Lothian Health Board

Annual report on the 2012/13 audit

AUDIT SCOTLAND

Prepared for Lothian Health Board and the Auditor General for Scotland
July 2013

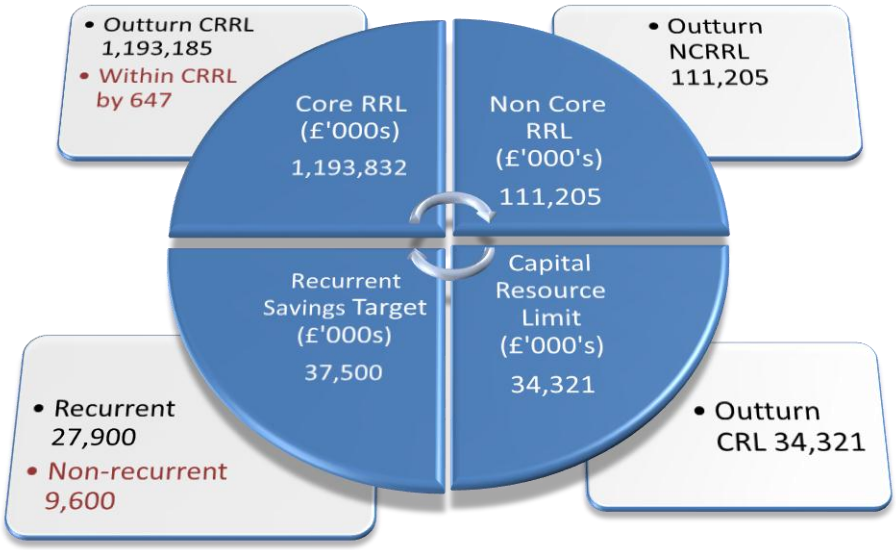
Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively**.**

Contents

Key Messages

2012/13 Key Facts

The Scottish public sector is experiencing significant financial challenges in providing expected levels of service within the agreed financial framework. In 2012/13 we assessed the key strategic and financial risks being faced by Lothian Health Board. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our findings. The key financial messages are summarised in the exhibit below:



Financial Statements

We have given an unqualified audit report on the financial statements of Lothian Health Board for 2012/13. We also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

Financial position and use of resources

The board achieved all of its financial targets in 2012/13 and returned a saving against its total Revenue Resource Limit of £0.647 million as at 31 March 2013. Total efficiency savings of £37.500 million have been delivered in line with planned efficiencies for 2012/13. However £9.600 million of these savings were on a non-recurring basis. As a result, this has increased the recurring savings targets included in the board's 2013/14 financial plans to £24.7 million. It is important that the board achieves these targets as carrying forward unachieved recurrent

savings is unsustainable in the longer term although the level of carry forward is relatively stable and is reduced from 2011/12.

The board received £10 million brokerage from the Scottish Government Health and Social Care Directorates (SGHSCD) in 2012/13 to help address the waiting times backlog. The board has now repaid £2 million ahead of schedule to the Scottish Government leaving a remaining balance of £8 million. It anticipates repaying this outstanding balance by 2015/16 financed from efficiency savings.

The total capital budget was reduced from £53.7 million in 2011/12 to £34.3 million in 2012/13 as a consequence of a reduction in core capital allocations. The capital budget was higher in 2011/12 to accommodate a substantial phase of funding for the new Royal Victoria Hospital Building opened in 2012/13.

Governance and accountability

In 2012/13, the board had sound governance arrangements which included a number of standing committees overseeing key aspects of governance. These included Audit and Risk, Staff Governance, Healthcare Governance and Finance & Resources Committees. The board also had an effective internal audit function and sound anti-fraud arrangements. NHS Lothian continues to address the management culture issues identified at the time of its waiting lists investigation, with senior staff being more open about problems and operating within a more integrated and cohesive management team. The Chief Executive is also encouraging operational managers to be more open in the management of risks whilst pursuing operational performance targets.

Performance and best value

The board has a framework in place for monitoring and reporting performance. The board monitors performance through a suite of reports that are presented at monthly meetings.

In 2012/13 the board has met or exceeded a number of performance targets set by the Scottish Government. However the board is still addressing its waiting times problems, initially highlighted in 2011/12, and has not achieved its performance targets in this area. In particular, the board did not achieve its 4 hour Accident and Emergency waiting time target and there were also some cases where the statutory 12 week Treatment Time guarantee was breached. The board acknowledges that this will be a longer term challenge and aims to return to compliance on waiting times assisted by the brokerage support from SGHSCD noted above.

Audit Scotland's report on the management of patients on NHS waiting lists found good practice at NHS Lothian in the use of TrakCare's enhanced performance reporting to monitor patients on waiting lists and the development of the forensic dashboard tool. A local review of waiting times carried out by internal audit identified some areas for improvement. The board provided written assurance to the Scottish Government that improvement actions identified by internal audit had either been implemented or were in progress.

Outlook

The position for all NHS Boards going forward is becoming even more challenging than previous years with limited increases in funding, increasing cost pressures and challenging savings targets. To achieve continuing financial balance the board has to deliver £24.7 million of recurring cost savings in 2013/14. This will make maintaining or improving on the performance targets set by the Scottish Government even more challenging.

In this context, the board faces a number of performance challenges not least the achievement of access targets, which will take some further time to resolve. The board has considerably improved overall waiting time performance over the past year but challenges still remain as the recent good progress on reducing waiting times has stalled to some degree and indeed waiting times are likely to rise in the short term. Due to capacity and specialist workforce constraints in particular services (Orthopaedics, Ophthamology and Urology) delivery of the waiting times and the new 12 week Treatment Time Guarantee, which is now a legal requirement (from 1 October 2012), requires significant resources to achieve and sustain. Managers are fully aware of the legislative nature of this guarantee.

NHS Lothian is also facing issues in relation to the management of unscheduled care where there are challenges in provision of sufficient workforce and facilities capacity to meet demand. In this context, demographic and population changes make it particularly difficult for the board to meet its demand targets. For example, Lothian's population is growing by 1% per year, broadly resulting in the need for one new GP practice per year and as the population becomes older there are more chronic conditions that need to be managed in the primary care sector. These are areas on which the board will be focussing as it develops its future service strategy.

The impact of the Public Bodies (Joint Working) Bill currently being reviewed through Parliament is likely to stretch the capacity of management in the short term, in locally meeting the organisational, governance and financial implications of the legislation around the integration of health and social care services.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Lothian Health Board. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.

2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of Lothian Health Board.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that Lothian Health Board understands its risks and has arrangements in place to manage these risks. The Board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

4. This report is addressed to the board and the Auditor General for Scotland and should form a key part of discussions with the Audit & Risk Committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.

5. This report will be published on our website after consideration by the board. The information in this report may be used for the Auditor General's annual overview of the NHS in Scotland's financial performance later this year. The overview report is published and presented to the Public Audit Committee of the Scottish Parliament.

6. The management of the board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
   - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
   - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
   - the regularity of the expenditure and income.

9. Auditors review and report on, as appropriate, other information published with the financial statements, including the Governance Report, governance statement and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion in that the financial statements of Lothian Health Board for 2012/13 give a true and fair view of the state of the body's affairs and of its net operating cost for the year.

11. Lothian Health Board is required to follow the 2012/13 Government Financial Reporting Manual (the FReM) and we confirm that financial statements have been properly prepared in accordance with the FReM.

12. We have also reviewed the board's governance statement and concluded that it complies with Scottish Government guidance.

Regularity

13. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and income shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers. We have addressed this requirement through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

Accounting issues

14. The unaudited accounts were provided to us on 6 May 2013 supported by a comprehensive working papers package. The good standard of supporting papers and the timely responses from finance staff allowed us to conclude our audit within the agreed timetable and provide our

proposed opinion to the Audit and Risk Committee on 24 June 2013 as outlined in our Annual Audit Plan.

15. A small number of errors were identified during the audit, where if adjustments were made these would have a net effect of increasing the revenue surplus by £0.929 million. The net impact on the balance sheet would be to increase net assets by £0.899 million.

16. As required by auditing standards we reported to the Audit & Risk Committee on 24 June 2013 the main issues arising from our audit of the financial statements. The main points were:

Corporate Governance Report

17. The board's new Corporate Governance Report format included in the draft financial statements effectively combined three statements - 'The Directors Report, the Operating and Financial Review and the Governance Statement'. Although the draft new format report read well, the relevant guidance still requires a specified form, and the auditor's report format requires us to report specifically on the specified narrative elements of the financial statements and the Corporate Governance Report. A subsequent version of the accounts addressed this issue by reformatting the integrated report into a separate Governance Report and Governance Statement.

FHS Accrual

18. Actual data on expenditure on GP Prescribing costs are produced approximately two months in arrears. This means that an accrual to estimate the last two months of the financial year's prescribing costs must be made in order to close the accounts in time for the audit to commence in May. The accrual based on the March estimated chemists' declared volume was different from the final actual position by £0.929 million, after including pricing changes applied to the declared volumes. Therefore the accrual is misstated by that amount. Though significant, the prescribing estimate was not amended on grounds of materiality and was recorded in the ISA 260 report as an unadjusted difference in the accounts.

Asset Lives

19. As a consequence of the implementation of the Non-current Asset Accounting System (Real Asset Management), a specific category of equipment depreciation relating to specialist medical equipment and related analytical equipment has now been incorporated into the notes to the accounts. This now reflects the appropriate spread of rates dependent on the nature of the equipment from items such as probes (3 years) to Linear Accelerators (15 years), and we concur with this approach.

Equal Pay Claims

20. The National Health Service in Scotland has received in excess of 9,000 equal pay claims and currently there remained 1,487 grievances registered against Lothian Health Board. These have been referred for the attention of the NHS Scotland Central Legal Office (CLO) to co-ordinate the legal response to this issue.

21. The SGHSCD, the CLO and Audit Scotland met in March 2013 to review the accounting treatment and disclosure requirements for the 2012-13 accounts. The CLO continues to advise that it is not possible to provide any financial quantification of Equal Pay Claims at this stage because of the lack of information available. Given the CLO's advice, the SGHSCD have notified NHS boards that the appropriate accounting treatment is to disclose the claims as a contingent liability although with an expanded disclosure recognising the developments over the last couple of years. This is provided in note 19 to the board's accounts.

22. As with other boards, Lothian Health Board has not been able to quantify the extent of its liability for Equal Pay claims and has disclosed a contingent liability. There is a residual risk that as these claims progress they could have an impact on the board's financial position.

Risk Area 1

Pension costs

23. Following national guidance from the Scottish Government, Note 24 of the accounts: Pension Costs reflects a Scotland-wide net liability of £370 million for the NHS Superannuation Scheme arising from the most recent actuarial valuation for the year 31 March 2004. A more recent actuarial valuation was carried out at 31 March 2008, but the publication of this valuation has been placed on hold by HM Treasury pending the outcome of public sector pension reforms. Contributions by employees have been steadily increased since 2008 valuation. However, given that periodic actuarial valuations are critical to determining the adequacy of employer and employee contributions to the Scheme, publication of the latest actuarial valuation will bring clarity as to the adequacy of current contributions to meet the future costs.

Outlook

Endowments

24. As a result of an agreed derogation from the FReM NHS Scotland boards were not required to consolidate endowment funds within their 2012/13 financial statements in terms of IAS 27 (Consolidated and Separate Financial Statements). IAS 27 has now been superseded by IFRS 10 for 2013/14. The Treasury and Scottish Government have delayed the consolidation of NHS Endowment Funds until financial year 2013/14. The consolidation process will be reviewed as part of our audit of the 2013/14 financial statements.

Financial position

25. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

26. Auditors consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

27. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

The board's financial position as at 31 March 2013

28. Lothian Health Board is required to work within the resource limits and cash requirement set by the SGHSCD. In 2012/13, the SGHSCD required NHS boards to differentiate between core and non-core expenditure for both revenue and capital. The board achieved all its financial targets in 2012/13 as outlined in the table below:

Table 1: 2012/13 Financial Targets Performance £'000s

Financial Target	Target	Actual	Variance
Revenue Resource			
Core	1,193,832	1,193,185	647
Non Core	111,205	111,205	0
Capital resource			
Core	34,321	34,321	0
Non Core	0	0	0
Cash position			
Cash requirement	1,315,000	1,314,287	713

29. The board has achieved a cumulative surplus of £0.647 million. The board had budgeted to break-even against its Revenue Resource Limit in 2012/13. Despite the small surplus, in 2012/13 the board recorded an underlying recurring deficit of £9.6 million, which represented the excess of recurring expenditure commitments, over recurring funding and savings, carried forward into 2013/14, which was met by a non-recurring surplus. The challenge for 2013/14

will be to ensure that recurring expenditure is met through recurring funding as projected within the financial plan.

30. Historically, boards have relied upon a measure of non-recurring funding to achieve financial targets. However, due to the one-off nature of this type of funding, the tighter financial settlement compared to the past and reduced flexibility within expenditure budgets, there is less scope for reliance on non-recurring income to achieve financial balance as NHS boards seek to rationalise their cost base.

Risk Area 2

31. The board received £10 million brokerage from the SGHSCD in 2012/13 to address its Waiting Times backlog. The board has now repaid £2 million of this brokerage ahead of schedule to the Scottish Government leaving a remaining balance of £8 million. It anticipates repaying this outstanding balance by 2015/16 financed through further efficiency savings.

Capital Resource Limit

32. The board broke even against its total Capital Resource Limit (CRL) in 2012/13 with total capital expenditure of £34.321 million. The total capital allocation consisted wholly of core capital funding. The CRL limit was also adjusted in January in relation to a capital to revenue transfer of £1.500 million to assist the board address risks in relation to estate condition and backlog maintenance.

33. The core capital allocation was reduced from £53.742 million in 2011/12 to £34.321 million due to the completion of major build projects such as the Royal Victoria Building. In future years, the core capital allocation will increase to accommodate enabling expenditure for the new Royal Hospital for Sick Children and the Department for Clinical Neurosciences project.

34. Major items of capital expenditure in 2012/13 were £13.300 million on Medical Equipment, £4.300 million incurred on the new Wester Hailes Health Centre and £2.900 million on the Royal Victoria Building.

Financial planning to support priority setting and cost reductions

35. The board's Local Delivery Plan (LDP) for 2013/14 aligns the board's strategic priorities with its financial plan, workforce plan, operational target trajectories and risk management plan. The board's financial planning arrangements include regular monitoring, reporting and updating of information to ensure that the board has a key focus on inherent uncertainties and risks that will impact on cost pressures that the board will be required to manage. It is therefore important that the board continues to closely monitor costs in order to be able to take appropriate action to manage cost pressures. The board is undertaking work during 2013/14 to align its financial, asset management and workforce strategies to the clinical framework approved in February 2013.

Workforce Planning

36. The board is committed to ensuring that workforce planning contributes to efficiency savings, as improving efficiency and effectiveness within the workforce can generate savings for reinvestment. The board is investing a greater level of resource to resolve its waiting times backlog than first estimated. This has led to an increase in clinical resource within acute services to meet the additional demand, specifically for waiting times and also within unscheduled care. The average HCH Whole Time Equivalent Staff increased by 198.5 over 2012/13 (a 1% increase).

37. The board remains committed to ensuring maximum workforce efficiencies through the promotion of its attendance at work agenda and the overall target of 4% sickness absence rate. The board's sickness absence rate at 4.29%, though slightly higher than the target, is consistently the lowest of all Teaching Boards in NHS Scotland. The board is also on track to achieve the reduction in senior management target of 25% by 2013/14. This latter target is a particular challenge for the board in terms of reduced management capacity as it seeks to address the 12 week waiting time guarantee and reduce waiting time backlogs whilst also restructuring its acute and community health partnership management arrangements. The board is focussed on medical workforce risks and how it will respond to operational risks to services around recruitment and retention of specialist medical staff in areas such as emergency medicine and paediatrics.

Risk Area 3

Outlook

Financial sustainability and the 2013/14 budget

38. Uplifts in financial settlements have been reducing in recent years as outlined below:

Table 2: General funding uplift 2009/10 to 2012/13

Financial Year	General Uplift
2009/10	3.15%
2010/11	2.15%
2011/12	1.1%
2012/13	1.0%

39. Looking forward, the indications are that funding uplifts are likely to be around 2.8 % in 2013/14 and 2.6% in 2014/15. Given the current economic conditions and the impact of national spending priorities, there is a risk that these pressures will have a significant impact on long term financial planning and the control of pay and non-pay costs.

40. The cost challenges facing the board are significant and in some cases there is an element of uncertainty about further potential increases in costs. In 2012/13 the board's cost savings plan was pivotal to the board achieving financial balance. The plan set a recurrent cost savings target of £37.5 million which was achieved, with £27.9 million achieved on a recurrent basis and the remaining £9.6 million achieved on a non-recurrent basis. The board's ability to achieve financial balance is again largely dependent on its success in development and ongoing management of a comprehensive cost savings plan which covers pan-Lothian work-streams as well as local departmental initiatives.

41. To break even in 2013/14, the board plans to achieve £24.7 million of recurring cost savings which is the equivalent to 2% of the board's baseline revenue allocation. The challenge for 2013/14 will be to ensure that recurring expenditure is met through recurring funding as projected within the financial plan. In 2011/12, the board carried forward £10.5 million of non-recurrent savings so this position has improved in 2012/13 albeit slowly. However, this is not a sustainable position in the longer term. This represents a major challenge to the board and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends through its quarterly review and financial planning processes.

42. The board continues to face significant cost pressures relating to capacity and service developments, the rate of growth in anticipated prescribing costs and volume, along with anticipated increases in workforce costs and supplies during 2013/14. There are provisions in the 2013/14 Financial Plan to cover such issues as service developments (£3.2 million) and increased prescribing costs across both secondary and primary care (£10.5 million).

43. All additional expenditure will require to be met from the board's existing funding resource, NHS Scotland Resource Allocation Committee (NRAC) uplifts and efficiency savings. It is worth noting that Lothian Health Board's NRAC allocation remains significantly below parity which impedes the speed of its response in addressing capacity issues. Any significant fluctuations in these costs will present a major challenge to Lothian Health Board achieving financial balance for the coming year. The cost savings are to be achieved through a number of means, including work stream plans, strict vacancy management and a continued focus on prescribing costs.

44. As in previous years, the recurrent delivery of the Local Reinvestment Plan will remain a significant challenge for the board during 2013/14 and beyond. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. Failure to achieve planned cost savings will impact on the board's ability to achieve a break even position.

Risk Area 2

Governance and accountability

45. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

46. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities, corporate and clinical governance, the probity of transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

47. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
    - corporate governance and systems of internal control
    - the prevention and detection of fraud and irregularity
    - standards of conduct and arrangements for the prevention and detection of corruption.

48. In this part of the report we comment on key areas of governance.

Corporate governance

Management Culture

49. The previously documented problems with NHS Lothian's management culture have shown signs of improvement at the senior management level, which is now more open about problems and is working more closely as a management team. The board recognises that a lot of hard work is still needed to move away from a target focussed environment based on a risk adverse culture. The Chief Executive and senior management are encouraging operational managers to take on and manage risks rather than focus solely on targets.

50. NHS Lothian has improved risk management through clearer alignment of the risk register with corporate objectives. The previous Audit and Operational Audit Sub-Committee have been replaced by the Audit & Risk Committee to improve the focus on the board's systems of risk management and that risk management approach appears to be working effectively. The Chief Executive has also set up a Risk Management Steering Group which meets monthly to quality assure and score current and emergent corporate risks. The board's agenda is also been restructured to reflect the risks that NHS Lothian has been identified as facing.

Processes and committees

51. In 2012/13, revised governance arrangements and changes to the management structure were implemented following the reviews of management culture and the adequacy of information coming to the board which had been prompted by the waiting list issues which emerged at the board in 2011/12. The aim was to look at streamlining the board committee structure to ensure appropriately triangulated and independently produced defensible information is reported to the board. The review identified a more efficient and effective committee structure, with revised remits to assist the board in discharging its overall governance responsibilities.

52. This work also included a review of all Governance Committees terms of reference as part of Lothian Health Board's action plan to address the organisational culture and the issues raised by the Review of Information Received report (April 2012). This is a four stage process with:

- a review of the board's overall assurance map in relation to the committees responsibilities
- a review of the terms of reference and a schedule of legal responsibilities
- approval of the terms of reference followed by development of a statement of assurance needs
- Identification by each committee of what information it requires to service its assurance needs and its wider remit, so as to be satisfied that it has reliable information sources and an adequate source of reporting.

53. The executive board members meet monthly with senior managers as a Joint Management Team (JMT). The full NHS Board meets on a monthly basis, for ten months of the year, with no meetings held in August or December. Oversight of performance is a key function of the board, but individual committees undertake performance review appropriate to their areas of responsibility, where previously this task was undertaken by one committee. The following paragraphs provide a brief comment on the main standing committees and changes:

- **Audit & Risk Committee** - The committee assists the board to deliver its responsibilities for the conduct of its business, including the stewardship of funds under its control. It also helps provide assurance to the board that an effective system of internal control has been in place throughout the year and risk management arrangements are working effectively to support the governance statement
- **Healthcare Governance Committee** - It supports the board in delivering its statutory responsibility for the provision of quality healthcare. In particular, the committee seeks to give assurance to the board that appropriate systems are in place, which ensure that clinical governance and clinical risk management arrangements are working effectively to safeguard and improve the quality of clinical care
- **Staff Governance Committee -** Its role is to provide assurance to the board that Lothian Health Board meets its obligations in relation to staff governance under the National Health Service Reform (Scotland) Act 2004 and the Staff Governance Standard. To support and maintain a culture within Lothian Health Board where the delivery of the

highest possible standard of staff management is understood to be the responsibility of everyone working within the system and is built on partnership and collaboration

- **Finance and Resources Committee** - Financial performance management remains the responsibility of the JMT and ultimately the board. The Finance and Resources Committee remit was revised to focus on financial strategy and planning, property and asset management strategy and Strategic and Capital Projects in order to strengthen governance and scrutiny arrangements in relation to key financial issues/risks.

Patient safety and clinical governance

54. Overall, clinical governance is within the remit of the Healthcare Governance Committee. The Committee provides assurance to the board that the principles and standards of clinical governance are applied to health improvement and protection across Lothian Health Board. Patient safety is at the heart of clinical governance and risk management.

55. The Healthcare Environment Inspectorate (HEI) has a key role in helping NHS boards reduce the risk of Hospital Associated Infection (HAI) in acute hospitals through assessment, inspection and reporting of boards' performance against HAI standards. The HEI carries out both announced and unannounced visits to hospitals over a three year cycle. In the last 12 months the HEI undertook an unannounced visit to the Royal Hospital for Sick Children in July 2012 and the Western General Hospital in February 2013. In both cases, HEI have highlighted scope for improvement and action plans have been implemented.

Partnership Working

56. Partnership working is actively being promoted by the Scottish Government as a means of making service delivery more efficient and cost effective. The board has three well established Community Health Partnerships (CHPs) and one Community Health and Care Partnership - West Lothian. Lothian Health Board and West Lothian Council joined forces in 2005 to bring together community based health and social care services closer together wherever possible and working in partnership to deliver more accessible, integrated and high quality services which are jointly planned and community-focused.

57. The Scottish Government is moving forward on the integration of Adult Health and Social Care services across Local Authorities and NHS Boards. In keeping with this initiative Lothian Health Board has reviewed its CH(C)P structures in partnership with the local authorities within its area and has created four Health and Social Care Partnership Shadow Boards. In recognition of the scale of anticipated change these boards are focused on establishment of robust governance arrangements and the broader partnership arrangements between health and local authorities and maximising collaborative approaches both within health, across primary and secondary care and across sectors.

58. The main focus of these new arrangements is to drive forward the health and social care integration agenda consistent with Scottish Government Policy and to lead the development of new models of care to deliver improved outcomes and more efficient and effective services for the people of the Lothians. Lothian Health Board along with local councils is also considering what tangible steps can be taken to locate the Health and Social Care Partnership Board firmly within the Community Planning context. This is a very challenging agenda for public sector organisations given that plans are currently being formulated in relation to draft legislative proposals (Public Bodies (Joint Working) Bill) that are subject to service consultation, and against which corporate and financial governance frameworks have yet to be agreed.

Internal control

59. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by their assessment of risk and the activities of internal audit. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements.

60. In their annual report for 2012/13 Lothian Health Board Internal Audit work provided their opinion that, based on the internal audit work undertaken during the year, that generally adequate and effective internal controls have been operating throughout the year. During the year no reports were issued with a 'fully satisfactory' or ‘unsatisfactory’ rating, although 6 audit reports (33%) were concluded as requiring improvement. Internal Audit work also supports the conclusion that the Governance Framework is sufficient for the Chief Executive to discharge his responsibilities as Accountable Officer.

61. As part of our audit we reviewed the high level controls in a number of Lothian Health Board systems that impact on the financial statements. This audit work covered a number of areas including general ledger, payroll, cash and cash equivalents, trade payables, trade receivables, family health services, capital accounting and inventories. We also reviewed employee severance schemes, the acceptance of gifts and hospitality and the register of interests. Our overall conclusion was that Lothian Health Board had adequate systems of internal control in place in 2012/13. We identified some areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed-up at a future date to confirm that improvements have been made.

Internal Audit

62. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 (Considering the work of Internal Audit). The review of internal audit was carried out in December 2012 and concluded that the internal audit service operates in accordance with Government Internal Audit Standards and has sound documentation standards and reporting procedures in place.

63. We also, placed formal reliance on the work of internal audit, for the purposes of our financial statements audit, in a number of areas including Primary Care Contractors - Payments and Contracts, Bank and Cash and Accounts Receivable. This not only avoided duplication of effort but also enabled us to focus on other areas of risk.

Governance Statement

64. The governance statement, provided by the board's Accountable Officer in the board's annual report and accounts, reflects the main findings from both internal and external audit work, and highlights the process by which the accountable officer obtains assurances over the adequacy and effectiveness of the system of internal control. Additionally, the governance statement includes the requirement for an overt assurance that arrangements have been made to ensure best value.

65. Overall it was concluded by the Chief Executive and Accountable Officer that no significant control weaknesses or issues have arisen, with the exception of waiting times and related issues of management culture. The Accountable Officer reports that substantial progress has been made towards meeting Waiting Times Standards and the Times to Treatment Guarantees set out in The Patient Rights Act 2011 and it is expected that this progress will continue. In addition, the Accountable Officer records that a repayment profile for the outstanding £8 million of Brokerage received from the Scottish Government is included in the LDP for 2013/14. Otherwise the statement reports that no significant failures have arisen in the expected standards for good governance, risk management and control, and that appropriate arrangements for Best Value are in place. Our audit has confirmed that we concur with this assessment.

ICT eHealth Services Follow-up

66. As part of our 2012/13 audit we carried out an ICT - eHealth Services Follow-Up at Lothian Health Board. We carried out a follow-up of three reviews that had been carried out in the past few years. Our audit considered the actions implemented to address risks identified in the following reports:

- Computer Services Review, letter issued 31 May 2012
- eHealth Service Delivery Review, report issued 30 September 2011
- PACS (Picture Archiving and Communications System) & SCI Store Review, report issued 24 August 2010.

67. Overall good progress has been made in addressing the risks raised during our previous reviews. We found that from the 21 risk areas identified; only 3 risks have not been fully addressed yet and these are in progress. All other actions have either been fully implemented, have been superseded by technological developments, and further action is not required.

Prevention and detection of fraud and irregularities

68. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

69. Lothian Health Board has a range of measures in place to prevent and detect fraud, including Standing Financial Instructions, a Code of Conduct for board members and a number of other policies that are available to staff via the intranet including ' Freedom of Speech Policy ' - (whistleblowing). The board has also entered into a formal partnership agreement with NHS Scotland Counter Fraud Services (CFS) and a Fraud Liaison Officer is in place to ensure reports are circulated to appropriate managers and to the Audit and Risk Committee.

70. Lothian Health Board has had a Counter Fraud Action Group in place for four years (which CFS are members of) and the board is active in making fraud referrals, which is a direct result of the awareness work that has been done. The board has a counter fraud action plan which summarises the arrangements that are in place.

71. The board's internal audit function has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud. In addition, the board has agreed a formal protocol covering a programme of payment verification checks within the Practitioner Services division of NHS National Services Scotland. The Audit & Risk Committee were assured that the board has adequate systems for people to raise issues relating to irregularities.

72. We concluded that the board's arrangements were adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely.

NFI in Scotland

73. Lothian Health Board participates in the National Fraud Initiative (NFI). The NFI uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.

74. NFI allows public bodies to investigate these matches and, if fraud or error, has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

75. The most recent data matching exercise collected data from participants in October 2012 with matches identified for follow-up in February 2013. The investigation so far has identified matches in both the creditors and payroll systems. All of the recommended matches are currently being investigated and to date, no instances of fraud have been identified.

76. The Audit and Risk Committee receives regular reports on anti-fraud activities including NFI updates. Overall, we concluded that the board has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

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

77. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.

78. The board has a Code of Conduct for Board Members that is in compliance with the Ethical Standards in Public Life etc. (Scotland) Act 2000. This includes a register of interests. Lothian Health Board's anti-fraud and corruption message is disseminated to staff through intranet, connections magazine and the procedure on business conduct (applying the principles of good business). Lothian Health Board's Standing Financial Instructions ("SFIs") sets out high level principles on good business conduct expected of employees. This is supplemented with the procedures and guidance on applying the principles of good business conduct.

79. We have concluded that the arrangements for the prevention and detection of corruption in Lothian Health Board are satisfactory, and we are not aware of any specific issues that we need to identify in this report.

Equality Act 2010

80. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part of everyday business. Lead responsibility for mainstreaming equality and diversity rests with Lothian Health Board's Director of Human Resources & Organisational Development supported by the Head of Equality and Diversity.

81. The board's 'Mainstreaming Equality in Lothian Health Board - Report 2013' reports progress towards mainstreaming equality. The report sets out the context for equality legislation and Lothian Health Board. It cites potential benefits of mainstreaming and recognises what Lothian Health Board is doing to integrate equality into its core functions. This is being achieved in a number of ways, including:

- Equality and Rights Action Plan 2013-17
- Through the Equality and Diversity Team, EQIA Steering Group, Equality Leads and relevant Executive Directors and senior management
- Targeted training programmes to meet identified needs from Equality Rights Action Plan 2013-17
- The setting of objectives for relevant managers as part of their performance management arrangements
- Establishment of baseline and robust data to measure achievement of equality outcomes
- Communication of equality issues through the intranet, internet and staff newsletter
- The achievement of equality outcomes for monitoring by the board.

82. In terms of the Equality legislation, the board is required to publish information about its Equality outcomes, the actions taken by the board and the progress made to achieve them. This is to allow the public to assess the organisation's performance on equality. Consequently, the board must publish a report on the progress made no later than 30 April 2015.

Outlook

Partnership Working

83. Between 2011/12 and 2014/15 the Scottish Government's spending will fall by 5.5% (£1.5 billion) allowing for inflation. Reductions of this scale are a significant challenge for the Scottish Public Sector. The Christie Commission report on the future of public services (June 2011) highlighted the need for a new, more radical, collaborative culture throughout Scotland's public services with a much stronger emphasis on tackling deep-rooted and persistent social problems in communities.

84. The Scottish Government is developing its approach to the integration of Adult Health and Social Care, with publication of the Public Bodies (Joint Working) (Scotland) Bill in May 2013, which will have organisational and operational impacts for all NHS boards. There is also now a renewed focus on partnership working focused on community planning. Audit Scotland's recent report on Improving community planning in Scotland (March 2013) highlighted that community planning has had little influence over mainstream public sector budgets and other resources used to date. The Scottish Government has re-emphasised the central role that community planning should play in driving the reform of public services. Indeed, the 'Statement of Ambition' published by the Scottish Government and the Convention of Scottish Local Authorities sets out high expectations of community planning and puts the community planning process at the core of public service reform by providing the foundation for effective partnership working, within which wider reform initiatives will happen.

85. The increasing importance of partnership working within a community planning framework is still evolving and we will monitor progress in this area.

Best Value, use of resources and performance

86. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

87. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.

88. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
    - a performance audit which may result in the publication of a national report
    - an examination of the implications of a particular topic or performance audit for an audited body at local level
    - a review of a body's response to national recommendations.

89. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. Audit Scotland has prepared a series of Best Value toolkits to facilitate its reviews in these areas.

90. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

91. This section includes a commentary on the Best Value / performance management arrangements within Lothian Health Board. We also note any headline performance outcomes / measures used by Lothian Health Board and any comment on any relevant national reports and the board's response to these.

Management arrangements

Best Value

92. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. It required public bodies to take a systematic approach to self-evaluation and continuous improvement. Furthermore, the guidance identifies the seven themes which an organisation needs to focus on in order to deliver the duty of Best Value. It also notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

93. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:

94. Lothian Health Board is committed to the principles of Best Value and continuous improvement, and produces an annual Best Value Assurance Statement. The Corporate Governance Manager presented this statement to the Audit and Risk Committee at their meeting on 24 June 2013. We will continue to monitor developments in this area.

Service Redesign

95. During 2012/13 oversight of service redesign became the responsibility of the newly established Strategic Planning Group (replacing the former Service Redesign Committee and Improving Care Investing in Change Executive Group). This group makes regular reports to the board and, in February 2013, published the Lothian Health Board Strategic Clinical Framework 2012-2020. Challenges facing Lothian Health Board in future years include:

- An increasing population with the greatest increase in the over 75 age group
- Socioeconomic health differences and lifestyle-based health problems
- Increased incidence of cancer, dementia and obesity
- Changes in the skills mix of the board workforce
- Stagnant real terms growth in health spending.

96. The Framework includes key principles for health and healthcare planning and sets out six aims and associated actions as follows:

- Prioritise prevention, reduce inequalities and promote longer healthier lives for all
- Establish robust systems to deliver the best model of integrated care across primary, secondary and social care

- Ensure that care is evidence-based, incorporates best practice and fosters innovation, and achieves seamless and sustainable care pathways for patients
- Design healthcare systems to reliably and efficiently deliver the right care at the right time in the most appropriate setting
- Involve patients and carers as equal partners, enabling individuals to manage their own health and wellbeing and that of their families
- Use resources efficiently and effectively.

97. Delivery of the actions within the framework will be through new models of care, some delivered jointly with local authority partners such as integrated health and social care. The immediate priorities outlined in the strategy are:
    - integrated care pathways for frail and elderly patients with complex needs
    - consistency of care for older people with complex needs accessing high volume elective surgery
    - improved condition-specific pathways associated with long term conditions.

Performance management

98. A key component of the board's performance management and reporting framework is the monthly performance reporting to the board. Performance reports are presented at each meeting of the board and provide assurance of the overall performance of Lothian Health Board. Performance reports to the board focus on key aspects of performance - financial position, HEAT targets, waiting times and unscheduled care. Reports include narrative explaining trends in performance as well as actions being taken to improve performance.

99. The failures in reporting of the board's performance on waiting times had raised questions and wider concerns about the accuracy of reporting of performance information. Consequently a review of information received by the board was commissioned and the results and recommendations were presented in April 2012. The report was also provided to the Scottish Government. The report recommended that:
    - the board's committee structure should be reviewed to ensure statutory responsibilities are met
    - statutory information assurance requirements are agreed for the board and its committees
    - the content and supply of information to the board and its committees is defined
    - all information is validated and provided from a single source.

100. At the request of the Audit and Risk Committee, progress against recommendations was reviewed by Internal Audit. In March 2013 Internal Audit concluded that overall progress was satisfactory and actions resulting from the review have either been completed or are being progressed within the Management Culture Work Programme. We will continue to monitor these developments.

Scotland's Public Finances – Addressing the challenges

101. In the current year, we carried out a focussed follow-up audit on Scotland's public finances: addressing the challenges report originally published in August 2011. Follow-up audits are also being carried out in all health boards and councils in Scotland. In addition, follow-up audits are being carried out at 20 central government bodies, including the Scottish Government, Scottish Enterprise and Scottish Water.

102. The original report set out a number of key issues and risks expected to be faced by the public sector in the period 2010/11 to 2014/15. The main aim of the follow-up audit is to look at what action has been taken since the publication of the original report in August 2011 and what difference this has made. In particular, auditors were asked to consider two key questions:

- Does the health board have sustainable financial plans which reflect a strategic approach to cost reduction?
- Do senior officials and non-executives demonstrate ownership of financial plans and are they subject to scrutiny before approval?

103. A key consideration in the Audit Scotland report was the extent to which workforce reductions were being used to deliver financial savings. This was not covered by the follow-up audit because of a separate study being carried out by Audit Scotland on changes to the Scottish public sector workforce which will look in detail at workforce planning.

104. The fieldwork on this study is nearing completion and we will report our findings to a future meeting of the Audit & Risk Committee.

Overview of performance targets in 2012/13

105. The board receives regular board executive performance reports from the Chief Executive on progress towards achieving the key performance targets set by the Scottish Government (HEAT targets and standards) and local targets.

106. The board has achieved good performance by either meeting or exceeding its targets in a number of areas. These include for example, patients referred urgently for cancer treatment, rate of clostridium difficile infections; smoking cessation and client referrals for drug and alcohol treatment.

107. Some targets were not fully achieved including the 4 Hour Accident and Emergency waiting time target, the Child and Adolescent Mental Health Service 26 week referral to treatment target, access to the Stroke Unit, incidence of MRSA/MSSA infections, delayed discharges, suicide reduction, and GP access. Maintaining and sustaining access targets is resource intensive and costly. This increases the pressure on the board at a time when it is requires to achieve significant savings on a recurrent basis.

108. The board established an Unscheduled Care Group during 2012/13 led by the Nurse Director and the Edinburgh CHP Director of Health and Social Care. One of the aims of the group is to help improve performance and achieve the 4 hour target. The board has also increased investment in staffing and opened additional acute beds as part of its strategy to address

unscheduled care demands. However, performance against the 4 hour target declined during the year and achievement still presents a significant challenge to the board.

Risk Area 4

109. The extent of the backlog of patients awaiting treatment at Lothian Health Board was only fully realised after failings in waiting time performance reporting were addressed. A significant number of patients, many with complex needs, are still awaiting treatment which will continue to present a challenge to the board.

110. The Patients Rights (Scotland) Act 2012 introduced a statutory 12 week treatment time guarantee for eligible patients. This became effective from 1 October 2012. The board did not achieve this target in a number of cases despite making additional capacity available. As with performance generally, there remains the challenge to balance achievement of performance targets (particularly access targets) against reducing funding levels and other competing service priorities. The board has received an additional £10m Brokerage from SGHSCD to address the waiting times backlog. However, it remains to be seen whether this will be sufficient to enable Lothian Health Board to achieve its treatment time targets.

Risk Area 5

National performance reports

111. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. The findings and key messages of these studies are published in national reports.

112. The board has a formal process to ensure that the findings of national reports relevant to the board are considered in detail to identify their potential impact and the board's progress in addressing recommendations locally. These reports are discussed at the Audit and Risk Committee and where improvements are identified actions are agreed locally and progress monitored. Reports in the last year that may be of relevance to the board include, two of which are detailed further in the following paragraphs:

Table 2: A selection of National performance reports 2012/13

- Management of patients on NHS waiting lists (February 2013)
- Prescribing in general practice in Scotland (January 2013)
- Health inequalities in Scotland (December 2012)
- NHS Financial Performance 2011/12 (October 2012)

www.audit-scotland.gov.uk

Management of patients on NHS waiting lists

113. Audit Scotland carried out a review of waiting times across the health service in Scotland following Lothian Health Board's reported misuse of patient unavailability codes. The review

recognised the need for independent assurance on the management of waiting times to restore public confidence in the system.

114. In addition, NHS boards' internal auditors were requested by the SGHSCD to carry out a review of waiting times as part of their 2012/13 internal audit plans and to report their findings by 17 December 2012. Shortly after this date, the Cabinet Secretary for Health and Well Being reported to the parliament the findings from internal audits carried out across the NHS in Scotland. The main findings were:

- there is no evidence of wide scale manipulation of waiting times across the National Health Service in Scotland
- overall, the waiting times published by boards are reliable and accurate
- the principal shortcomings relate mostly to the capability to record on some information technology systems, the consistent interpretation of guidance, and staff training
- there are specific, localised issues in board areas that need to be addressed.

115. The Cabinet Secretary also made clear that he expected NHS boards to have implemented all locally identified recommendations for improvement by March 2013.

116. The internal auditors for Lothian Health Board had reported their findings to the Audit and Risk Committee held on 15 November 2012. They concluded that although various workstreams have improved how waiting lists are managed over the past year some areas for improvement were identified including the following:

- Non-centralised management of waiting lists and inconsistent practices
- Insufficient staff training in the use of the Standard Operating Procedures which does not fully reflect national guidance
- Periods of unavailability were applied which do not reflect national guidance
- Many users who do not require access can input or amend waiting list information on TrakCare
- The framework for reporting is complex and some information could be made clearer in board reports.

117. Management agreed an action plan of improvements which were subsequently reviewed in more detail by the Audit & Risk Committee in February 2013 to confirm progress in implementation as requested by the Cabinet Secretary. These enabled the Medical Director to provide a letter of assurance to the SGHSCD that local improvements had been implemented or were in progress. The SGHSCD have requested that all boards undertake a follow-up audit on the management of waiting times to ensure that planned improvements have been made and are working effectively. We will monitor the position at a future date.

118. Audit Scotland's national report on the Management of patients on NHS waiting lists published in February 2013 highlighted similar issues to those outlined above:

- The systems used to manage waiting lists have inadequate controls and audit trails, and the information recorded in patient records is limited

- Most patients' records that were examined did not include enough information to verify that unavailability codes had been applied properly
- Audit Scotland identified a small number of instances in which unavailability codes were used inappropriately. The limitations of waiting list management systems and the lack of evidence in patient records mean that it is not possible to determine whether these instances were due to human error, inconsistent interpretation of the guidance, or deliberate manipulation of waiting lists
- There was not enough scrutiny of the increasing number of patients recorded as unavailable.

119. The national report also highlighted good practice at Lothian Health Board, in particular, the use of TrakCare's enhanced performance reporting to monitor patients on waiting lists and the development of the forensic dashboard tool. The report also notes the considerable investment made at Lothian Health Board to treat the backlog of patients waiting longer than target times for treatment.

NHS Financial Performance 2011/12

120. The report provides an overview of the financial performance of the NHS in Scotland during financial year 2011/12. It also highlights the financial sustainability, challenges and cost pressures facing the NHS.

121. The report notes that after several years of growth in public finances following devolution, public sector budgets are now falling. This reinforces the need for sound financial management and clear financial reporting, underpinned by good information and strong governance and accountability.

122. In 2011/12, spending on health accounted for about a third of the total Scottish budget and amounted to around £11.7 billion. Although the overall health budget has continued to increase in cash terms, it has been decreasing in real terms since 2009/10 and is projected to decrease further in real terms for the next three years.

123. The Scottish Government allocates over 90 per cent of the total health budget to 23 NHS boards, with the remainder retained by the Scottish Government to spend on other areas of its Health and Wellbeing Portfolio. While the overall health budget is decreasing in real terms, the Scottish Government has protected the total amount allocated to territorial boards and this will increase slightly in real terms (1.3 per cent) over the next three years. However, budgets for special boards will fall by 5.6 per cent in real terms.

124. The national report noted that the NHS in Scotland continued to manage its finances within total budget. However, this does not reflect the pressures faced by boards and a number of them had to rely on non-recurring savings to achieve balance. Moreover, some other boards needed extra help from the Scottish Government to break-even in 2011/12.

125. Boards are increasingly reliant on achieving savings to meet their financial targets yet across the NHS 20% of savings plans are considered high risk although some boards are indicating that they will have to achieve savings in excess of this level.

126. The national report highlighted that the board categorised two thirds of their savings plans as high risk and that more than ten per cent of required savings were unidentified raising concerns about the achievability of these plans. Furthermore, the national report noted that the board remained below its National Resource Allocation Committee formula allocation.

Outlook

Performance

127. Over recent years the board has invested substantial resources, particularly in relation to waiting times and unscheduled care, to achieve challenging performance targets set by the Scottish Government. The significant financial challenges that will be faced in 2013/14 and beyond make maintaining or improving performance even more difficult.

128. We will continue to monitor developments locally on waiting times issues. Also, the Auditor General has been asked by the Public Audit Committee of the Scottish Parliament to provide an update on Audit Scotland's Management of patients on NHS waiting lists report later this year. The audit work will focus on progress made by the NHS in establishing clear information audit trails and on the management and monitoring of waiting lists. The fieldwork for the report will be carried out at NHS boards in September and October of 2013 with a report to the Public Audit Committee by the end of December 2013.

Appendix A: audit reports

External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit Committee
Internal Audit Reliance Letter	21 December 2012	4 February 2013
Annual Audit Plan	15 January 2013	4 February 2013
Internal Controls Management Letter	7 March 2013	2 April 2013
Scotland's Public Finances: Addressing the Challenges – Follow-up audit	tbc	tbc
Best Value use of Resources - Sustainability	tbc	tbc
ICT eHealth Services Follow up	14 June 2013	24 June 2013
Report to Audit Committee in terms of ISA 260	17 June 2013	24 June 2013
Independent auditor's report on the financial statements	17 June 2013	24 June 2013
Annual Report on the 2012/13 Audit	31 July 2013	30 September 2013

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	22	**Equal Pay** Lothian Health Board (and other boards) has not been able to quantify the extent of its liability for Equal Pay claims. There is a risk that these liabilities could have an impact on the board's financial position.	The NHS Scotland Central Legal Office and Equal Pay Unit are continuing to monitor the progress of all equal pay claims in NHS Scotland as well as developments relating to NHS equal pay claims elsewhere that may further inform the position. The period over which back pay for any established breach would have to be calculated is the period between dissolution of their employing Trust and 30 September 2004. For NHS Lothian this means that the period of the claim is limited to 9 months. The limited scope of these claims was upheld by the Employment Appeal Tribunal in the test case of Foley and Ors v Greater Glasgow Health Board (August 2012). Pay comparators have still not been identified, with the exception of a small number of cases. Work is still ongoing by both claimants and respondents in this regard. Until comparators are identified it is not possible to identify the term which is said to breach the equality clause. Central Legal Office therefore continues to advise that it is not possible to provide any financial quantification at this stage	Director of Human Resources and Organisational Development	Through 2013/14 to March 2014.

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			because of the lack of information available. On the basis of their view the appropriate accounting treatment is to disclose the claims as a contingent liability that is not possible to quantify. We are unable to do the work as the situation legally is sufficiently uncertain, therefore we are not in a position to make realistic assessments - This is the position negotiated by the Scottish Government in respect of all NHS Boards in Scotland. The Director of Human Resources & Organisational Development will continue to monitor the position on a regular basis and advise the board as appropriate.		
2	30 & 44	**2013/14 Savings Target** The delivery of the cost savings plan in 2013/14 will be more challenging because of the release of cost savings in previous years and the current significant financial pressures. It is therefore important that the board continues to closely monitor costs in order to take any required remedial action through	The board's formal quarterly and mid-year financial forecasting review process and that supporting the development of the annual financial plan are key elements of the risk management approach to this challenge. The board has established an Efficiency and Productivity group which reviews savings proposals and progress with agreed savings schemes and work-streams; enhanced by local departmental plans. This is supported with programme managers recruited during 2013. It is the board's intention, led by the Director of Finance to more	Director of Finance	Through 2013/14 up to March 2014.

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		supplementary cost saving schemes. The longer term financial plan remains at risk of not being affordable due to the wide range of financial challenges and pressures being faced by the board, or that savings targets may not be achieved.	closely align the Financial Plan with the emergent Clinical Framework agreed by the board in February 2013. Progress and recommended actions are reported regularly to the Joint Management Team and the Finance and Resource Committee of the board.		
3	37	**Workforce Planning** The board is facing major challenges in achieving and maintaining the sickness absence target of 4%, as well as through the reduction in senior management target of 25% by 2013/14. There is a risk that workforce and management capacity issues may impact on the board's ability to achieve its financial and non-financial performance targets.	Key workforce metrics (including absence) are reported regularly to the Area Partnership Forum, and to the board. The Human Resources and Organisational Development Strategy was updated and reported to the board in November 2012 and is refreshed annually. Specific actions on variance on trajectory towards targets are agreed at such meetings and implemented in partnership with staff representatives. In addition to areas relating to absence, the board's Risk Register Review identified medical workforce recruitment and retention issues, with particular impact on areas relating to regional provided and paediatric services, and measures to mitigate such risks have been subject of regular reporting by the Medical Director to the board. The board continues to monitor these risks	Director of Human Resources and Organisational Development/ Medical Director	Through 2013/14 up to March 2014.

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			and appropriate actions are shared between the Medical Director and the Director of Human Resources and Organisational Development.		
4	108	**Performance targets - unscheduled care** Despite considerable activity the board has not sustained improvement in its performance in unscheduled care. Failure to meet this target continues to present a risk to the board.	NHS Lothian is committed to improving its performance and in May 2013 achieved 94.9% against the 95% target. Performance against the 4 hour Emergency Care target has been challenging within NHS Lothian for some time. In response to that need, during 2012/13 under the leadership of its Unscheduled Care Group (UCG), NHS Lothian and its social care partners have been developing and implementing plans which largely mirror the recent publication of the national Unscheduled Care Action Plan with the goal of improving performance for patients. NHS Lothian is required to show within the Local Unscheduled Care Plan (LUCAP) that the necessary actions, supported by quarterly and annual trajectories, are in place to reach a minimum of 95% performance by September 2014 and to move to 98% as rapidly beyond this. The LUCAP was approved by the board in June 2013.	Director of Nursing	Sept 2014 through to March 2014.

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	110	**Performance targets - waiting times** The board has not yet been able to ensure that it can meet all its waiting time targets. There is a risk that in a climate of limited funding increases and competing priorities, performance targets are not achieved and sustained, including treatment time guarantee for eligible patients.	The board have been regularly sighted on issues in relation to delivering waiting times targets on a sustainable basis. Substantial progress was made during 2012/13 with support from the Scottish Government through financial brokerage as is reported in the annual accounts for 2012/13. The board continues to address issues of capacity through expansion of internal facilities and reduction in reliance on private providers over the next 12-18 months and the investment required has been reported and agreed by the board. Independent of capacity constraints (which impact particular specialities such as orthopaedics and ophthalmology), there are workforce issues in relating to the required complex procedures in specialities such as urology which impact on the ability to deliver Treatment Time Guarantees. The board anticipates continued progress towards delivering sustainable target performance over the next two years.	Medical Director/ Director of Finance	Through-out 2013/14 and 2014/15.