



NHS Forth Valley

Annual audit report for the
Board of NHS Forth
Valley and the Auditor
General for Scotland

The Auditor General for Scotland appoints external auditors to NHS bodies in Scotland.
(www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Auditor General has appointed Fiona Mitchell Knight as the external auditor of NHS Forth Valley for the period 2011/12 to 2015/16.

This report has been prepared for the use of NHS Forth Valley and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the health board. The information in this report may be used for Audit Scotland's annual overview report on the NHS in Scotland published on its website and presented to the Public Audit Committee of the Scottish Parliament.

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Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified independent auditor's report on the 2014/15 financial statements.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• All financial targets in 2014/15 were met• A surplus of £1.026 million was achieved against total Revenue Resource Limit (RRL)• Total savings of £13.488 million achieved (£13.031 million on a recurrent basis)• £4.414million of brokerage repaid a year earlier than planned• The board has strong financial management arrangements that support the review and facilitate scrutiny of financial performance
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• The board has well-established and effective governance arrangements in place• Systems of internal control operated effectively during 2014/15• The board has an effective internal audit function and robust anti-fraud arrangements• A chief officer has yet to be appointed to oversee health and integration for the partnership between the board and Falkirk Council.

 <p>Best Value</p>	<ul style="list-style-type: none">• The board has a well developed performance management framework in place• The Performance and Resources Committee receives regular updates on all aspects of performances and the actions being taken to improve performance• The board is making progress in addressing HEAT targets and standards notably in relation to delayed discharges although not all targets and standards were achieved in 2014/15• The board extended the opening hours of the delayed discharge hub during 2014/15.
 <p>Outlook</p>	<ul style="list-style-type: none">• NHS Forth Valley will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. At the same time it has to make major changes to service delivery such as the Scottish Government's 2020 Vision and health and social care integration. Achieving sustainability in the medium term will require innovation to design and deliver the services needed by citizens.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of NHS Forth Valley. The report is divided into sections which reflect our public sector audit model.
2. The management of NHS Forth Valley is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of NHS Forth Valley, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements. This does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that NHS Forth Valley understands its risks and has arrangements in place to manage these risks. The board should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures. Consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

<p>Audit opinion</p>	<ul style="list-style-type: none"> We have completed our audit and issued an unqualified opinion that the financial statements of NHS Forth Valley for 2014/15 give a true and fair view of the state of its affairs and of its net operating cost for the year.
<p>Regularity of income and expenditure</p>	<ul style="list-style-type: none"> In our opinion, in all material respects the expenditure and income in the financial statements was incurred or applied in accordance with relevant legislation and guidance.
<p>Other information</p>	<ul style="list-style-type: none"> We review and report on other information published with the financial statements, including the Management Commentary, Governance Statement and Remuneration Report. We have nothing to report in respect of these statements.
<p>Consolidation template</p>	<ul style="list-style-type: none"> The board's consolidation template has been audited to confirm that the figures are consistent with the audited financial statements. The template and accompanying assurance statement will be submitted to the Scottish Government by 30 June 2015. These templates are used to compile the national NHS financial position.

Submission of financial statements for audit

9. We received the unaudited financial statements on 27 April 2015, in accordance with the agreed timetable. The working papers were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit by the deadline.
10. Finance staff have made a number of improvements to the accounts notably the exclusion of Scottish Financial Returns (SFRs) and the removal of superfluous information (e.g. large numbers of rows containing zeros). This is consistent with good practice reported by Audit Scotland in its publication 'Improving the Quality of NHS Annual Report and Accounts' (December 2014).

Overview of the scope of the audit of the financial statements

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 16 January 2015.
12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
13. The concept of audit risk is of central importance to our audit

approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks and how we addressed each risk in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Governance Statement

15. The Governance Statement in the annual accounts sets out the financial assurance process for health and social care integration. A draft paper regarding due diligence over these arrangements has been prepared jointly by the internal auditors of the board and Falkirk Council. This will be taken to the NHS Forth Valley Audit Committee and Transitional Board. A similar paper for Stirling and Clackmannanshire is in preparation.

Materiality

16. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally

be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

17. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
18. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of NHS Forth Valley we set our planning materiality for 2014/15 at £5.898 million (or 1% of gross expenditure). Performance materiality was calculated at £2.949 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
19. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

Evaluation of misstatements

20. Whilst not considered material to the figures, for your information we have reported all misstatements greater than £60,000.
21. A number of presentational changes were made to the financial statements by management, as a result of the audit. Two misstatements with a net value of £39,000 were identified during the audit and were not corrected in the financial statements. If adjusted these would have resulted in net operating costs increasing by £39,000 in the Statement of Consolidated Comprehensive Net Expenditure. Net liabilities in the balance sheet would have increased by £39,000 while reported savings against Core Revenue Resource Limit would have decreased by £39,000 to £987,000.
22. It is our responsibility to request that all errors be corrected although the final decision on this matter rests with those charged with governance taking into account advice from officers and materiality. Management explained that these differences were not material and did not impact on the achievement of the board's financial objectives and therefore were not corrected.

Significant findings from the audit

23. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment are significant to the oversight of the financial reporting process.
24. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you.

Significant findings from the audit

Issue	Resolution
<p>Equal Pay: In previous years, we commented that the board, on advice from the Central Legal Office, was not able to provide any financial quantification of equal pay claims. Consequently, equal pay claims were disclosed as an unquantified contingent liability in the accounts. There have been significant developments in 2014/15 not least the offer for settlement in relation to certain claims. Based on this new information and advice received from the CLO, the Director of Finance for the health service has advised that equal pay claims should now be included as a provision in the accounts of NHS boards. NHS Forth Valley has been advised of the estimated value of the provision which is to be covered by AME (Annually Managed Expenditure) funding. Negotiations are still underway in relation to equal pay and because of the sensitivities surrounding this issue the estimated value of the liability will not be disclosed until the accounts are laid before parliament.</p>	<p>The provisions note in the board's accounts includes wording agreed with Audit Scotland, namely "other provisions include an amount of £16,000 in respect of the board's estimated liability arising from equal pay claims".</p>
<p>CNORIS provision: Following an Audit Scotland review of consolidated accounting for CNORIS at Scottish Government (SG) level, guidance was issued to NHS boards by the SG confirming a change in the accounting treatment of CNORIS. The main change was that each board was required to create an additional provision in 2014/15 representing their share of the total liability of NHS Scotland in respect of CNORIS. Also, to ensure consistency of accounting treatment, NHS boards were asked to make equivalent adjustments to prior year figures in the accounts in order to comply with <i>IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors</i>.</p>	<p>A CNORIS provision of £15.956 million was included in the 2014/15 accounts representing the board's share of the total liability of NHS Scotland as at 31 March 2015. The board correctly processed opening balance and retrospective adjustments in line with International Accounting Standard 8 and as advised by the Scottish Government. The board has received AME funding to cover the accounting changes so that there is no impact on the board's outturn position.</p>

Future accounting and auditing developments

Revisions to the financial reporting manual

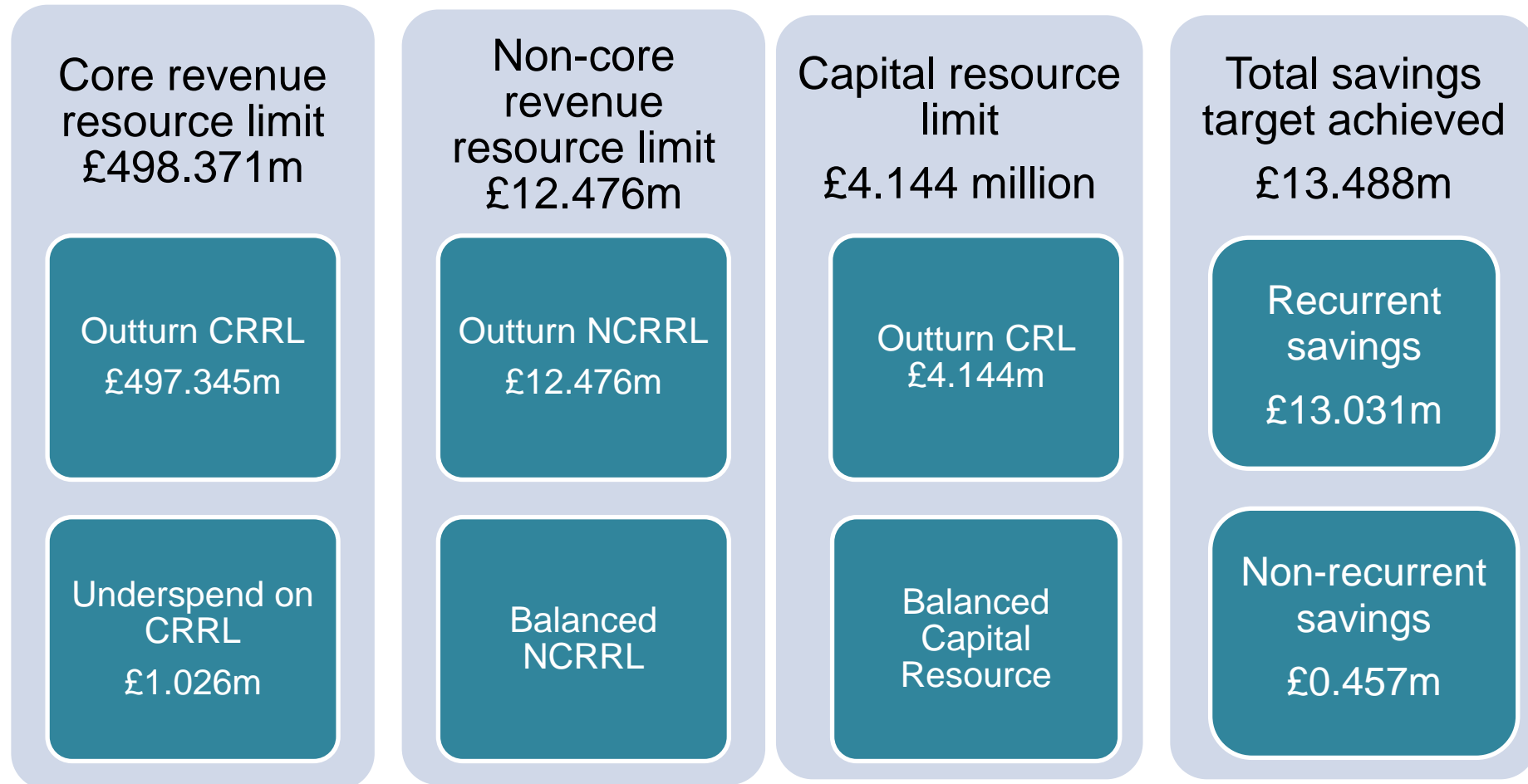
25. The financial statements of the board are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:
- The adoption of IFRS 13 Fair value measurement.
 - Restructuring the annual audit report.
26. **IFRS 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. IFRS 13 also sets out the requirements for assets to be valued at fair value and is applied, in full, by the FReM only to assets not held for their service potential (i.e. investment assets and assets held for sale). It also applies to operational assets which are surplus to requirements where there are no restrictions on disposal which could prevent access to the market.
27. The board will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.
28. **Restructuring of the annual audit report:** the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:

- a performance report which will give a fair, balanced and understandable analysis of the board's performance and will include an overview section and a performance analysis section
- an accountability report incorporating the following three main sections:
 - corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
 - remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
 - parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.

Health and Social Care Integration

29. Integrated Joint Boards (IJBs) will be accountable for overseeing the provision of functions within the scope of health and social care integration on, or before, 1 April 2016.
30. IJBs will be required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the UK.

Financial management and sustainability



Financial management

31. In this section we comment on the NHS Forth Valley financial outcomes and assess the board's financial management arrangements.
32. Budget funding is agreed with the Scottish Government Health and Social Care Directorate (SGHSCD). It is a statutory requirement for the board to ensure expenditure is within the Revenue Resource Limit (RRL) and Capital Resource Limit (CRL) set by the SGHSCD. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

33. Health boards are required to work within the resource limits and cash requirements set by the SGHSCD. The board's final RRL (£498.371 million) and CRL (£4.144 million) were agreed with the SGHSCD on 29 April 2015.
34. The board achieved all of its financial targets in 2014/15 and delivered total efficiency savings of £13.488 million in line with planned efficiencies for 2014/15.
35. The board had budgeted to break-even against its Revenue Resource Limit in 2014/15. The actual out-turn position was a cumulative surplus of £1.026 million. As recently as January 2015 the board had been predicting a lower surplus of £0.209 million. This revision was due primarily to a benefit of some £0.8 million received from NHS Lothian in respect of reduced charges for services provided to NHS Forth Valley. This benefit was only

notified to the board in February 2015. The impact of this change was reported promptly to board members and discussed with the SGHSCD.

36. The SGHSCD agreed that the board can carry forward the £1.026 million surplus which has now been accounted for in the board's 2015/16 financial plan. This gives the board some additional flexibility in managing its finances.
37. The board achieved its savings target of £13.488 million in 2014/15; £13.031 million was achieved on a recurrent basis with the balance of £0.457 million on a non-recurrent basis. Non-recurring savings put pressure on future years' budgets and wherever practical all savings should be on a recurrent basis.

Capital expenditure 2014/15

38. The board remained within its Capital Resource Limit (£4.144 million). It fully utilised its capital allocation which was mainly spent on the medical equipment replacement programme, e-health developments, Falkirk Community Hospital Ward 1 and increased car parking capacity at Forth Valley Royal Hospital.
39. A large proportion of NHS Forth Valley's estate is relatively new and in good condition. It has two major PFI projects, Forth Valley Royal Hospital and Clackmannanshire Community Health Centre. In recent years the board has reduced the number of older properties through rationalisation to minimise the board's estate footprint. For the remainder of the estate, asset management issues continue to be addressed including backlog maintenance.

Financial management arrangements

40. As auditors, we need to consider whether health bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the Director of Finance has sufficient status to be able to deliver good financial management
 - standing financial instructions and standing orders are comprehensive, current and promoted within the board
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
41. We reviewed the board's standing financial instructions and standing orders, which are updated annually, and concluded that they are comprehensive and current. The board's standing financial instructions and standing orders are readily available to all staff on NHS Forth Valley's intranet.
42. Financial monitoring reports (both revenue and capital) are submitted to all meetings of both the board and the Performance and Resources Committee. Reports are comprehensive and contain service performance information at board and directorate level. More detailed monthly financial monitoring reports are provided to budget holders.

43. The board received non-recurring brokerage funding of £12.1 million between 2010/11 and 2011/12 to meet the transitional costs associated with the Healthcare Strategy as well as a limited voluntary severance programme. The board repaid all outstanding brokerage by 31 March 2015; a year earlier than planned.
44. As auditors we attend a number of board and committee meetings each year. Board members provide a good level of challenge and question budget holders on significant variances and service performance issues.

Conclusion on financial management

45. We have concluded that the board has strong financial management arrangements that support the review, and facilitate scrutiny, of financial performance.

Financial sustainability

46. Financial sustainability is concerned with whether the board has the capacity to meet the current and future healthcare needs of the communities it serves. In assessing financial sustainability we are concerned with the board's financial performance, financial planning, capital programmes and asset management and workforce management.

Financial planning

47. The board is required to prepare a Local Delivery Plan (LDP) each year which aligns strategic priorities with financial plans, workforce

- plans and asset plans. The LDP recognises that the vast majority of resources are already committed on a recurring basis before the start of each year and there is limited flexibility available to the board.
48. The board's five year plan for the period 2015/16 to 2019/20 is a key element of the LDP. The plan has been compiled to reflect a break-even position in each of the five years. The plan recognises the significant cost pressures facing the board going forward notably staff pay costs, the growing costs of drugs and other new technologies and rising pension costs. Also, there is a rising demand for services particularly among the elderly. All these pressures exacerbate a tightening financial position.
 49. While facing significant cost pressures the board will also have to deal with reduced funding, in real terms, over the period of the 5-year plan. The basic funding uplift for 2015/16 is 1.8% although an additional funding uplift of 1.2% has been made available. The majority of this funding is to cover the integration fund, new drugs and delayed discharges. In each subsequent year the funding uplift is assumed to be a flat rate of 1.8%.
 50. Savings will therefore play a significant part in maintaining financial balance over the 5-year period. Total savings of a similar scale to those achieved in 2014/15, of £13.489 million are required for 2015/16 of which £13.030 million is planned on a recurrent basis with the balance (£0.459 million) coming from non-recurrent sources.
 51. To date, efficiency savings of £13.355 million have been identified for 2015/16 and detailed plans are in place to achieve these. There is still a further £0.134 million to find and work is ongoing to address this shortfall. The position in 2015/16 is challenging but management are confident that the required savings will be achieved.
 52. The financial plan estimates that minimum efficiency savings of 3% will be required on a recurring basis in future years and this equates to approximately £13.5 million per annum. The majority of relatively easy savings have already been achieved and the realisation of savings will become progressively more challenging year on year.
 53. There are initial plans for 2016/17 efficiency savings but these are at a very early stage in development and work will be ongoing through 2015/16 to further refine them.

Workforce Management

54. Workforce planning is integral to the board's strategic planning process and is a key element of the Local Delivery Plan. The availability of staff is an important factor in the board's capacity to provide patient care. NHS Forth Valley has an ageing workforce. The medical workforce profile demonstrated that a significant number of consultants would be retiring, and anticipating this position, the board has been successful in appointing over 40 new consultants across all specialities.
55. NHS Forth Valley like other small health boards is finding it difficult to recruit and retain staff faced with competition from the larger

health boards. Audit Scotland in its report *NHS in Scotland 2013/14 (October 2014)* highlighted that NHS Forth Valley had a consultancy vacancy rate of 10.2% at 31 March 2014 which was amongst the highest of any territorial board. The position at 31 December 2014 had improved slightly to 8.3%.

56. Spending on non-core staff costs (i.e. bank, agency, locum and overtime) in 2014/15 was £16.150 million compared to £14.833 million in 2013/14 (an increase of 8.8%). The use of bank, agency and locum staff, provides flexibility to cover for vacancies and staff absence. However, continued reliance on such staff could have an impact on the board's plans to achieve the savings required for longer term sustainability.

Recommendation 1

57. It is not only the acute sector that is having difficulty in attracting and retaining staff. There are increasing problems in sustaining primary care services due to difficulties in recruiting GPs. General practice is not seen by many newly qualified doctors as an attractive career option while at the same time there is an ageing GP workforce. The board has had to directly employ GPs in some areas in order to maintain services. The board has established a General Practice Sustainability Group to review the situation.
58. As with other health boards, NHS Forth Valley is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence. The board is committed to managing sickness absence downwards through a range of measures including the use of absence clinics to discuss more complex cases. Some

encouraging signs of improvement have been reported. For example, in February 2015 the sickness absence rate was 4.8% with absence rates falling in 9 out of 11 directorates/units. Overall though the sickness absence rate at 31 March 2015 was 5.15% which is slightly above the Scottish average of 5.14%.

Recommendation 2

Cost of pension provision

59. The UK Government has been pursuing a programme of reform of public service pensions across the UK, including in Scotland. As a result, new Career Average public service pension schemes are being created from 1 April 2015.
60. A revaluation of the pension scheme was carried out using pension scheme data as at 31 March 2012. This new valuation is being used to set a new employer contribution rate payable from 1 April 2015 to 31 March 2019. The new rate will be 14.9% of pensionable pay, compared to the rate of 13.5% which has been paid since 1 April 2009. In NHS Forth Valley's case the impact has been quantified as £2.240 million in 2015/16.
61. The valuation also establishes a new employer cap that will apply from the next valuation, which will take place in 2017. This is required by the Public Service Pensions Act and is designed to enable future changes in cost above a certain threshold to be controlled by providing backstop protection for the taxpayer by ensuring that the risks associated with provision are shared with scheme members.

62. The employer contribution cost cap for the NHS pension scheme for Scotland is 11.5% of pensionable pay.

Public Finance Initiative (PFI) / Public Private Partnerships (PPP) costs

63. NHS Forth Valley has two PFI/PPP projects, Forth Valley Royal Hospital and Clackmannanshire Community Health Centre which are disclosed in Note 23(b) of the accounts. The capital costs of these projects are included in the balance sheet with a combined value of £374.27 million. The associated recurrent cost of these schemes is £40.66 million with a total future commitment recorded in the balance sheet of £626.85 million.

Conclusion on financial sustainability

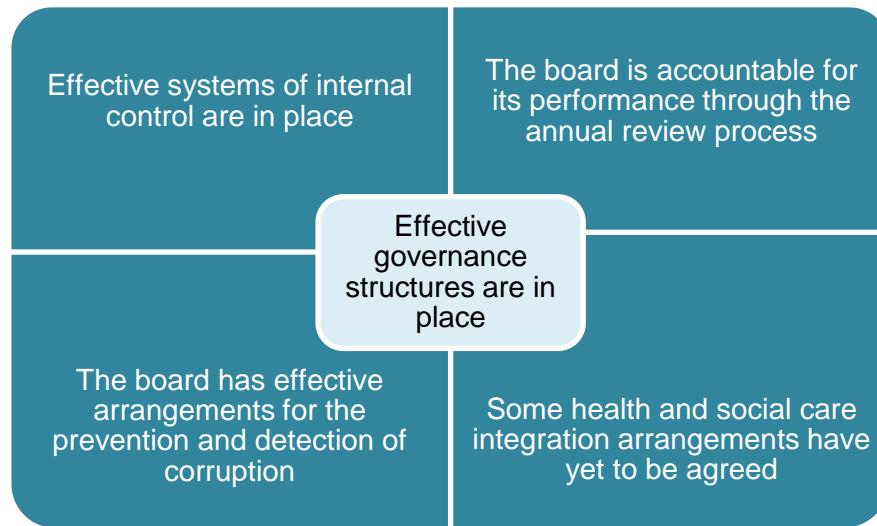
64. Overall, we concluded that the board's financial position is sustainable currently and in the medium term although significant challenges lie ahead.

Outlook

65. As discussed above, the board is predicting a balanced budget in each of the five years from 2015/16 to 2019/20. This is dependent on significant efficiency savings each year. These savings are becoming more challenging to deliver year on year alongside pressures to deliver more with less. The Clinical Services Review, as described later in the report, is also designed to ensure that services are delivered in a sustainable way and within financial constraints.

66. The board is also faced with significant challenges arising from increases to its cost base. The impact of pension reform will increase employer contribution rates from 2015/16 by £2.240 million. While from 2016/17 changes in national insurance will result in a further increase in the cost base estimated at £3.200 million per annum. In effect, the board will have to meet recurrent expenditure of around £5.440 million without any additional funding from the Scottish Government.
67. At the same time there will be increasing cost pressures from the introduction of new drugs and technologies, a rising wage bill, the cost of maintaining access targets and an increase in demand for services from an ageing population. Furthermore, healthcare inflation in the UK is higher than general inflation. Over the last 20 years, general inflation in the UK averages just 2% a year while health service costs rose by 3.6% a year.

Governance and transparency



- 68. The board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHS Forth Valley and for monitoring the adequacy of these arrangements.
- 69. NHS Forth Valley is managed by a board of Executive and Non-Executive Directors and is accountable to the Scottish Government through the Cabinet Secretary for Health and Wellbeing. The board's Chair and Non-Executives are appointed by the Cabinet

Secretary based on their skills and expertise and ability to contribute effectively to local strategic decision making processes.

- 70. The board is responsible for the strategic leadership and governance of NHS Forth Valley. It is supported in this role by a number of standing committees as illustrated below:



- 71. The standing committees meet on a regular basis throughout the year to consider relevant matters. We concluded that the board has effective overarching and supporting governance arrangements

which provide an appropriate framework for organisational decision making.

Transparency

- 72. Local residents should be able to hold the board to account for the services it provides. Transparency means that residents have access to understandable, relevant and timely information about how the board is taking decisions and how it is using its resources.
- 73. The performance of all NHS boards is subject to an annual review process. The annual review aims to encourage dialogue and accountability between local communities and their Health Boards. The annual review for NHS Forth Valley was held on the 28 November 2014 and was attended by a Scottish Government Official and a board team led by the Chair and Chief Executive. There was also an open session where members of the public could attend to ask questions of the Chief Executive and the board.
- 74. Furthermore, as part of the annual review process the board meets with the local Area Partnership Forum, Area Clinical Forum and with patient representatives. The Cabinet Secretary acknowledged that these arrangements continue to work well in NHS Forth Valley.
- 75. Members of the public can attend meetings of the board and have ready access to board papers on the internet. The board papers provide comprehensive information on all aspects of performance including waiting times and access targets and measures being taken to address them. Also, the audited financial statements are readily available on NHS Forth Valley's website.

- 76. Overall we concluded that the board is open and transparent in the way it conducts its business with the public able to attend regular meetings of the board as well as the Annual Review of the board's performance.

Internal control

- 77. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain sufficient audit evidence to support our opinion on the board's financial statements.
- 78. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the board's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
- 79. We reported our findings to the Director of Finance on 10 April 2015 and the Audit Committee on 5 June 2015.

Internal audit

- 80. Internal audit provides the board and Accountable Officer with independent assurance on the board's overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

81. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
82. The internal audit plan for 2014/15 was materially complete. We were able to place formal reliance on aspects of internal audit work on the payroll system.

ICT audit

83. ICT is a key area of control because it underpins all systems used by the board. As part of our planning process we carried a high level review of ICT covering a number of areas. This included investment in ICT infrastructure and systems and management's response to the national ICT resilience review and management's strategies and plans for the implementation of digital services.
84. In 2014/15, vandals broke into a decommissioned hospital site at Kildean and scattered some old records containing personal data. The board self-reported the incident to the Information Commissioner's Office (ICO). Following an investigation, the ICO decided not to pursue that matter primarily because it appeared to be an isolated incident rather than evidence of a systematic failure.
85. Overall, subject to information governance comments on the Kildean incident, we concluded that the board's ICT arrangements are satisfactory and we are not aware of any specific issues that require to be brought to the attention of members.

Arrangements for the prevention and detection of fraud

86. We assessed the board's arrangements for the prevention and detection of fraud during the planning phase of our audit. This involved reviewing policies and procedures in a number of areas including whistleblowing and liaison with Counter Fraud Services (CFS).
87. The internal audit manager also works in partnership with CFS to promote anti-fraud activity and to advise members of current investigations within the NHS in Scotland.
88. We concluded that the board has put in place effective arrangements for the prevention and detection of fraud.

National Fraud Initiative in Scotland

89. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It 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.
90. Auditors are required to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
91. The National Fraud Initiative has a high profile within the board with data matches actively investigated and findings regularly reported to

the Audit Committee. There are no issues of concern that we require to include in this report.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

92. The board has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for officers and members. Also, there are established procedures for preventing and detecting corruption including annual reviews of Standing Financial Instructions and Standing Orders.
93. Based on our review of the evidence we concluded that the board has appropriate arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

Freedom of Information (FOI) requests

94. The board processed 79% of FOI requests within the statutory timescales. There were valid reasons why some FOI requests were not processed within these timescale, including the complexity of the request. However we have no significant concerns about the procedures followed by the board in processing FOI requests.

Vale of Leven Inquiry

95. The Vale of Leven Hospital Inquiry Report into the circumstances contributing to the high occurrence of *C.difficile* at the Vale of Leven

Hospital was published in November 2014. Following publication of the report, health boards were required to carry out a self-assessment of progress against the 65 recommendations directed at health boards.

96. In Forth Valley, 62 of the recommendations (95%) have been implemented with three to be completed in the near future. This was reported to the Performance and Resources Committee in January 2015 along with the actions being taken to fully address the Inquiry's recommendations. The overall action plan for the Vale of Leven is monitored through the Area Prevention and Infection Control Committee.
97. The Healthcare Environment Inspection (HEI) process also provides assurance to the board on the effectiveness of infection control. The HEI carried out an unannounced inspection visit to the Forth Valley Royal Hospital on the 11th and 12th February 2015. The HEI made one recommendation which has now been implemented. The HEI concluded that Forth Valley Royal Hospital is taking a proactive approach to infection control.
98. In one area of infection control namely, staphylococcus aureus bacteraemia (SAB) performance is below the HEAT (Hospital Efficiency and Access Targets) target. The number of SABs in 2014/15 was 92 compared to the 52 case limit required for the HEAT target. The board is actively working to improve performance with every case investigated to identify the cause of the infection and measures taken to avoid a recurrence.

99. Overall, we concluded that the board takes a proactive approach to infection control and has made good progress in addressing the recommendations arising from the Vale of Leven Inquiry Report.

Health and Social Care Integration

100. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. It is one of the most significant public sector reforms of recent years. Also, it is a very complex area and, as everyone involved knows, a lot of detailed planning needs to be progressed before full implementation by the statutory date of 1 April 2016.
101. The board and its local authority partners agreed to adopt the Body Corporate model for the provision of integrated health and social care across Forth Valley. This will result in the delegation of functions to new legal entities – Integration Joint Boards (IJBs) – which will be accountable for overseeing the provision of these functions.
102. Two partnerships have been established to progress the integration agenda; one between the board and Falkirk Council and the other a multi-authority partnership between the board and Stirling and Clackmannanshire councils. The latter partnership is unique in Scotland and reflects a history of joint working between the councils.
103. Transitional Boards were established for each partnership to oversee the completion of integration schemes. Core (voting) members for each IJB have been appointed and form the core membership of the Transitional Boards. Chair arrangements have also been agreed.
104. Both partnerships submitted their draft integration schemes to the Scottish Government by the 31 March 2015 for review and approval. Comments have been received from the Scottish Government and the aim is for the final integration schemes to be approved by partner bodies by the end of June 2015. The integration scheme for the Falkirk area partnership was submitted with one unresolved issue relating to Community Hospitals that had yet to be agreed between partners. This is being addressed as part of the work in updating the integration scheme.
105. A Chief Officer has been appointed for the partnership with Stirling & Clackmannanshire Councils and is due to take up their post in early July 2015. No Chief Officer appointment was made for the Falkirk area partnership following a recruitment process. The Chief Executives of Falkirk Council and NHS Forth Valley are in the process of making interim arrangements for a six to nine month period with a further recruitment process scheduled for later in the year. Furthermore, both partnerships have each agreed to appoint a part-time Chief Finance Officer for a fixed period of one year and these are in the early stages of recruitment.
106. The Chief Officer has a crucial role to play in terms of project management and ensuring completion of the strategic plan by the required date of 31 March 2016. There is a risk that the board and its Falkirk Council partner may not be well placed to implement health and social care integration successfully in the Falkirk area. It

is important that the appointment of a Chief Officer for the Falkirk partnership is given high priority.

- 107.** In conclusion, there is a risk that given the current situation, health and social care integration arrangements may not be fully developed by the statutory deadline date of 1 April 2016.

Recommendation 3

2020 Vision

- 108.** The Scottish Government's vision is that by 2020 everyone is able to live longer healthier lives at home, or in a homely setting. The board is addressing this challenging agenda through its Clinical Services Review (CSR) led by the Director of Public Health and Strategic Planning.
- 109.** The CSR involves a strategic review of current clinical services to identify what the board needs to do to meet the needs of a rapidly ageing population, manage increasing demand for health services and deliver more care at home (or in local communities) so that patients can retain their independence in a homely setting. The CSR will inform the board's Healthcare Strategy for 2015 - 2020.
- 110.** The CSR had its public launch in October 2014 and this was supported by a special edition of the Community Health News explaining the need for change and the board's vision for the future. Following this initial launch there has been extensive engagement with staff and the local population. This included setting up a website where members of the public can express their views on improving services.

- 111.** Eight working groups have been established to drive forward the Clinical Services Review. They cover a range of activities including unscheduled care, long-term conditions and morbidities, cancer, frail and elderly care and infrastructure. These groups have been tasked with developing plans that set out the service changes needed to meet the 2020 Vision. This work is due to be completed by early summer followed by extensive consultation before the formal launch of the new Healthcare Strategy in the autumn

- 112.** Regular updates on progress are provided to the Corporate Management Team and the board. Non-executive directors are kept up to date on 2020 developments through board seminars.

- 113.** Health and social care integration is also a key part of the Scottish Government's strategy to enable people to live healthy lives in a community setting. This has its own particular challenges as outlined above.

- 114.** We have concluded that the board is proactive in planning to ensure that the population in the Forth Valley area are able to live longer healthier lives at home as evidenced by the Clinical Services Review. However, significant challenges remain not least the need to establish effective partnership arrangements within the Falkirk area to take forward health and social care integration.

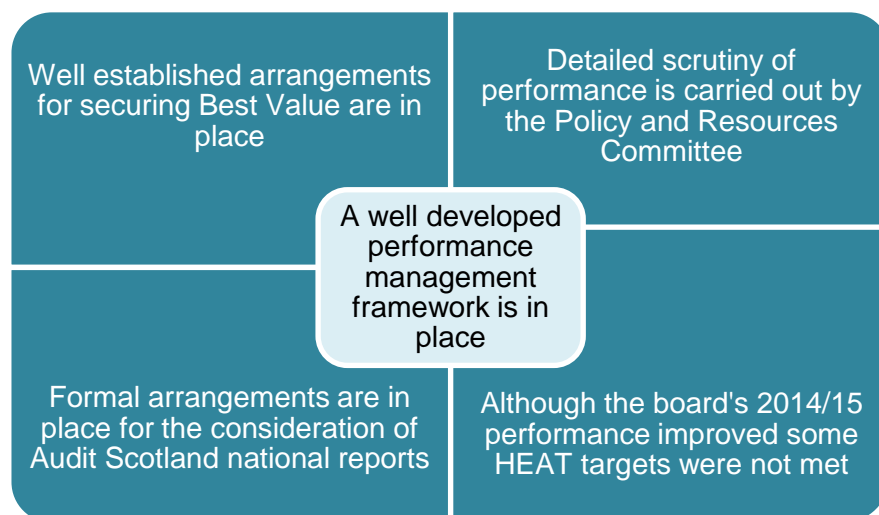
Outlook

- 115.** NHS Forth Valley has recognised the importance of redesigning the way that care is provided for patients, particularly in the context of changing demography and increasing demand, and part of the

strategy for dealing with this is the Clinical Services Review. This aims to ensure that services are provided in a way that provides sustainable care for the future and meet the Scottish Government's aim of having people living longer and healthier lives at home or a homely setting (i.e. the 2020 Vision). The outcome of the Clinical Services Review will have an important bearing on the board's new Healthcare Strategy.

116. Health and social care integration is also an important element in supporting the delivery of the Scottish 2020 Vision. 2015/16 is a transitional year for health and social care integration. A lot of work still has to be done to ensure that the board and its council partners are well placed to successfully deliver on this important strand of the Scottish Government's reform agenda.
117. Audit Scotland will be carrying out a follow-up audit on its *Falkirk Community Planning Partnership report (May 2014)* later this year with findings due to be reported in early 2016. The original report stressed the importance, especially for Falkirk Council and NHS Forth Valley, of the need for good relationships and effective working between community planning partners and the health and social care partnership.

Best Value



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

Arrangements for securing Best Value

119. Best Value arrangements are part of business as usual within the board. They are embedded in its planning processes, governance arrangements and its performance management and quality improvement frameworks.

120. The Audit Committee also receives an annual assurance report from the Head of Performance Management detailing the evidence demonstrating the board's commitment to Best Value. The evidence

is aligned to the Best Value themes set out in national guidance, namely:

- Vision & leadership
- Effective partnerships
- Governance and accountability
- Use of resources
- Performance management.
- Equality
- Sustainability.

121. We have reviewed evidence underpinning the board's BV arrangements including the Local Delivery Plan, performance management and reporting, committee papers, and new initiatives such as the board's work with the Scottish Government to pilot an approach to improving patient flow. This pilot is an important development and draws on evidence from the Institute of Healthcare Optimisation in America. Lessons from the pilot will be shared with other NHS boards. We also attended the annual review of the board's performance.

122. Overall, we concluded that the board has well-developed arrangements for securing Best Value and continuous improvement.

Performance management

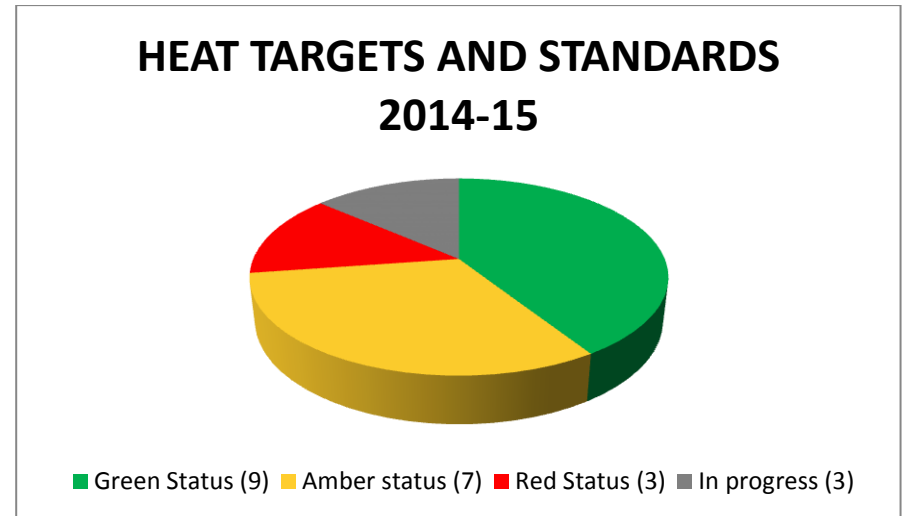
123. The performance of NHS Forth Valley is monitored by the Scottish Government against a number of HEAT targets and standards which support the delivery of the Scottish Government's national

performance framework. These targets and their trajectories (plans) are set out in the board's 2014/15 Local Delivery Plan (LDP).

- 124. Performance against HEAT targets and standards is presented to each meeting of the board in the form of a balanced scorecard. These performance reports also include progress against local performance indicators. Furthermore, performance is discussed at the Annual Review meeting held between the Scottish Government and the board.
- 125. More detailed scrutiny of performance takes place at the Performance and Resources Committee where progress against targets is reviewed and discussed. The performance reports are accompanied by a narrative setting out actions being taken to support the achievement and sustainability of the HEAT targets and standards. In addition, separate reports on waiting times and financial performance are also submitted to the committee for review and scrutiny.
- 126. We concluded that the board had a well established performance management framework in place during 2014/15. This was supported by good performance monitoring.

Overview of performance targets in 2014/15

127. The board's performance against its 22 HEAT targets and standards as reported in the 2014/15 annual accounts, and based on the most up to date data available regarding the position at the end of March 2015, is summarised in the diagram below.



- 128. Of 22 HEAT Targets and Standards, nine were categorised as green, seven amber, three red and three in progress, where:
 - Green means meeting or better than trajectory
 - Amber means within 5% of trajectory
 - Red means outwith 5% of meeting trajectory
 - In progress i.e. data source and quality is still being verified (e.g. smoking cessation).
- 129. Those HEAT standards and targets currently being met (green status) by the board include the 12 week outpatient wait, IVF treatment within 12 months, access to antenatal care and treatment of patients with suspicion of cancer within 62 days.
- 130. In some areas performance is slightly behind target (amber status) including the percentage of accident and emergency waits less than

four hours, CO2 emissions, delayed discharges over 14 days, 18 week referral to treatment time and sickness absence. However, within this category there have been significant improvements most notably in relation to the delayed discharge target.

- 131.** As we reported last year, delayed discharges have been a very challenging area to manage particularly since the target was reduced from no patient waiting more than 28 days for discharge to 14 days. The position at March 2015 was seven delays over 14 days mostly within the Falkirk area. However, since December 2014 there has been month on month improvements resulting in the performance against target changing from red to amber status. This is due to a number of initiatives including extended opening hours for the delayed discharge hub as mentioned at paragraph 135.
- 132.** Three targets were not achieved (red status), namely those for SABs, access to child & adolescent mental health services and access to psychological services. The board is taking measures to address these and the Performance and Resources Committee will monitor progress.

Local performance audit reports

- 133.** In 2013/14 we carried out a review of delayed discharges and identified seven improvement actions which were agreed with management. Most of these improvement actions were due for implementation by April 2015.
- 134.** In the current year we carried out a follow-up audit to assess

progress in implementing agreed improvement actions. Most of the improvement actions are still in progress although three recommendations (two of which relate to performance measures) have been implemented.

- 135.** We also note that progress has been made in a number of areas, including
- the establishment of a Forth Valley Integrated Discharge Team consisting of case managers, occupational therapists and anticipatory care planning nurses. It aims to identify patients ready for discharge within 3 to 7 days after admission
 - extended opening hours for the delayed discharge hub since January 2015. The hub is now open 7 days a week rather than 5 previously
 - improved performance reporting information introduced for delayed discharges.
- 136.** Overall, we concluded that the board has made progress in implementing the agreed improvement action plan with further steps being taken to ensure full implementation by October 2015.

National performance audit reports

- 137.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the board. These are outlined in **appendix III** accompanying this report.

138. As reported in previous years, NHS Forth Valley has processes in place to ensure that all national performance reports and their impact on the Board are considered by the Audit Committee and other governance committees, as appropriate.
139. From our attendance at Audit Committees we concluded that the arrangements for considering national performance audit reports are consistent with good practice.

Equalities

140. The Equality Act 2010 introduced a new public sector ‘general duty’ which encourages equality to be mainstreamed into public bodies’ core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
141. At its meeting on 31 March 2015, the board considered the *NHS Forth Valley Equality Delivery Mainstreaming and Outcomes Progress Report 2013-15*. The report is readily accessible on the board’s website which also contains links to other relevant publications and source legislation.
142. We reviewed the aforementioned report and concluded the board has met its statutory duty to:
- publish information on progress made in mainstreaming equality within the board

- report on progress made towards achieving equality outcomes published in 2013
 - publish annual employee information and details of the progress made in gathering and using information to better meet the duty.
 - publish updated gender pay gap information.
143. The board is proactive in ensuring that equality is embedded through the organisation.

Outlook

144. Audit Scotland in its annual overview of the NHS in Scotland highlighted that there are increasing signs of pressure on NHS boards’ ability to meet demanding performance targets. The strong focus, particularly in relation to waiting times targets, may not be sustainable when combined with the additional pressures of increasing demand related to demographic changes and the NHS budget starting to decrease in real terms
145. The Scottish Government (SG) recognises that delayed discharges continue to put pressure on bed capacity within NHS Scotland despite some recent improvements. The Scottish Government has notified the board that it will receive additional funding of £5.36 million (over 3 years) from the £100 million delayed discharge funding announced on 20 January 2015 with £1.61 million allocated for 2015/16.

Appendix I – Significant audit risks

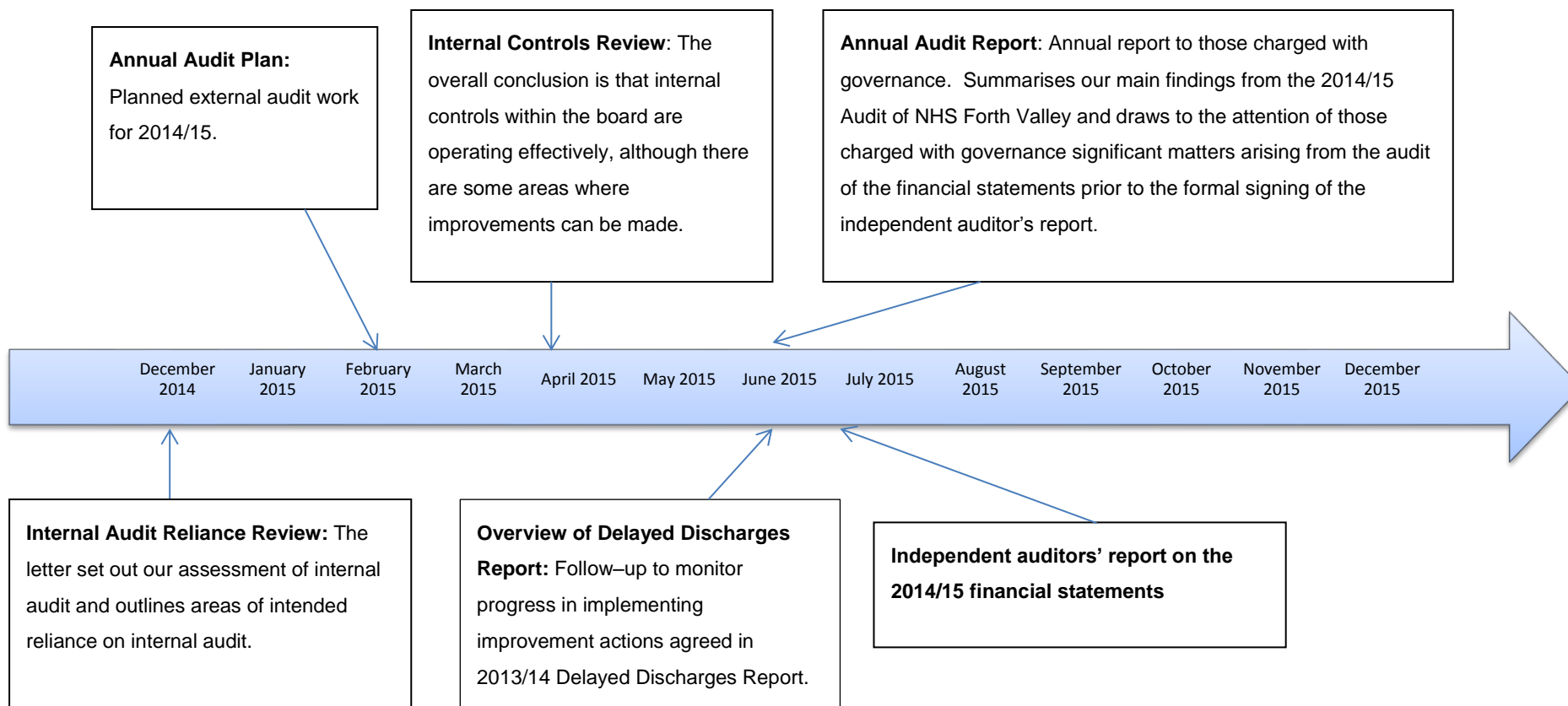
The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Equal Pay</p> <p>NHS Forth Valley along with other NHS boards continues to be unable to quantify the extent of its liability for Equal Pay claims. Whilst this risk is reducing over time, there remains a risk that these liabilities could be quantified in 2014/15 and have an impact of the board's ability to achieve its prescribed financial targets</p>	<ul style="list-style-type: none"> Monitored progress in settling claims during the year and consider status at the year end. Consulted with our technical support staff on advice provided by the Central Legal Office. 	<ul style="list-style-type: none"> An offer of settlement has been made although negotiations are still underway. Equal pay liability now accounted for as provision in the 2014/15 annual accounts. No impact on the board's ability to achieve its financial targets.
<p>Accruals</p> <p>In previous years our audit of the financial statements identified balances within the trade payables account which did not relate to the correct financial year. A recurrence of these issues could result in a risk of the board not achieving its prescribed financial targets.</p>	<ul style="list-style-type: none"> Cut-off procedures for trade payables and trade receivables were tested to ensure that expenditure and income are accounted for in the correct financial year. 	<ul style="list-style-type: none"> Two misstatements were identified with a net value of £39,000 (refer paragraph 21). These were not corrected in the financial statements and had no impact on the board's ability to achieve its financial targets.

Audit Risk	Assurance procedure	Results and conclusions
<p>Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Tested the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements. • Reviewed accounting estimates for biases • Evaluated significant transactions that are outside the normal course of business. • Focussed testing of the regularity and cut-off assertions during the financial statements audit. 	<ul style="list-style-type: none"> • Testing of journal entries did not identify any issues to be reported.. • Review of accounting estimates did not identify any evidence of bias. • Testing did not identify any significant transactions that were outside the normal course of business. • Testing did not identify any evidence of management override of controls relating to regularity and cut-off assertions.

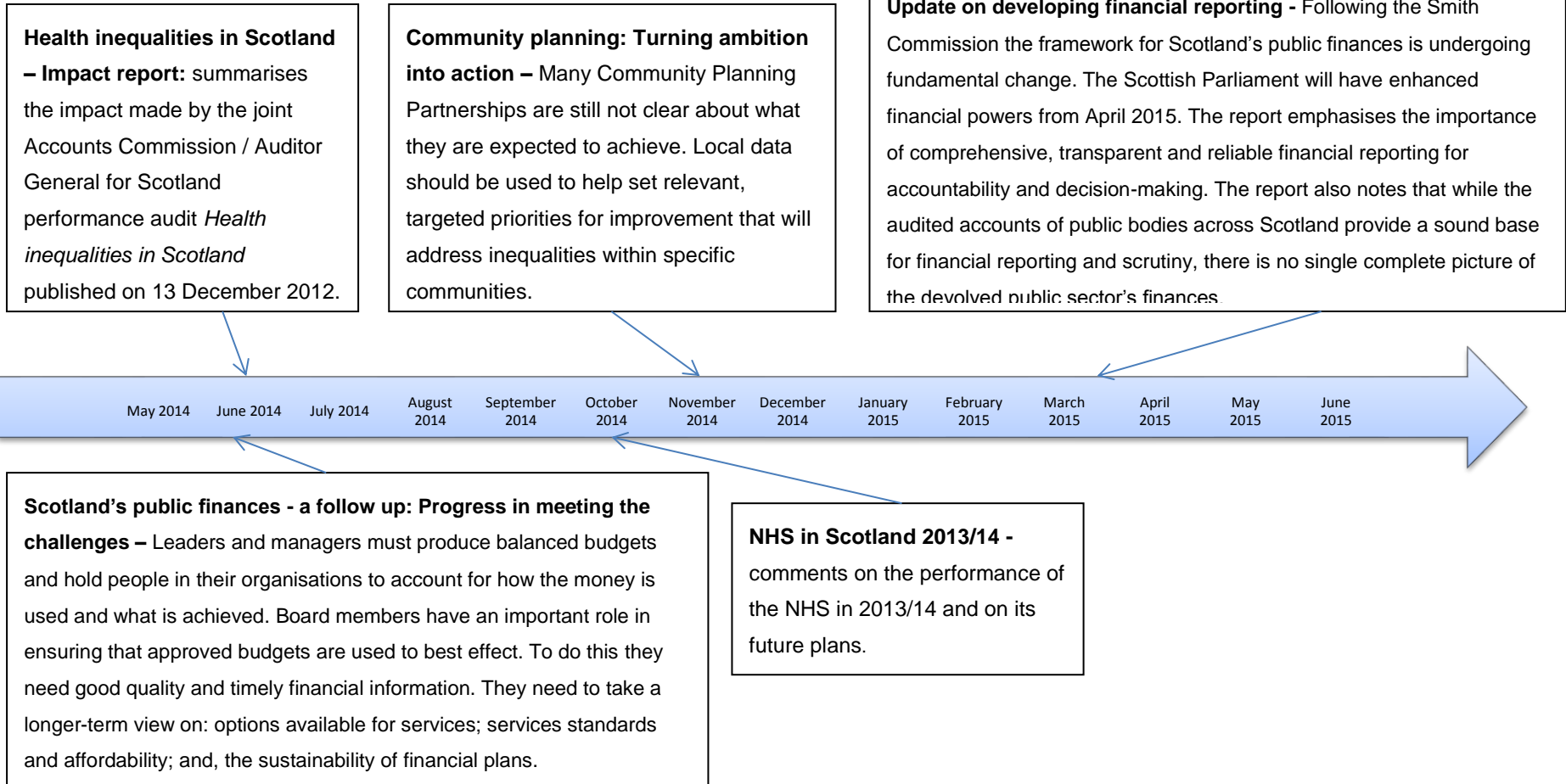
Appendix II

Summary of NHS Forth Valley local audit reports 2014/15



Appendix III

Summary of Audit Scotland national reports 2014/15



Appendix IV

Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
Wider dimension audit responsibilities				
56/16	<p>Issue</p> <p>Spending on non-core staff costs (i.e. bank, agency, locum and overtime) increased from £14.833 million in 2013/14 to £16.150 in 2014/15. The use of bank, agency and locum staff provides flexibility to cover for vacancies and staff absence but needs to be managed and monitored closely.</p> <p>Risk</p> <p>Continued reliance on non-core staff could have a significant impact on the board's plans to achieve the savings required for longer term financial sustainability.</p> <p>Recommendation</p> <p>The board should reduce reliance on non-core staff to provide services.</p>	<p>The use of bank and agency spends is reviewed monthly at Corporate Management Team Meetings and is reported in the Board Finance Report. Directorate reviews also include utilisation of bank and agency staffing.</p> <p>In a number of instances agency medical staff were utilised whilst the board was in the process of recruiting and in line with expectations spend reduced from August 2014 when the new appointees took up their posts. Additional funding was also approved in the Financial Plan 2015/16 for investment in specific ward areas with a commitment to reduce bank spend in those areas. There is a commitment to reduce reliance on agency/bank but a recognition that flexibility is also required to cover for vacancies and sickness cover.</p>	Director of Finance	Robust monitoring throughout 2015/16

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
58/16	<p>Issue</p> <p>The board has seen improvements in its sickness absence rate in recent months although at 31 March 2015 the rate was 5.15%. This is above the 4% standard specified by the Scottish Government.</p> <p>Risk</p> <p>A high sickness absence level will impact on the board's ability to achieve its financial and non-financial targets and could adversely impact on safe and efficient service delivery.</p> <p>Recommendation</p> <p>The effectiveness of measures implemented to reduce absence levels should be assessed to ensure they are appropriate and can deliver improved attendance at work.</p>	<p>There is considerable scrutiny of sickness absence rates throughout the organisation from Board and Staff Governance to Directorate Reviews.</p> <p>A number of approaches have been adopted and discussions held with other boards to ascertain further actions which can be implemented.</p> <p>Methods used to manage sickness absence are reviewed to check for effectiveness but as there can be a number of approaches it is often difficult to identify benefits of a single approach. However, constant feedback and sharing approaches within the organisation remain a priority.</p>	Director of Human Resources	Monitoring throughout 2015/16

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
107/23	<p>Issue</p> <p>The Falkirk partnership has concluded the recruitment process for a Chief Officer without appointment. A further recruitment round is scheduled for later this year and in the meantime the Chief Executives of the council and health board are looking at putting in place interim arrangements. Also, the recruitment process for Chief Finance Officers in both partnership areas is at an early stage.</p> <p>Risk</p> <p>The board and its council partner may not be well placed to implement health and social care integration successfully within the Falkirk area by the statutory date of 1 April 2016.</p> <p>Recommendation</p> <p>The board and its council partner need to put in place robust interim arrangements to fulfil the role of the Chief Officer for the Falkirk partnership until such time as a permanent appointment is made. Similarly, partnerships need access to sound financial advice and support until Chief Finance Officers are in post.</p>	<p>An interim post is currently advertised with a closing date at the beginning of June 2015.</p> <p>Recruitment process in place for Chief Finance Officers. The Directors of Finance/Chief Finance Officers will be available to provide financial advice to the Partnerships until such time as the Chief Finance Officer appointments are in place.</p>	<p>Chief Executive of NHS Forth Valley</p> <p>Director of Finance</p>	<p>Interim Post June 2015</p> <p>Chief Finance Officers to be appointed by August 2015</p>