a few instances where the Board's financial models did not reconcile to the supporting contract documents. This has resulted in a trivial misstatement in the finance lease liability as at 31 March 2013. As the misstatement is trivial in the year no adjustments to the financial statements were necessary. However, if the financial models are not being reviewed on an annual basis there is a risk any misstatement could be more significant in future periods. The Board should carry out a review of these financial models, reconciling these to the contracts, ensuring that the assumptions used remain appropriate and amounts reflect the actual charges incurred.

Action plan point 2

We have not identified any indications of management override during the year and no material weaknesses in the accounting and internal control systems were identified

27. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Management override is a presumed risk under International Standards on Auditing and we have carried out audit testing as a result. We have not identified any indications of management override during the year which would lead to a material misstatement.

Governance Statement

28. We are satisfied that the statement complies with the Scottish Ministers' guidance and that the content is consistent 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.

Regularity and other audit opinions

29. We have issued an unqualified opinion on the regularity of transactions. This means that we have found the Board's expenditure and income to have been incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

30. 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 given in the Operating and Financial Review and Directors' Report is consistent with the financial statements.

Qualitative aspects of accounting practices and financial reporting

31. During the course of our audit, we consider the qualitative aspect of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We have reviewed the significant accounting policies which are disclosed in the financial statements and these are deemed appropriate.
The timing of the transactions and the period in which they are recorded.	We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	No issues were noted with significant accounting estimates or judgements in the preparation of the financial statements.
The potential effect on the financial statements of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the financial statements.	There are no uncertainties, including any significant risk or required disclosures, which should be included in the financial statements and which have not been made.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the financial statements.	From our testing performed, we identified no issues in this regard.

Qualitative aspect considered	Audit conclusion
Apparent misstatements in the directors' report or material inconsistencies with the financial statements.	No issues noted for our consideration of this area.
Any significant financial statement disclosures to bring to your attention.	There are no significant financial statement disclosures that we consider should be brought to your attention. All disclosures made are required by relevant legislation and applicable accounting requirements.
Disagreement over any accounting treatment or financial statement disclosure.	There was one unadjusted difference, as discussed above. We do not believe this to be material.
Difficulties encountered in the audit.	There were no difficulties encountered in the audit which merit disclosure here.

Use of resources

32. 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 2012/13

The Board has achieved all of its financial targets

33. The Board has to work within the resource limits and cash requirements agreed with SGHSCD. As shown in Table 1 below NHS Lanarkshire has achieved all of its financial targets.

Table 1: Performance against financial targets

Financial Target	Target £m	Actual £m	Underspend £m	Target achieved
Core revenue resource limit	869.304	864.774	4.530	Yes
Non-core revenue resource limit	71.886	71.886	0	Yes
Capital resource limit	11.861	11.861	0	Yes
Cash requirement	1,016.000	1,015.050	0.950	Yes

Source: Lanarkshire Health Board Annual Accounts 2012/13 and SGHSCD allocation letter

34. The RRL surplus of £4.530m represents an underspend of 0.5% against RRL. It is £4.002m higher than originally planned in the 2012/13 Local Delivery Plan (LDP). The surplus was achieved against both recurring and non-recurring funding. The revised year end position was agreed in advance with SGHSCD and is a reflection of the Board's ongoing approach to financial planning and monitoring. The Board has identified refurbishment works at Monklands Hospital and implementation costs of the adult mental health strategy, due to take place in 2013/14 and 2014/15, and has been given approval to carry forward this funding to address these requirements.

35. The Board's surplus in 2012/13 includes the £2.046m surplus that was brought forward from 2011/12 as an allocation in-year. The Board also received an allocation of £1.800m in 2012/13 which reflected the repayment of additional funding which was returned to the Scottish Government in 2011/12. In-year savings against the RRL allocations raised the total saving against RRL to £4.530m.

36. This outturn position was achieved through active financial management throughout the year. A £3.295m under spend against the GP prescribing budget was a particularly significant contributing factor. Table 2 shows a more detailed breakdown of the Board's financial performance during 2012/13. GP prescribing underspend is the principal cause of the variance reported on Primary Care and Other Services.

Table 2: Summary financial performance

Area	YTD Budget £m	YTD Actual £m	YTD Variance £	YTD Variance %
Acute	278.770	278.770	0.000	0.00
North CHP	102.540	101.870	-0.670	-0.01
South CHP	47.600	47.060	-0.540	-0.01
Primary Care Other	283.250	279.170	-4.080	-0.01
HQ / Corporate	121.450	120.870	-0.580	0.00
SLAs / Other Providers	146.280	146.460	0.180	0.00
NHSL wide	24.500	25.650	1.150	0.05
Net operating costs	1,004.390	999.860	-4.530	0.00

Source: Lanarkshire Health Board Finance Report for the period ended 31 March 2013

37. The Board was also able to agree with SGHSCD a transfer £1.612m from its RRL to Capital Resource Limit (CRL), following the mid-year review. The majority of the transfer (£1.037m) was used to fund additional medical equipment purchases and the remainder for capital grants (£0.575m).

The Board achieved a recurring and non-recurring surplus in 2012/13

38. In Table 3 we have analysed the Board's 2012/13 outturn and the 2013/14 forecast outturn into recurring and non-recurring items. This shows that there have been surpluses achieved against both recurring and non-recurring allocations in 2012/13. Table 3 shows only the in-year performance, reflecting presentation of this information within the Board. The Board also carried forward £2.046m into 2012/13 which together with the £2.484m below results in the £4.530m surplus. This £4.530m will be carried forward into 2013/14 to give an expected outturn position, inclusive of the in-year position in Table 3, totalling £3.540m for 2013/14.

Table 3 – Achievement of 2012/13 surplus and forecast for 2013/14

Description	2012/13 £m	2013/14 £m
Recurring income	896.567	1,017.107
Recurring expenditure	913.883	1,023.375
Recurring savings	17.564	6.291
Underlying recurring surplus/(deficit)	0.248	0.023
Non-recurring income	195.021	84.500
Non-recurring expenditure	194.442	91.022
Non-recurring savings	1.657	5.509
Non-recurring surplus/(deficit)	2.236	(1.013)
Financial surplus/(deficit)*	2.484	(0.990)
Underlying recurring surplus/(deficit) as percentage of recurring income	0.28%	0.1%

*In-year position, which is supplemented by year on year carry forwards to result in higher surpluses.

Source: Senior Management Accountant / Director of Finance

The Board broke even against CRL in 2012/13

39. The Board broke even against CRL, with total capital expenditure of £11.861m. A capital allocation of £19.2m was originally confirmed by SGHSCD for 2012/13. This allocation was revised to £11.861m due to following:

- The Airdrie Community Health Centre project was delivered under budget which led to a reduction in the anticipated allocation of £2.030m
- The planned Hub Primary Care Projects Land & Equipment purchase was deferred into early 2013/14 which led to a reduction of £2.900m
- The allocation was reduced by £2.938m to reflect capital receipts received by the Board which were returned to SGHSCD
- Sundry other low value adjustments which reduced the allocation by £1.083m
- A revenue to capital transfer which increased the allocation by £1.612m.

40. The largest capital project during the year was the works at Monklands Hospital. Total capital expenditure on this project in 2012/13 amounted to £6.467m. The principal areas of expenditure at Monklands were the upgrading of the parking and traffic facilities (£2.150m), building structure works (£1.110m), and fire safety improvements (£0.870m). The Board also completed Airdrie Community Health Centre during 2012/13 (£2.079m in-year expenditure).

41. The 2013/14 CRL is expected to be £15.574m. The Board has formal approval for £10.819m, with discussions on-going with SGHSCD over the remainder. The refurbishment of Monklands Hospital will continue to be a significant project for the Board, with expected expenditure in 2013/14 of £6.6m. Within the redevelopment, £5m will be set aside for risk assessed improvements including further work on building structures, fire safety and traffic management.

The Board is a participant in the South West Hub

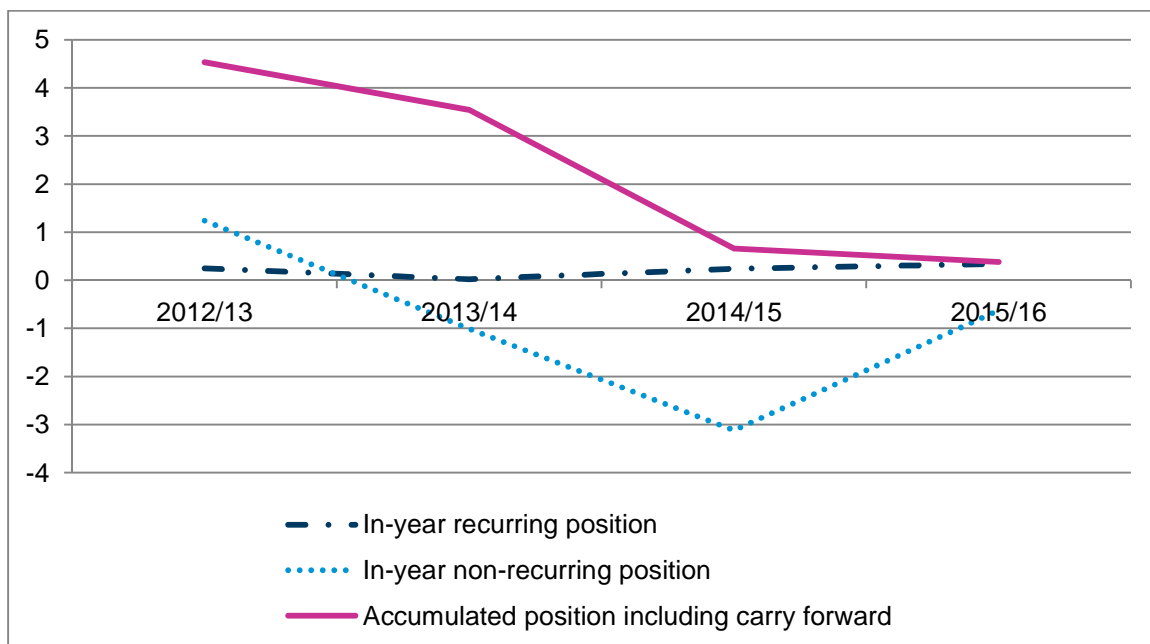
42. In September 2012 the Board approved participation in the South West Hub. The hub initiative is led nationally by the Scottish Futures Trust (SFT) and is the mandatory procurement route for any community facility project over £3.5m. The South West Hub has been formed by the SFT and public sector bodies across Lanarkshire, Ayrshire, and Dumfries and Galloway alongside a consortium of private sector partners.
43. The Board has plans for three capital projects to be procured via the hub initiative: East Kilbride, Kilsyth and Wishaw Community Health Centres. This is being taken forward in collaboration with SGHSCD. Funding has been accepted through the Hub Initiative and the business cases are awaiting approval from the SGHSCD and Capital Investment Group. It is also expected that central funding may be required to support the impairment charge and write off of the current community health buildings.

Financial Plans

The three year financial plan has been agreed with SGHSCD

44. The Board prepared a 3 year financial plan covering the period 2013/14 to 2015/16 as part of its LDP submission to the Scottish Government.
45. Diagram 1 shows the Boards forecasted savings against the revenue resource limit for recurring and non-recurring savings.

Diagram 1 – In year recurring and non-recurring surplus/deficit analysis (£m)



Source: NHS Lanarkshire Finance Reports and Plans/LDP

The Board has received an uplift in funding of 2.8% for 2013/14

46. NHS Lanarkshire will receive a funding uplift of 2.8% in 2013/14. This has been supplemented by an additional £4.0m to move the Board towards NRAC parity. The Board also expect to receive further earmarked allocations amounting to £32.789m. These allocations will be distributed across a number of areas, the most significant of which are eHealth (£6.2m), Effective Prevention (£3.8m), Alcohol Misuse (£3.7m), and Primary Care Services (£2.9m) programmes.

Cost pressures continue to exceed increases in funding

47. NHS Lanarkshire will continue to face significant financial challenges in 2013/14 and beyond. The Board forecasts that additional funding in 2013/14 will be outweighed by additional cost pressures. The gap will need to be partially met by cash releasing efficiency savings, with the remaining shortfall being accommodated within the agreed £4.530m carry forward. Table 4 summarises the Board's cost pressures.

Table 4: 2013/14 Summary of Cost Pressures

Area	Description
Pay costs	The projected £8.9m increase will be made up of a 1% pay increase, incremental rises and superannuation contribution increases, ongoing/new pay deals and the clarification of terms and conditions, with further impact from pension auto-enrolment.
General/inflationary uplifts	Inflationary increases are expected to lead to an additional £8.9m in expenditure. Health and social care agreements are expected to increase by £3.8m, with other inflationary increases including the cost of the PFI agreements (which are based on RPI indexation) and energy costs.
Drug costs	Drug uplifts account for the largest increase (uplift of £9.2m). Although the cost of GP prescribed drugs is expected to decrease (due to a number of drugs coming off patent and Board initiatives to use lower priced alternatives) the number of GP prescriptions is expected to increase into 2013/14. The Board also expects increased costs of hospital drugs due to increases in high cost treatments for rare conditions, the adoption of new drugs, and continued growth in drugs currently used.

2014/15 will bring health board boundary changes

48. In June 2013 the Scottish Government announced that health board boundaries would be amended to better align with local authority areas to help collaboration and integration. The changes will come into effect from April 2014 and it is anticipated that NHS Lanarkshire will become responsible for 72,172 people who have previously fallen under the catchment of NHS Greater Glasgow & Clyde. 1,657 people will transfer in the opposite direction.

49. Patients will stay with the same GP practice and continue to receive treatment in their local hospital, even if their catchment area has changed. Financial implications of these changes will be reflected in NRAC allocations.

Savings Plans

Savings targets were met in 2012/13

50. Table 5 sets out the savings programme delivered during 2012/13, showing how the required cash releasing efficiency savings (CRES) were achieved.

Table 5 – Cash Releasing Efficiency Savings 2012/13

Targeted Area	Plan (£'000)	Achieved (£'000)	Variance (£'000)	Variance (%)
Clinical Productivity	3,090	3,068	(22)	0.7%
Drugs and Prescribing	7,189	7,458	269	3.7%
Procurement	4,591	4,543	(48)	1.0%
Support Services	2,402	2,295	(107)	4.5%
Workforce	1,644	1,562	(82)	5.0%
Estates and Facilities	295	295	0	0%
Total	19,211	19,221	10	0.1%

Source: Year-end Board Finance Report

51. To balance the 2013/14 financial plan the Board will need to make cash-releasing efficiency savings of £11.8m, notably lower than in 2012/13, with the financial position supported by the Board's carry forward surplus.
52. The Board reported through the 2013/14 LDP that £19.839m of savings from the total (cash and non-cash) 3% efficiency savings target of £25.953m had been identified. This leaves £6.114m of savings to find (24% of the total required). Whilst the Board is confident that it will be able to identify these further savings during 2013/14 there remains a risk that the required efficiency savings are not achieved. The Board should ensure formal plans are produced covering all the required savings for 2013/14 as a priority.

Action plan point 3

53. The Board carries out a risk assessment against all of the savings plans that are identified. Each saving is supported by a detailed plan and subject to regular progress monitoring. Of the £19.839m identified savings for 2013/14, 75% of these are rated low risk, 20% medium risk and 5% high risk. There is a good monitoring process over identified savings within the Board. Performance against savings plans is regularly presented to the Board for scrutiny and challenge through the finance reports provided by the Director of Finance.

People and Workforce Management

Voluntary severance schemes cost the Board £0.499m in 2012/13

54. Ten individuals agreed exit packages at a total cost of £0.499m. The terms of the scheme were approved by the Remuneration Committee and the average pay back period was around one year.
55. NHS Lanarkshire has a workforce modernisation plan in place, aligned with the Board's corporate plans. The Board's Workforce Plan was approved in September 2012. NHS Lanarkshire does not expect to exceed the projected annual decrease of 30 WTE posts, although there are ongoing discussions with SGHSCD on the impact of the Board's re-shaping of the Adult Care Programme.

Scotland's Public Finances – Follow Up review

56. During the year we carried out a follow-up review of the Audit Scotland National Study report *Scotland's Public Finances: Addressing the Challenges*. The original report was issued in August 2011. Our findings are the subject of a separate report to the Board and are summarised below.

NHS Lanarkshire has a well-developed budgetary framework, which facilitates the development and monitoring of short and medium-term financial performance

57. NHS Lanarkshire has an established budget setting process in place and a good process in place to analyse and monitor identified efficiency savings. There is a longer term financial plan in place which was approved by the Board. The plan includes a detailed budget for 2013/14 and high-level forecasts for periods thereafter. The financial plan clearly sets out the assumptions about income sources and cost pressures. The main areas of cost pressure are pay uplifts and drugs uplifts (including GP prescribed drugs and hospital drugs).
58. Our follow-up review has identified two action points for the Board:
- The finance plan could more clearly demonstrate how financial resources are allocated in line with the Board's corporate objectives; and
 - The Board could make more extensive use of benchmarking information to compare and continuously improve financial performance.

Overall conclusion on financial management and use of resources

The Board has effective financial management arrangements in place

59. 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. NHS Lanarkshire is in a reasonable position to manage its financial pressures. However, delivering against targets in the coming years will continue to be challenging. This will require even closer monitoring given the tightening financial environment.

Performance

Introduction

60. 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 care. In 2011/12 we carried out a best value review of NHS Lanarkshire's performance management arrangements. We have used the findings of this review, and our cumulated knowledge and experience of the Board's performance management framework, to assess the overall performance management arrangements in place during 2012/13.

NHS Lanarkshire has a good overall performance management framework

61. The performance management framework is aligned with the Local Delivery Plan and corporate objectives. Progress is reported to the Board on a quarterly basis, with more detailed reports from executive directors on relevant performance information on an exception basis and/or as deemed appropriate. Reports cover a range of metrics including Health, Efficiency, Access and Treatment (HEAT) targets, Healthcare Acquired Infections (HAI) and the Scottish Patient Safety Programme.

Best value audit of asset management

62. We carried out a best value review of NHS Lanarkshire's asset management arrangements. This review was based on the Audit Scotland best value toolkit on asset management, which provides an evaluation framework to help auditors reach robust judgements structured around four key areas:

- Does the organisation plan to make economic, efficient and effective use of its assets?
- Does the structure of the organisation support effective asset management?
- How well does the organisation work with stakeholders, both internal and external, in managing its assets?
- How well does the organisation manage the performance of its assets?

NHS Lanarkshire can demonstrate good performance against the four key areas of the best value toolkit

63. NHS Lanarkshire provided a draft self-assessment which provided an outline of some of the organisation's asset management arrangements. We used the draft self-assessment, publicly available documentation and information already obtained through previous audit work as the basis for the review.

64. The Board has a well-structured Property and Asset Management Strategy (PAMS) in place, which conforms to the Scottish Government's requirements and has been updated and amended to ensure it remains linked to NHS Lanarkshire's strategic objectives. Roles and responsibilities for asset management are clearly outlined and communicated to relevant staff. NHS Lanarkshire produces regular reports on performance against clear key performance indicators for asset management.

65. We have identified an opportunity for improving existing arrangements. NHS Lanarkshire has set performance indicators for its properties, although no performance targets have been set for other classes of asset, such as vehicles and medical equipment. NHS Lanarkshire should set targets for all its assets.

66. Our detailed report also identified areas where NHS Lanarkshire would need to develop its arrangements if it wished to demonstrate advanced practice in asset management.

Child healthy weight target

67. For 2012/13, we agreed to undertake a more detailed assessment into the performance management arrangements surrounding the child healthy weight target. Our assessment has included consideration of the reporting of the performance outcomes, and the processes and systems underpinning it.
68. This performance measure is based on the number of 2-15 year olds completing Scottish Government approved healthy weight intervention programmes over the period 2011/12 to 2013/14. Each child must have a BMI at or greater than the 91st percentile for BMI (based on UK 1990 Reference Growth Charts) at the start of the programme, have written parental consent to take part and have attended at least 75% of the sessions. The HEAT target for NHS Lanarkshire is to deliver child healthy weight intervention programmes to 1,745 qualifying children by the end of 2013/14.

The processes in place to collate and record Child Healthy Weight data provides NHS Lanarkshire with reliable performance information

69. Healthy Lifestyle Coaches deliver the child healthy weight intervention programmes to children in schools across NHS Lanarkshire. NHS Lanarkshire provides training for these coaches, who are employed by the local authority, in how to deliver the programme.
70. The child healthy weight programme manager is responsible for confirming the validity of each child counted to be included to the underlying consent forms and records of weight and height. Data is then recorded in the Child Health Surveillance Programme (CHSP), a national central data collection system.
71. We reviewed the accuracy of the height and weight data recorded by NHS Lanarkshire for over 200 children who took part in a sample of ten intervention programmes. We found no issues which would impact on the reliability or accuracy of the data reported by NHS Lanarkshire against this performance target.

A partnership approach is used to ensure delivery of the Child Healthy Weight performance targets

72. NHS Lanarkshire works the two local authorities in its boundaries to deliver the intervention programmes in a way which seeks to minimise the impact on schools and support the delivery of each partners' objectives.
73. NHS Lanarkshire has been developing programmes which can continue to be delivered by partners once the child healthy weight targets have been met, meaning any child healthy weight issues will continue to be addressed in the longer term.

NHS Lanarkshire is committed to the delivery of long term Child Healthy Weight solutions

74. NHS Lanarkshire has a number of programmes in place for children which promote healthy living, such as the 'Fit for School' programme. Although it is committed to delivering specific HEAT targets (including the child healthy weight target) this is within the context of its overall local delivery plan and adherence to national guidance. This helps to ensure that the Board's focus is not just on meeting targets, but also on ensuring that the work is meaningful and aligned to its overall objectives.

- 75.** A strategic steering group is in place including members with specific clinical skills. The group provided advice on the best way to incorporate the work required to address the child healthy weight requirements in line with the Board's existing activity and other requirements.
- 76.** In 2013/14, NHS Lanarkshire intends to spend more time training teachers and developing sustainability and exit plans following the expected end of the HEAT target in 2014. The Board appears committed to enabling schools to continue to implement the principles of child healthy weight programmes after the Scottish Government's target has been achieved.

Governance

77. 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; and
- Standards of conduct and arrangements for the prevention and detection of bribery and corruption.

Corporate governance and systems of internal control

Changes in Board and senior management positions

78. In January 2013 Neena Mahal was formally appointed as Chair of NHS Lanarkshire by the Public Appointments Committee, having been Acting Chair since May 2012. The Chair has been a board member since 2004, including more recently as Vice Chair of the Board. Ian Ross was formally appointed as Chief Executive in 2012 following an eight month period as Acting Chief Executive. Both have extensive experience in both NHS and Lanarkshire-specific matters.

79. There was a change of one local authority non-executive member due to the elections of May 2012. In addition there were changes in the posts of Director of Nursing, Midwifery and Allied Health Professions, Director of South Lanarkshire CHP and the Director of Acute Services. The latter post ceased to hold executive director status in 2012/13.

The Board's overall governance arrangements are sufficient and appropriate

80. 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.

81. The Governance Statement included within the Board's 2012/13 Annual Accounts disclosed no material internal control weaknesses. This is in line with Internal Audit's annual report, which found that the Board continues to have adequate and effective internal controls in place and that the Accountable Officer has implemented a governance framework in line with required guidance sufficient to discharge the responsibilities of their role. We have reviewed the Board's Governance Statement and concluded that the content is consistent with the information gathered during the course of the audit. The Governance Statement was also found to comply with guidance provided by the Scottish Government.

Risk Management

Risk management arrangements are continuously improving

82. An important feature of a robust system of internal control is a developed and integrated approach to risk management. Effective risk management will deliver an appropriate balance between risk and control,

more effective decision making, better use of limited resources and greater innovation. We have found the overall corporate risk management framework at NHS Lanarkshire to be fit for purpose.

83. The risk management strategy was reviewed by the Board in October 2012 and outlines respective roles and responsibilities. Board and Executive management duties are supported by the Risk Management Steering Group (RMSG) which leads on the development of the strategic risk register and considers the risk policies in place.
84. The Board plans to review the format of the Strategic Risk Register in 2013. We recommend in our 2012/13 Interim management report that the Board considers the following points to ensure that risk reporting gives the Board sufficient information.
- Explicitly linking the strategic risks with the Board's strategic objectives.
 - Introduction of Specific, Measurable, Achievable, Relevant and Time bound (SMART) actions for any risks where the target risk is lower than the current risk.
 - Reporting of gross and net risk.
 - Reporting of risk probability and impact.

Action plan point 5

Internal Audit

85. The Board's internal audit service is provided by the Internal Audit Consortium of Lanarkshire. This is delivered in collaboration with Fife, Tayside and Forth Valley Audit and Management Services (FTF).
86. 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 auditors 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 to ensure an efficient audit process, we aim to make 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

87. 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 indications of material fraud and irregularity and concluded the Board's internal controls and financial procedures were reasonable and adequate to prevent and detect material fraud and irregularity.

Ongoing work in relation to the National Fraud Initiative

88. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises are undertaken every two years as part of the statutory audit of the

participating bodies. In 2012 Audit Scotland reported that the cumulative outcomes from NFI in Scotland were around £78 million.

89. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.
90. NHS Lanarkshire Scotland received 388 recommended matches from a total of 5,922 matches highlighted through the web application. By the beginning of July 2013 the Board has investigated 129 matches with no indication of fraud or error being found. The Board has carried out its reviews to date on a risk based, prioritised approach. This is appropriate as participants in the NFI are not expected to investigate all data matches. Priority should be given to following up recommended matches and high quality matches. Lower quality matches and those that are not highlighted as recommended may best be investigated on a sample basis.
91. We will continue to monitor the Board's approach to NFI during the year to ensure that the remaining recommended matches are investigated in a timely manner.

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

92. We reviewed the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local codes of conduct. 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, outwith those raised by internal audit below.
93. We also considered controls over the disposal of assets, and found that the Board had disposed of an asset during 2012/13 without obtaining formal approval. In our Report on the Audit of the 2012/13 Financial Statements we made a minor recommendation that adequate controls should be in place so all asset disposals are formally approved and recorded. These controls should be supplemented by an annual asset verification exercise which should be completed before the financial statements are prepared.
94. Internal audit undertook a review of standards of business conduct during 2012/13. They concluded that the system in place provides substantial assurance that objectives are being met. However they did report three areas where the control environment could be strengthened further:
 - The Board's Code of Conduct does not include sections on the Bribery Act 2010 and secondary employment. The Board has recently implemented the policy 'Staff Guidance Relating to Contact between NHS Lanarkshire Staff and Pharmaceutical & Healthcare Company Representatives'. However the Board does not make reference to this guidance in the Code of Conduct.
 - The arrangements for ensuring staff comply with standards of Business Conduct is not always clearly defined or recorded consistently across NHS Lanarkshire's policies. It was also found that the Acute Divisional Management Team does not have its own register of gifts/hospitality and interest in contracts.
 - The Corporate Induction Programme does not include any training on any aspect of standards of business conduct.

Appendix 1: Management 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.

No	Title	Issue identified	Risk and recommendation	Management comments
1	Inter-NHS balances (Para 18)	<p>NHS Lanarkshire has had difficulty in agreeing balances with NHS Greater Glasgow and Clyde (NHS GG&C).</p> <p>The NHS Board Accounts Manual states that it is necessary that all bodies agree the inter-NHS receivable and payable balances to be reported in their accounts to within a difference of £100,000</p>	<p>NHS Lanarkshire has accrued £0.781m of additional expenditure, over and above the level claimed by NHS GGC.</p> <p>The Board should ensure that all inter-NHS receivable and payable balances to be reported in its accounts are agreed to within a difference of £100,000 within the timescales set out in the NHS Board Accounts Manual.</p> <p>Grade 2</p>	<p>We do not believe we have over accrued expenditure but we do accept the timing of us recognising it is differing from that in NHS GG&Cs accounts and will ensure for future year ends there is a better tie in.</p> <p>Responsible officer: Director of Finance</p> <p>Deadline: April 2014</p>
2	PFI models (Para 26)	<p>The Board uses financial models to calculate the amounts to be reflected in the accounts for its /PFI Hospitals. These models are based on the PFI contracts. Whilst did not identify any significant issues with the Board's accounting, we noted a few instances where the Board's financial models did not reconcile to the supporting contract documents.</p> <p>This has resulted in a trivial misstatement in the finance lease liability as at 31 March 2013.</p>	<p>If the financial models are not being reviewed on an annual basis there is a risk any misstatement could be more significant in future periods.</p> <p>The Board should carry out a review of these financial models, reconciling these to the contracts, ensuring that the assumptions used remain appropriate and amounts reflect the actual charges incurred by the Board.</p> <p>Grade 2</p>	<p>Part of the difficulty comes from ad hoc in year expenditure on additional estates work in the hospital which is not part of the core contract model. We accept it would be worthwhile reviewing the model to accommodate this better and to ensure all other assumptions are up to date and will undertake this during 2013/14.</p> <p>Responsible officer: Head of Finance for Capital and Corporate Support Services</p> <p>Deadline: Oct 2013</p>

No	Title	Issue identified	Risk and recommendation	Management comments
3	Savings plans (Para 52)	The Board will need to make total efficiency savings of £25.953m in 2013/14. The Board reported through the LDP that £19.839m of savings have been identified. This leaves £6.114m of savings to find (24% of the total required).	<p>Whilst the Board is confident that it will be able to identify these further savings during the financial year, there remains a risk that the required efficiency savings are not met.</p> <p>The Board should ensure formal plans are produced covering all the required savings for 2013/14.</p> <p>Grade 3</p>	<p>As at June 2013 the gap has closed to £4.543m. The Board will receive monthly reports on progress with a risk assessment that would allow the Board to take an informed view on whether further resources need to be diverted to achieving this target.</p> <p>Responsible officer: Director of Finance</p> <p>Deadline: August 2013</p>
4	Asset Performance (Para 65)	NHS Lanarkshire has set performance indicators for its properties. However, no performance targets have been set for other classes of asset, such as vehicles and medical equipment.	<p>NHS Lanarkshire should set performance measurement targets for all its assets.</p> <p>Grade 2</p>	<p>The Capital Investment Group will consider what performance indicators could be meaningful and feasible to collect and monitor for its assets and agree on a timescale for introducing.</p> <p>Responsible officer: Director of Finance</p> <p>Deadline: July 2013</p>
5	Strategic risk register (Para 84)	The Board receives reports on clinical governance at each meeting. On a cyclical basis the clinical governance reports include a risk management update which includes comment on progress against the framework, emerging	<p>The format of reporting may not give the Board sufficient information. As part of any review we recommend the Board consider:</p> <ul style="list-style-type: none"> • Explicitly linking risks with the Board's strategic objectives. 	<p>Corporate Risk Manager will set out a draft for discussion / approval by the RMSG for the August 2013 meeting to commence at the August/September review, received by the RMSG & Board in October 2013 (to be no later than December 2013 in the event</p>

No	Title	Issue identified	Risk and recommendation	Management comments
		<p>risks and performance against the Incident Key Performance Indicators. However, the format of the information could be revised to assist scrutiny and decision making.</p>	<ul style="list-style-type: none"> • SMART actions where target risk is lower than the current risk. • Reporting of gross and net risk. • Reporting of risk probability and impact. <p>Grade 3</p>	<p>of any delays).</p> <p>Responsible officer: Corporate Risk Manager and Medical Director</p> <p>Deadline: December 2013</p>

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