



Lanarkshire Health Board

Annual Report to the Board & the Auditor General for Scotland 2013/14

July 2014



Scott-Moncrieff
business advisers and accountants

Lanarkshire Health Board

Annual Report to the Board & the Auditor General for Scotland 2013/14

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Executive Summary

Financial Statements

NHS Lanarkshire's financial statements for the year ended 31 March 2014 were approved by the Board on 25 June 2014. We provided unqualified opinions on the financial statements, the regularity of transactions and on other prescribed matters. We were also satisfied that there are no matters which we were required to report to you by exception.

The audit identified some disclosure and presentational adjustments and these were reflected in the signed financial statements. This is discussed in more detail in our separate report on the audit of the financial statements.

Use of resources

The Board met all of its key financial targets in the year, achieving a saving against its Revenue Resource Limit (RRL) of £3.544 million (0.4%). The surplus was consistent with the planned outturn that was agreed with the Scottish Government Health and Social Care Directorates (SGHSCD), as part of the 2013/14 Local Delivery Plan (LDP). The Board expects to receive the 2013/14 surplus as a non-recurring revenue allocation in 2014/15.

The Board invested its full £16.344 million Capital Resource Limit (CRL) in 2013/14, with the most significant projects being capital works at Monklands Hospital, investment in three new health centres being delivered through the Hub initiative, new medical equipment, and e-health projects.

Efficiency savings totalling £25.953 million were achieved during the year, with £14.851 million cash releasing savings. As at June 2014, the Board had yet to identify £2.295 million (9%) of its 2014/15 savings and this therefore requires further work.

The LDP for 2014/15 to 2016/17 forecasts a small saving against RRL for each of the next three years.

Performance

The Board's performance management framework is aligned with its Local Delivery Plan (LDP) and corporate objectives. Progress against targets is reported to the Board on a quarterly basis. More detailed reports are provided by executive directors on relevant performance information on an exception basis.

In August 2013, the Cabinet Secretary for Health and Wellbeing commissioned a rapid review into the safety and quality of care for acute adult patients in NHS Lanarkshire. The review was commissioned after higher than average mortality ratios were published in relation to Monklands Hospital. A new strategy on Healthcare Quality Assurance and Improvement is being developed, which will be overseen by the HSMR Improvement Programme Board. The full Board will also continue to receive monthly reports on the progress of all outstanding actions within the 'Patient Safety and Quality of Care' report. This should ensure adequate oversight of the completion of the action plan, and effective scrutiny of ongoing performance.

Governance

NHS Lanarkshire included a disclosure in the Governance Statement on the Healthcare Improvement Scotland rapid review of Hospital Standardised Mortality Ratios at Monklands Hospital.

More broadly, we have reviewed the Board's corporate governance arrangements and found that generally adequate and effective systems are in place for internal control, the prevention and detection of fraud and irregularity, standards of conduct and the detection and prevention of bribery and corruption.

Conclusion

This report concludes our audit for 2013/14. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards. This report has been agreed with the 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 2014

Introduction

1. Our 2013/14 audit work at Lanarkshire Health Board, commonly known as NHS Lanarkshire, has covered the Board's arrangements for managing resources, performance management and governance. This is in addition to our work on the financial statements. This report summaries our findings in each of these areas. The scope of our audit was set out in our External Audit Plan, which was previously presented to the Audit Committee.
2. In addition to this annual report, we have delivered the following outputs during 2013/14:
 - External audit plan;
 - Interim management report;
 - National Fraud Initiative outputs;
 - Report on the audit of the financial statements; and
 - Best value report on People Management.

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

3. 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.
4. The Board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report 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.
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 financial statements are the principal means of accounting for the stewardship of the resources made available to the Board.

Overall conclusion

An unqualified audit opinion

7. The financial statements for the year ended 31 March 2014 were approved by the Board on 25 June 2014. We have reported, within our independent auditor's report:
 - an unqualified opinion on the financial statements;
 - an unqualified audit opinion on regularity; and
 - an unqualified audit opinion on other prescribed matters.
8. We are also satisfied that there were no matters which we are required to report to you by exception.

Good administrative processes were in place

9. We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to the finance team for their assistance with our work.
10. The annual accounts were submitted to the Scottish Government and the Auditor General for Scotland prior to the 30 June 2014 deadline.

Our responsibilities

11. Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance. Specifically in relation to the financial statements, we are required to audit them in accordance with International Standards on Auditing (ISAs) and to give an opinion on:
 - whether the financial statements give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the Board's affairs as at 31 March 2014 and of its net operating cost for the year then ended;
 - whether the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the 2013/14 FReM;
 - whether the financial statements have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;

- whether in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers (the regularity opinion);
 - 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 the Scottish Ministers; and
 - whether the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
12. We also report to you by exception on several matters, as discussed further in our report on the audit of the financial statements.

Board members' responsibilities

13. It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare the financial statements that show a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder. This means:
- applying the accounting policies and standards approved for NHS Scotland by Scottish Ministers on a consistent basis;
 - making judgements and estimates that are reasonable and prudent;
 - stating whether applicable accounting standards as set out in the Financial Reporting Manual (FRoM) have not been followed where the effect of the departure is material; and
 - preparing the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate.
14. Board members are responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Board and enable them to ensure that the accounts comply with the National Health Service (Scotland) Act 1978 and the requirements of Scottish Ministers. They are also responsible for implementing appropriate internal control systems, safeguarding the assets of the Board and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independence

15. We confirm that we have complied with Auditing Practices Board Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:
- There are and have been no relationships between Scott-Moncrieff and the Board, its directors and senior management that may reasonably be thought to bear on our objectivity and independence,
 - Scott-Moncrieff has not provided any consultancy or non-audit services to the Board which would impair our audit independence.

Key areas of audit focus and significant findings

Financial Position

16. In response to the financial challenges facing the Board, significant real cash efficiency savings continue to be achieved to deliver a balanced budget. Pay, hospital drugs, prescribing and utility costs are all having a significant impact on the Board's finances and related risks. Overall, we found that the Board has effective arrangements in place for financial management and the use of resources. Our findings are reported more fully in the Use of Resources section below.

PFI and Hub assets

17. The Board has three facilities that are funded through the PFI mechanism; Hairmyres, Wishaw and Stonehouse Hospitals. Plans are also progressing in relation to three new health centres being acquired through the Hub funding model.
18. We have reviewed the accounting and disclosure of the Board's PFI and Hub assets and are satisfied that these have been accounted for appropriately. The Board's PFI assets were valued at £220.943 million as at 31 March 2014, in line with the NHS Capital Accounting Manual. The accounts also disclose finance lease obligations for the capital amounts that the Board is contracted to pay. The value of these remaining lease payments for the PFI hospitals was just under £160 million at 31 March 2014.
19. Financial models are used to calculate the amounts to be reflected in the accounts for the PFI Hospitals. As with last year, we noted some small differences between the Board's financial models, the underlying contract documents and the charges incurred in the year. This has resulted in some trivial misstatements in the financial statements, for which no adjustment was required. However, if the financial models are not being reviewed on an annual basis there is a risk that any subsequent misstatement could be more than trivial in future periods. The Board should review its financial models annually to ensure that they reconcile to the original contracts, the assumptions remain appropriate and, where appropriate, they reflect the charges incurred.

Action Plan Point 1

20. Financial close on the Board's three Hub projects was reached in December 2013 with on-site work commencing in January 2014. Hub Southwest Scotland ("Hubco") will finance, design and construct the assets and provide certain services for the new health centres. The health centres are expected to be operational in 2014/15 with ownership of the facilities transferring to the Board at the end of the contract term, in May 2040. In 2013/14, the Board has recognised asset additions of £1.576 million for the land upon which the new health centres will be built. The land will remain under the Board's ownership throughout the contract term. The Board's £0.975 million investment in Hubco is recognised as a non-current financial asset, in line with the NHS Capital Accounting Manual.

Revenue recognition & management override

21. Under International Auditing Standards, auditors are required to presume that there is a risk of fraud in relation to revenue recognition. To address this risk we have reviewed the controls in place over the accounting records and found them to be sufficient. We have evaluated each type of revenue transaction and carried out testing to ensure that the Board's revenue recognition policy is appropriate and has been applied consistently.

22. Management override is also a presumed risk under auditing standards. Management is 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. We have carried out specific testing in this area and our audit has identified no indications of management override during the year.

Audit Adjustments

23. The audit identified some disclosure and presentational adjustments and we are pleased to report that these are all reflected in the updated financial statements. A small number of immaterial adjustments were also identified by the Board during the audit. None of the adjustments identified had an impact, either individually or collectively, on the Board's net operating cost for the year.

Governance Statement

24. As auditors to the Board we are required to review the contents of the Governance Statement and report by exception if it does not comply with the guidance issued by Scottish Ministers. From 2013/14 we are also required to identify any information that appears materially incorrect, or is materially inconsistent with the findings of our audit work.
25. We are satisfied that the Governance Statement complies with the Scottish Ministers' guidance and that the content is not inconsistent with information gathered during the course of our normal audit work. NHS Lanarkshire has included a Governance Statement disclosure in relation to the Healthcare Improvement Scotland rapid review of Hospital Standardised Mortality Ratios at Monklands Hospital.

Qualitative aspects of accounting practices and financial reporting

26. During our audit we have considered the qualitative aspects 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.

Table 1: Consideration of the qualitative aspects of the financial reporting process

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the financial statements, are considered appropriate to the Board.
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 of the transaction or the period in which they were recognised.

Qualitative aspect considered	Audit conclusion
<p>The appropriateness of the accounting estimates and judgements used.</p>	<p>The accounting estimates and judgements used by management in the preparation of the financial statements are considered appropriate. The principal areas of estimates and judgements have been: property valuations, asset depreciation rates and the valuation of provisions. Where appropriate, the Board has utilised the work of independent experts or industry practice to support the estimates made.</p>
<p>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.</p>	<p>All significant uncertainties, risks and disclosures are appropriately reflected in the financial statements.</p>
<p>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.</p>	<p>From the testing performed, we identified no significant unusual transactions in the period.</p>
<p>Apparent misstatements in the directors' report or material inconsistencies with the financial statements.</p>	<p>The directors' report and the strategic report contain no apparent misstatements and there are no material inconsistencies with the financial statements.</p>
<p>Any significant financial statement disclosures to bring to your attention.</p>	<p>There are no significant financial statement disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p>
<p>Disagreement over any accounting treatment or financial statement disclosure.</p>	<p>There was no material disagreement during the course of the audit over any accounting treatment or disclosure.</p>
<p>Difficulties encountered in the audit.</p>	<p>There were no significant difficulties encountered during the audit.</p>

Use of resources

27. 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. Overall, we found that the Board has effective arrangements in place for financial management and the use of resources. Our conclusions are based on a review of the Board's financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets.

The Board's financial performance in 2013/14

The Board met all of its key financial targets in the year

28. The Board has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD). Table 2 shows that the Board met all of its key financial targets in 2013/14.

Table 2: Performance against key financial targets

	Target (£million)	Actual (£million)	Saving (£million)	Target achieved?
Core revenue resource limit	948.631	945.087	3.544	Yes
None-core revenue resource limit	31.951	31.951	0	Yes
Capital resource limit	16.344	16.344	0	Yes
Cash requirement	1,031.152	1,031.152	0	Yes

Source: Annual Accounts for the year ended 31 March 2014

A saving of £3.544 million against RRL

29. The surplus of £3.544 million (0.4%) was consistent with the planned outturn set out in the 2013/14 LDP. The planned outturn was predicated on the carry forward of the saving against RRL of £4.528 million from 2012/13. This was agreed with SGHSCD to cover costs of refurbishment works at Monklands Hospital and the implementation of the adult mental health strategy in 2013/14 and 2014/15. Taking the carry forward in to account, the Board has delivered an in year deficit of £0.990 million (0.1% of RRL), but this is part of a managed strategy. The Board expects to receive the 2013/14 surplus as a non-recurring revenue allocation in 2014/15.

30. The outturn position was achieved despite the acute operating division overspending by £4.857 million against budget. The principal reasons for this were higher than expected expenditure on theatre supplies (£1.594 million) and acute nursing pay costs (£3.075 million). The Board reports that the overspend on pay costs is largely due to increased use of bank nurses. As a result, tighter controls have been implemented over the use of agency locums and rostering practices are being reviewed. During 2013/14 the Board approved £1.071 million of additional nursing posts for A&E units and £3.1 million of additional investment for the general wards. It is anticipated that this additional funding should lead to reductions in the use of bank staff in these areas.

31. Table 3 shows a more detailed breakdown of the Board’s financial performance during 2013/14, taken from the April Board report. The table shows that the overspend on acute services was offset by an underspend against corporate budgets. The underspend on “NHS wide” budgets represents the £4.53million carried forward from 2012/13 as well as slippage against other aspects of the financial plan.

Table 3: Summary financial performance

Area	YTD Budget (£million)	YTD Actual (£million)	YTD Variance (£million)	YTD Variance (%)
Acute	295.117	299.974	-4.857	-1.6%
North CHP	108.572	107.713	0.859	0.8%
South CHP	51.950	51.449	0.501	1.0%
Primary Care Other	284.254	284.195	0.059	0.0%
HQ / Corporate	116.382	116.070	0.312	0.3%
SLAs / Other Providers	149.125	149.961	-0.836	-0.6%
NHSL wide	37.215	29.709	7.506	20.2%
Net operating costs	1,042.615	1,039.071	3.544	0.3%

Source: Lanarkshire Health Board Finance Report for the period ended 31 March 2014. Note: minor differences between this and the financial statements reflect the impact of endowment consolidation, capital grant impact and other, immaterial items.

The Board reported a small in-year surplus against recurring expenditure in 2013/14

32. Table 4 analyses the Board’s 2013/14 outturn and 2014/15 forecast outturn into recurring and non-recurring lines. It shows that the Board reported a small in-year recurring surplus of £0.1 million in 2013/14. This was offset by an in-year non-recurring deficit of £1.1 million. The Board’s overall outturn was supported by £4.53million carried forward from 2012/13, as part of a planned financial strategy.
33. The carry forward of the 2013/14 saving against RRL of £3.544 million will support a further non-recurring in year deficit in 2014/15, of £3.1 million. A recurring break even position is expected in 2014/15.

Table 4 – Achievement of 2013/14 surplus and forecast for 2014/15

Description	2013/14 £million	2014/15 £million
Recurring income	926.000	1,048.200
Recurring expenditure	932.200	1,059.100
Recurring savings	6.300	10.900
Underlying recurring surplus/(deficit)	0.100	0.000
Non-recurring income	190.800	75.000
Non-recurring expenditure	197.700	81.200
Non-recurring savings	5.800	3.100
Non-recurring surplus/(deficit)	(1.100)	(3.100)
Financial surplus/(deficit)*	(1.000)	(3.100)
Underlying recurring surplus/(deficit) as percentage of recurring income	0.1%	0.3%

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

Source: Senior Management Accountant / Director of Finance

Capital Resource Limit

The Board met its CRL target in 2013/14

34. The Board received an initial capital allocation of £14.812 million. A number of relatively minor amendments during the year increased the total allocation to £16.344 million. The Board invested the full £16.344 million allocation in 2013/14, with the most significant projects being:

- capital works totalling £6.940 million at Monklands Hospital;
- investment of £2.552 million in three new health centres being delivered through the Hub initiative;
- medical equipment additions totalling £3.695 million; and
- £2.492 million on e-health projects, including £1 million on infrastructure replacement.

Savings

The savings target of £25.953 million was achieved

35. All territorial Boards were tasked with delivering 3% efficiency savings in 2013/14. For NHS Lanarkshire this equated to £25.953 million. Table 5 shows how the Board achieved the savings target for the year. Savings included £14.851 million of cash releasing efficiency savings. Of the total savings achieved, £15.764 million were recurring savings (£1.034 million above the planned amount) and £10.192 million

were non-recurring savings (£1.031 million below the plan). This performance on recurring savings puts the Board in a stronger position to manage its finances going forward.

Table 5: Efficiency savings breakdown

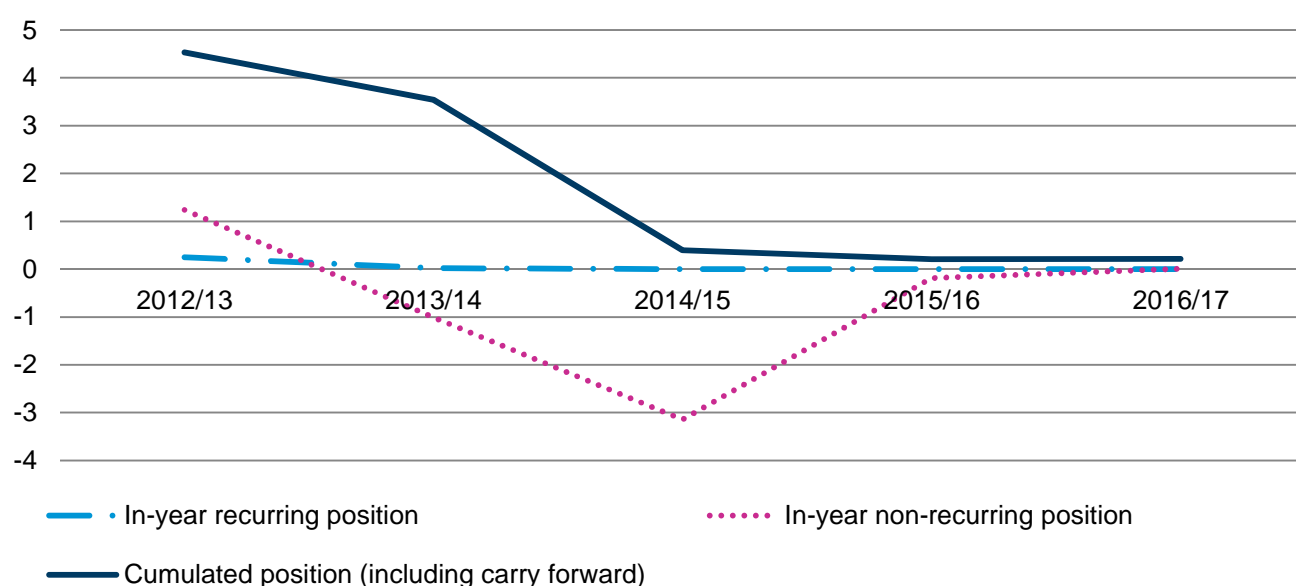
Target area	Plan (£'000)	Achieved (£'000)	Variance (£'000)	Variance (%)
Drugs	4.045	5.345	1.300	32.1%
Estates and facilities	1.673	2.623	0.950	56.8%
Procurement	2.753	2.519	-0.234	-8.5%
Service productivity	7.398	9.958	2.560	34.6%
Support services	0.740	1.660	0.920	124.3%
Workforce	3.230	3.851	0.621	19.2%
Unidentified	6.114	0.000	-6.114	-100.0%
Total	25.953	25.956	0.003	0.0%

Source: Lanarkshire Health Board Finance Report for the period ended 31 March 2014

Financial plans, funding and cost pressures

36. An LDP for 2014/15 to 2016/17 has been agreed with SGHSCD. Diagram 1 shows that the Board plans to utilise the carry forward of its cumulated surplus over the next two years. The LDP forecasts a small saving against RRL for the next three years (£0.4 million/0.04%, £0.2 million/0.02% and £0.2 million/0.02% respectively).

Diagram 1: Projected in-year surplus / (deficit) to 2016/17 (£ million)



Source: Lanarkshire Health Board Detailed Financial Plan

37. The core RRL available to the Board is forecast to increase by 3% in 2014/15, with further increases of 2.2% in 2015/16 and 1.9% in 2016/17. The financial plan also assumes relatively consistent year on year non-core funding (including to cover depreciation and impairments) of £23.437 million in 2014/15, £23.137 million in 2015/16 and £22.087 million in 2016/17.

The Board continues to face significant cost pressures and financial risks

38. The Board makes a range of assumptions in its LDP. These include estimates of increases in resources, pay costs, general prices, prescribing costs and volumes, and family health services costs. The financial assumptions made by the Board are generally in line with the average rates applied by comparable bodies and appear to be reasonable and consistent with our understanding of the Board's financial position. Table 6 below shows the financial assumptions being made by the Board and Table 7 shows the key risks the Board has identified in the LDP.

Table 6: Key financial assumptions: uplifts in the 2014-2017 LDP

Financial assumption	2014-15	2015-16	2016-17
Resources	3.04%	2.42%	2.40%
Pay	1.99%	2.95%	3.46%
Prices	2.15%	2.40%	2.40%
GP prescribing	4.50%	2.65%	2.65%
Hospital drugs	12.15%	8.53%	9.06%
Family health services	1.00%	1.00%	1.00%

Source: Lanarkshire Health Board 2014/15 Local Delivery Plan

Table 7: Key risks in the 2014-2017 LDP

Key assumption / risk	Risk rating	Potential financial impact
Ensuring safe and sustainable services with potentially fewer middle grade medical staff and difficulties recruiting consultants	Medium	Impact not likely to be felt until 2015/16
Cost of living rises will be held at 1% for the duration of the plan	Medium	1% increase = £4.7m
Increased access to new medicines	Medium	1% increase = £0.43m
Increased access to rare drugs	Low	£1.9m
GP prescribing costs	Medium	1p per item = £0.123m
Increased infrastructure costs from integration	Low	£0.3m

Key assumption / risk	Risk rating	Potential financial impact
Health board boundary changes	Medium	Not quantified
Patient flows when the new Southern General Hospital opens in 2015	Low	Not quantified

Source: Lanarkshire Health Board 2014/15 Local Delivery Plan

Savings plans are in place for 91% of the savings required in 2014/15

39. Efficiency savings of £26.710 million will need to be found in 2014/15. At the point of LDP submission the Board had identified £19.604 million (73%) of the savings required in 2014/15. Of the identified savings, 4% were assessed as high risk, 32% were medium risk and 64% of low risk.
40. As at June 2014, the Board had identified an additional £4.811 million savings, leaving £2.295 million (9%) still to be identified. The Board has a track record of achieving its efficiency savings targets. However, there remains a risk that the Board may not achieve the target if it cannot identify where savings will be made. The Board should ensure that savings plans are developed to achieve the remaining £2.295 million of unidentified savings required in 2014/15.

Action plan point 2

Boundary changes will continue to have an impact

41. In June 2013, the Scottish Government announced that, in line with the wider integration agenda, health board boundaries would be amended to better align with local authority boundaries. As a result, 16 GP Practices, 17 GDP practices, 11 Ophthalmic practices and 21 Community Pharmacies transferred into NHS Lanarkshire from 1 April 2014. Although the initial revenue allocation for 2014/15 does not include additional funding in relation to these practices, the Board expects that additional funding will be confirmed and received in due course.

Overall conclusion on financial management and use of resources

Good financial management arrangements in place, but financial risks continue to need close monitoring

42. 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 arrangements in place. However, increasingly challenging resource limits combined with increasing performance expectations requires a difficult balancing act for NHS Lanarkshire. Operating its three main acute hospital sites model exacerbates this challenge, and finances will require particularly detailed ongoing scrutiny by the Board and senior management.

Performance

43. An effective performance management system is key to ensuring the delivery of safe, effective, sustainable, person-centred care. We previously undertook a best value review of NHS Lanarkshire's performance management arrangements. We have used the findings of this review, our cumulated knowledge and experience of the Board's performance management framework, and 2013/14 performance reports, to assess the overall performance management arrangements in place.

NHS Lanarkshire has a generally effective overall performance management framework

44. The Board's performance management framework is aligned with its Local Delivery Plan (LDP) and corporate objectives. Progress against targets is reported to the Board on a quarterly basis. More detailed reports are provided by executive directors on relevant performance information on an exception basis.

45. Reports cover a range of metrics including Health, Efficiency, Access and Treatment (HEAT) targets, Healthcare Acquired Infections (HAI) and the Scottish Patient Safety Programme. Reports provide comparisons between actual figures for each quarter and projected performance within the LDP. Reports additionally provide detailed explanations where the Board is underachieving against target. The Board therefore remains well-informed of current progress towards HEAT targets.

46. There have been high profile issues in 2013/14 in relation to the Hospital Standardised Mortality Ratio at Monklands Hospital and this is discussed in detail below.

Performance against Scottish Government 2013/14 HEAT targets

47. For 2013/14, 19 targets made up the 'performance contract' between SGHSCD and NHS boards. These targets cover four priority areas outlined by the Scottish Government: Health, Efficiency, Access and Treatment. The targets and the planned trajectories are included in the NHS Lanarkshire LDP, with specific identified risks for each target and related management delivery actions. Of the 19 targets included within the LDP, seven were due for completion by March 2014.

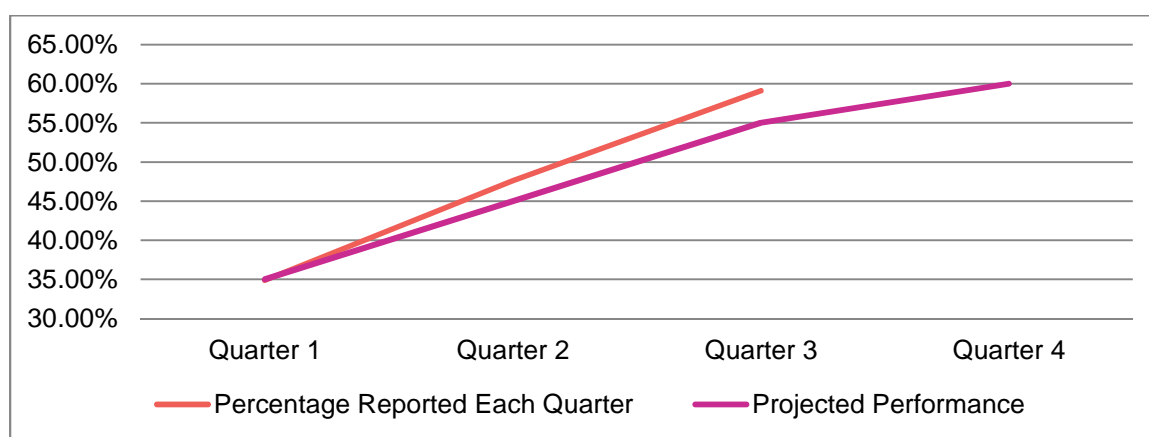
48. The Board's HEAT Performance Scorecard published in May 2014, reported that three of these seven targets were not achieved by 31 March 2014. We have therefore looked at the Board's performance against these three targets in more detail. The three targets were:

- At least 60% of three and four year olds in each Scottish Index of Multiple Deprivation (SIMD) quintile are to receive at least two applications of fluoride varnish per year by March 2014;
- NHS Scotland is to reduce energy-based carbon emissions and continue a reduction in energy consumption to contribute to the greenhouse gas emissions reduction targets set in the Climate Change (Scotland) Act 2009; and
- To support shifting the balance of care, NHS boards will achieve agreed reductions in the rates of attendance at A&E, between 2009/10 and 2013/14.

Fluoride varnish target expected to continue upward trajectory and to meet target

49. In May 2014, NHS Lanarkshire was unable to report on the current progress toward achievement of this target. The Board receives performance data on fluoride varnish applications from the Information Services Division (ISD) of NHS National Services Scotland. The data is received on a quarterly basis, six months in arrears. As at May 2014, the Board only had access to data up to December 2013.
50. The latest available data showed that 59.1% of three and four year olds received at least two applications of fluoride varnish per year. This figure exceeded the quarterly projected performance stated within the LDP of 55%. NHS Lanarkshire's performance has risen throughout 2013/14 (Chart 1). Given the increases in performance each quarter against this target, the Board is likely to have achieved the 60% benchmark by March 2014. This is expected to be confirmed on receipt of the ISD data in September 2014.

Chart 1: Reported percentage of three and four year olds to receive at least two applications of fluoride varnish in 2013/14



Source: Scott Moncrieff, from figures provided by NHS Lanarkshire

More action needed on carbon and energy reduction

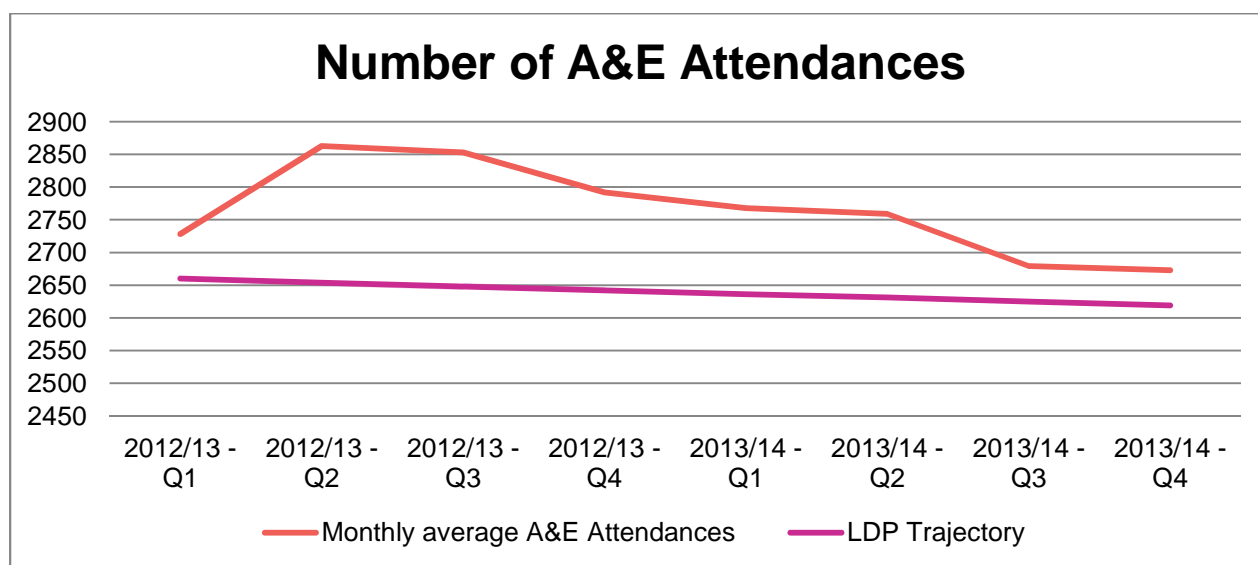
51. The latest available data indicates that NHS Lanarkshire is 8.6% above the target for carbon emissions and 4% above the energy reduction target respectively. The March 2014 HEAT Performance Scorecard indicated that failure to meet these targets can be attributed to methodology issues that have been identified and are under review nationally.
52. The targets for energy-based carbon emissions and energy reductions were based on year-end carbon emissions and energy usage figures for NHS Scotland. The reporting baseline was changed by SGHSCD in 2009/10 to reflect the requirements of the Climate Change Act (Scotland) 2009. In its report on the Sustainability & Environment Programme in October 2013, NHS Lanarkshire stated that this change of baseline was detrimental to the ability of NHS boards to meet the current HEAT targets.
53. Many factors have contributed to this, including reduced early actions to lower carbon emissions and energy consumption and the limited recognition of the impact of changes in service delivery, such as extended opening hours. We understand Health Facilities Scotland is developing a new reporting methodology to support this area. This could provide further support for NHS Lanarkshire, to help monitor and manage this area.

54. The Sustainability & Environment Group oversees NHS Lanarkshire's approach to these targets. The Group meets on a quarterly basis to analyse performance data and identify methods for improvement. It will be crucial to achieving these targets.

Need to clarify A&E waiting parameters and continue the trend towards target

55. NHS Lanarkshire must achieve a monthly average rate of A&E attendance that is lower than the monthly average rate of the reporting baseline (2009/10). The target attendance rate for March 2014 was 2,619 attendees. The actual rate of attendance reported for March 2014 was 2,673. This figure represents a continuing downward trend in A&E attendances since June 2012. However it is still 54 above the baseline figure (Chart 2).

Chart 2: A&E attendance figures for 2012/13 and 2013/14



Source: Scott Moncrieff, from figures provided by NHS Lanarkshire

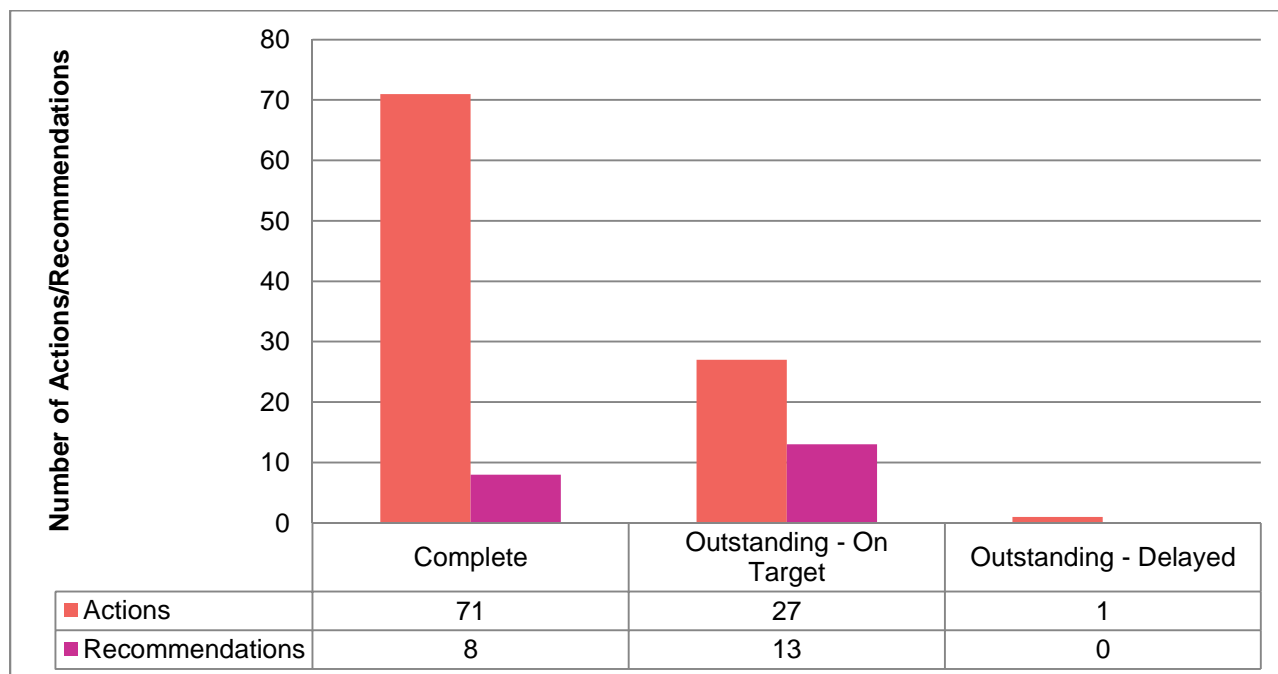
56. NHS Lanarkshire's performance reports suggest the difference relates to anomalies in what qualifies as an 'attendance'. The original trajectories set for the period 2011/12 to 2013/14 were based on new patient attendances at Monklands, Hairmyres, Wishaw, Kello and Ladyholm. The trajectories excluded new patients referred to Out of Hours and Direct Speciality Referrals. SGHSCD has stated that these exclusions should not be applied. The Board is therefore reporting all attendances, even though certain categories were not counted in the original, predicted trajectory. Discussions are ongoing nationally to agree which aspects of A&E patient inflow should be counted as attendance. In the meantime, SGHSCD has advised NHS Boards to continue reporting against the original trajectories. We endorse steps being taken to clarify and make comparable the A&E data.

Hospital Standardised Mortality Ratio (HSMR)

57. In August 2013, the Cabinet Secretary for Health and Wellbeing commissioned a Rapid Review into the safety and quality of care for acute adult patients in NHS Lanarkshire. This was in response to higher than average hospital standardised mortality ratios published in relation to Monklands Hospital for the period January – March 2013. The Rapid Review report was published in December 2013 by Healthcare Improvement Scotland. The report identified 21 recommendations to improve current working practices.

58. Internally, the Board was already undertaking various initiatives to improve the safety and quality of care for adult patients. The Hospital Standardised Mortality Ratio Improvement Programme was created in 2013 and was designed to tackle the Board's high HSMR. However, in recognition of the Rapid Review report, the Board developed the NHS Lanarkshire Rapid Review Action Plan to address the recommendations raised. The Action Plan contains 99 actions proposed to address the recommendations. The Action Plan also sets out the measures that will be used to gauge progress made and the deadline for completion of each action.
59. The Plan was implemented in addition to continued working on the HSMR Improvement Programme. Externally, the Cabinet Secretary established a Governance and Improvement Support Team to provide assistance to the Board in implementing the recommendations and to review and report on the progress made.
60. The Board is provided with monthly updates on progress against the Action Plan. In April 2014, the Board in turn provided a formal update to SGHSCD on the progress made as at 31 March 2014 (Chart 3).

Chart 3: Progress against the Rapid Report Action Plan as at 31 March 2014



Source: Scott Moncrieff, from figures provided by NHS Lanarkshire

61. The report detailed only one action that was not currently on track. This action was in response to recommendation 3: the need for NHS Lanarkshire to review its complaints process to ensure it consistently delivers person-centred responses. The action involved participation in the Scottish Health Council national review of feedback and complaints. As at March 2014, the Board was awaiting publication of the report by the Scottish Health Council to recognise this action as complete. This report was subsequently received and the action was closed in April 2014.
62. Going forward, the Board is formalising a draft quality strategy, *Transforming Patient Safety and Quality of Care in NHS Lanarkshire, Healthcare Quality Assurance and Improvement Strategy 2014-17*. The strategy will contain the outstanding actions from the Rapid Review Action Plan, alongside actions from the Board's original Hospital Standardised Mortality Ratio Improvement Programme. The strategy will be overseen by the Healthcare, Quality Assurance and Improvement Committee (HQAIC). The Board will also continue to

receive monthly reports on the progress of all outstanding actions within the 'Patient Safety and Quality of Care' report. This should ensure that the Board oversees the completion of the Action Plan and monitors and assesses ongoing performance.

63. Given the Board's progress to date in response to the external review, we have not raised any further recommendations in this report on HSMR. This is to avoid duplication and overlap with the ongoing activities. This will allow NHS Lanarkshire to focus on the integrated strategy and action plan it has already developed. However, we will continue to monitor this area as part of our 2014/15 audit, to provide assurance that actions are effectively pursued, completed and reported, within a robust governance framework.

Best value audit of people management

64. We have separately reported on the Board's performance against best value guidance for effective people management. The Board carried out a self-assessment of its arrangements using the Audit Scotland toolkit in 2013/14. We reviewed the Board's self-assessment and supporting evidence and provided recommendations to improve existing arrangements. The toolkit assessed performance against the following four questions:
- How well do the organisation's HR strategies, policies, procedures and structures support effective people management?
 - How effectively does the organisation integrate workforce planning with its strategic and financial planning processes?
 - How well does the organisation manage and develop the performance of its staff to achieve organisational goals?
 - How effectively does the organisation value, communicate with and involve staff on issues that affect them?
65. The Board demonstrated adherence to people management best value principles in various areas. However, it did not formally assess itself as achieving 'basic, better, or advanced' practice against the people management toolkit, as part of the self-assessment process. Further developing the responses and supporting evidence given in the self-assessment will help the Board fully demonstrate its range of achievements in this area, and would be in keeping with the best value ethos of self-directed continuous improvement. This is discussed further in our separate best value report.

Governance

66. Corporate governance is concerned with the structures and processes for decision-making, accountability, control and behaviour at the upper levels of organisations. Through the Accountable Officer and the Board, NHS Lanarkshire is responsible for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.

Governance arrangements

67. We have found that the Board has appropriate governance arrangements in place. Our audit work has included reviewing corporate governance arrangements as they relate to:

- systems of internal control;
- risk management;
- internal audit;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and the prevention and detection of bribery and corruption.

Governance changes in 2013/14 and review of the Board's committees

68. During 2013/14 the Medical Director left the organisation and three non-executive members came to the end of their terms of appointment. A new Medical Director and five new non-executive directors were appointed to the Board. There have been no further significant changes to the governance arrangements.

69. Internal audit reviewed the effectiveness and efficiency of committee operations during the year. This included reviewing the sub structures below each standing committee. The review considered the processes and structures in place to allow each committee to be assured that it is fulfilling its remit. Internal audit did not identify any material issues but found variations in the ways that the Board's committees operate, highlighting the need to share good practice.

Corporate governance and systems of internal control

70. We have considered the internal controls in place over the Board's key financial systems. As reported in our interim management report, we identified no significant weaknesses in relation to the internal financial controls in place over the Board's key accounting systems. We found the internal financial controls to be generally well designed and operating effectively. However, we have raised three recommendations in 2013/14 in relation to IT controls.

Action plan points 3 - 5

71. The Board's 2013/14 Governance Statement discloses the issue regarding the Healthcare Improvement Scotland Rapid Review of Hospital Standardised Mortality Ratios at Monklands Hospital. The substantial disclosure reflects the background, activity and outcomes/actions in relation to this area.

72. Otherwise, there are no other issues disclosed in the Governance Statement. This assessment is supported by 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 the role. Our audit work did not identify any further issues that we considered required disclosure in the Governance Statement.

Internal audit

73. An effective internal audit service is an important element of a Board's governance arrangements. 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). On an annual basis Audit Scotland, as auditor of the host board (NHS Fife), carries out a review of the adequacy of the internal audit function provided by FTF. Audit Scotland has concluded that FTF operates in accordance with Public Sector Internal Audit Standards. As a result, and to ensure an efficient audit process, we have made use of internal audit work where appropriate. We are grateful to the FTF internal audit team for their assistance during the course of our audit work.

Risk management

74. A developed and integrated approach to risk management is a key feature of a robust system of internal control. We have reviewed the Board's arrangements for risk management in detail in previous years and found the corporate risk management framework to be reasonable and fit for purpose. Internal audit have reviewed the risk management arrangements in 2013/14 and found that the system provides adequate assurance that objectives are being met. However, a number of recommendations to further strengthen the Board's risk management arrangements were made. We endorse the findings of internal audit and will review the risk management developments further in our 2014/15 audit work.

Prevention and detection of fraud and irregularity

75. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud or irregularity. We found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

National Fraud Initiative

76. 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. We are required to consider the Board's arrangements for each NFI. In our interim audit we reported that the Board's approach to the most recent NFI exercise was satisfactory. The Board identified two issues through the NFI exercise, with a combined value of £27,022.

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

77. In our opinion the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are sufficient and appropriate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local codes of conduct. We also considered the controls in place to ensure compliance with the regulatory guidance that is produced by the SGHSCD throughout the year.

Health and social care integration

- 78.** The Public Bodies (Joint Working) (Scotland) Bill was introduced to Parliament on 28 May 2013. The Bill's aim was to drive integration between health boards and local authorities as a means of improving outcomes for service users. The Board has agreed with North Lanarkshire and South Lanarkshire Councils respectively that integration will be undertaken through the 'body corporate' model. This will involve the delegation of some Board functions and resources to two corporate bodies, one for each local authority area. Each corporate body will be governed by a joint board and will be headed by a Chief Operating Officer.
- 79.** The Board reports that it has established transition arrangements in both North and South Lanarkshire localities. Discussions are ongoing over the specific services that will be included in the integration and the proposed management arrangements and structures. It is anticipated that the North and South Health and Social Care Partnerships will have integrated joint management boards in place by 1 April 2015. It is vital that this work adheres to project timetables and robust structures are put in place by the required deadline.

Action plan point 6

Appendix 1 - 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 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

The grading structure for our recommendations is as follows:

Grade	Explanation
Grade 5	Very high risk exposure - Major concerns requiring Board attention.
Grade 4	High risk exposure - Material observations requiring senior 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.	PFI financial models (Paragraph 19)	<p>As with last year, we noted some small differences between the Board's financial models, the underlying contract documents and the charges incurred in the year.</p> <p>The net effect of these differences is a trivial misstatement in the finance lease liability as at 31 March 2014 and the disclosure of service and interest costs for the year. As the misstatement is trivial no adjustments to the financial statements are necessary.</p>	<p>If the financial models are not being reviewed on an annual basis there is a risk that any subsequent misstatement could be more than trivial in future periods.</p> <p>The Board should review its financial models annually to ensure:</p> <ul style="list-style-type: none"> • They reconcile to the original contracts. • The assumptions remain appropriate. • They reflect the charges incurred. <p>Grade 2</p>	<p>Agreed.</p> <p>Responsible officer: Head of Finance - Capital</p> <p>Implementation date: 31 March 2015</p>
2.	Savings plans (Paragraph 40)	<p>The Board is expected to make efficiency savings totalling £26.710 million in 2014/15. As at June 2014, £2.295 million (9%) of the required savings were still to be identified.</p>	<p>The Board has a track record of achieving its efficiency savings targets. However, there remains a risk that the Board may not achieve the target set if it cannot identify where savings will be made.</p> <p>The Board should ensure that savings plans are developed to achieve the remaining £2.295 million of unidentified savings required in 2014/15.</p> <p>Grade 2</p>	<p>Action has been taken to raise wider awareness of the need to demonstrate efficiency savings and emerging ideas are being followed up. Progress is being tracked through a monthly Finance Corporate Management Team dedicated to finance. It is believed the target efficiencies will be identified.</p> <p>Responsible officer: Director of Finance</p> <p>Implementation date: 31 March 2015</p>

No	Title	Issue identified	Risk and recommendation	Management comments
3.	Password controls (Paragraph 70)	<p>Single Sign On (SSO) represents the ability of a user to authenticate once with a network and if successful, gain access to multiple resources (e.g. applications) on that network. SSO has been tested in the clinical area and it is planned to roll this out more widely in other areas on an ongoing basis.</p> <p>We noted weaknesses in the network password policy. In particular, there is no complexity requirement for passwords, only the last six passwords are remembered and minimum password age is 0 days. The current settings mean that users could maintain simple and easy to guess passwords. In addition, the minimum password age and remembered password settings allow for passwords to be recycled on the same day.</p>	<p>Failure to maintain robust password and account lockout policies increases the risk of user passwords being compromised and unauthorised access being gained to the Board's network.</p> <p>We recommend that the network Password Policy is updated to include the following settings to ensure consistency with best practice:</p> <ul style="list-style-type: none"> • Passwords remembered = 24 • Minimum password age = 1 day • Password complexity = Enabled <p>Grade 3</p>	<p>Password characteristics will be implemented after SSO deployment has been completed.</p> <p>Responsible officer: Head of Infrastructure</p> <p>Implementation date: December 2014</p>

No	Title	Issue identified	Risk and recommendation	Management comments
4.	<p>Leavers (Paragraph 70)</p>	<p>IT does not receive any information from Human Resources that identifies staff who have left the Board. IT is reliant on line managers notifying them whenever staff leave.</p> <p>Some work was undertaken between IT, HR and Payroll in late 2013 to establish a new process. The new processes have created a number of issues, in particular, accounts of users who had moved to a new role or different department were having their accounts disabled as the Payroll system was recording them as a leaver.</p> <p>We also noted that there is no exercise undertaken to review active network user accounts on a periodic basis to confirm their validity.</p>	<p>There is a risk that when users leave NHSL their accounts may remain active.</p> <p>We recommend IT continue to liaise with HR and Payroll to ensure a definitive list of users who have left the Board's employment is provided on a weekly or monthly basis. This will act as a compensating control and ensure that network user accounts are disabled/deleted whenever staff leave the Board.</p> <p>We also recommend that an exercise is performed on a regular basis to confirm that all active network user accounts are valid. IT should provide line managers with lists of users and ask them to identify any accounts that are no longer valid.</p> <p>Grade 3</p>	<p>Agreed.</p> <p>The leavers list is now provided by HR, however, this list also includes staff who have moved post within NHSL. Further work is required to provide a robust source which can be used to de-activate user accounts.</p> <p>A new process will be established and made operational to ensure user accounts are de-activated in a timely fashion. This will include the de-activation of user accounts not accessed within a pre-determined period e.g. 90 days.</p> <p>In addition, further guidance will be issued to all line managers within NHS Lanarkshire reminding them of their responsibilities to notify eHealth of all movers and leavers to ensure that access to systems can be modified accordingly.</p> <p>Responsible officer: Head of Infrastructure</p> <p>Implementation date: July 2014</p>

No	Title	Issue identified	Risk and recommendation	Management comments
5.	Data Centre Security (Paragraph 70)	<p>Access to the data centre is restricted by a physical key lock and swipe card access using the staff ID card. There are 3 copies of keys; one copy is held by the IT Operations Manager, another by IT Operations and the last copy by the PFI operator.</p> <p>A key cabinet houses keys to safes, networking cabinets nodes, the telecoms room which is a shared space with the PFI operator. The PFI operator stores and manages the hospital's BT equipment in the telecoms room.</p> <p>We observed that out of the three telecom cabinets used by the Board, two had no doors, while the third cabinet was left unlocked. We also observed that cabinets in the data centre were either unlocked or had keys left in their locks.</p> <p>We noted the Board has no formal control over individuals with access to the data centre. This is within the control of the PFI operator.</p>	<p>There is a risk that unauthorised access to the Board equipment would not be detected. There is also a risk that there are no physical security controls to prevent unauthorised personnel accessing critical networking and telephony hardware.</p> <p>We recommend that:</p> <ul style="list-style-type: none"> • Management should ensure that all networking cabinets are locked at all times, with keys kept in the key cabinet. • Cabinets that currently have no doors should be fixed to ensure the security of equipment. • The Board is provided with formal monthly reports in relation to physical and environmental controls within the data centre. This should include details of all access made, details of all parties who have access to the data centre as well as reports on any problems/issues/ failures in respect of environmental security matters. <p>Grade 3</p>	<p>Agreed.</p> <p>The cabinet arrangements in the datacentre are under review with a view to decommissioning the old cabinets and replacing them with new secure units.</p> <p>Responsible officer: IT Operations Manager / IT Operations Manager (Networks)</p> <p>Implementation date: September 2014</p>

No	Title	Issue identified	Risk and recommendation	Management comments
6.	Health and Social Care Integration (Paragraph 79)	The Board reports that it has established transition arrangements in both North and South Lanarkshire localities. However, discussions continue over the specific services that will be included in the integration and the proposed management arrangements and structures.	<p>Whilst it is anticipated that the North and South Health and Social Care Partnerships will have integrated joint management boards in place by 1 April 2015, there is a risk this deadline may not be achieved.</p> <p>It is vital that this work adheres to project timetables and robust structures are put in place by the required deadline.</p> <p>Grade 3</p>	<p>The Board and local authority partners have established Transition Integration Boards (for North and South Lanarkshire respectively), to oversee implementation per the agreed Programme Plan. This includes preparation of the three key documents the Scottish Government require by 31 March 2015 (Integration Scheme, Consultation Plan and the Joint Strategy). The Board will use the Scottish Government's draft guidance and model template to ensure the Integration Scheme complies with national requirements.</p> <p>The latest guidance advises that the Integration Schemes need to be finalised and agreed by end of March 2015, with the latest go live date being April 2016. NHS Lanarkshire fully expects to comply with the legislation and national guidance documents within these timescales.</p> <p>Responsible officer: Chief Officer North and Chief Officer South</p> <p>Implementation date: 1 April 2016</p>

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