



Lanarkshire Health Board

External Audit Annual Report to
the Board and the Auditor
General for Scotland 2014/15

July 2015



Scott-Moncrieff
business advisers and accountants

Lanarkshire Health Board

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Executive Summary

Financial Statements

The Board approved the annual accounts for 2014/15 on 22 June 2015 and the accounts were submitted to the Scottish Government and Auditor General by the deadline of 30 June 2015. We reported, within our independent auditor's report, unqualified opinions on the financial statements, the regularity of transactions and on other prescribed matters. We were also satisfied that there were no matters which we were required to report by exception.

The audit identified some disclosure and presentational adjustments that were reflected in the final financial statements. The adjustments, taken individually and in aggregate, did not have any effect on the Board's reported financial outturn for the year.

Use of resources

The Board met all of its key financial targets in the year, achieving a saving against its Revenue Resource Limit of £0.4million (0.04%). The saving was consistent with the planned outturn agreed with SGHSCD through the 2014/15 Local Delivery Plan.

The Board has achieved its overall savings target for the year, making efficiency savings of £26.712million. The Local Delivery Plan forecasts a small surplus in each of the next three years. Given the Board's good track record of achieving its efficiency savings targets we consider that it remains in a strong position to manage its finances going forward. However, 20% of the efficiency savings that are required to meet the 3% target in 2015/16 have not been identified.

Performance

The Board has an effective performance management framework in place that is aligned with the Local Delivery Plan and corporate objectives. This has enabled the Board to remain well-informed of organisational performance. While it has not been able to meet all of its HEAT targets in 2014/15, wherever performance has been below target the Board has ensured that appropriate remedial actions have been planned.

Governance

We found the Board's governance arrangements to be appropriate. In March 2015 the Board established the Planning, Performance and Resources Committee. The committee will meet bimonthly and, as a result, the Board also plans to move to bimonthly meetings.

The 2014/15 Governance Statement discloses the results of the unannounced inspection of Hairmyres hospital carried out by Healthcare Improvement Scotland in September 2014.

Conclusion

This report concludes our audit for 2014/15. 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 discussed and 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 2015

Introduction

1. This report summarises the findings from our 2014/15 audit of Lanarkshire Health Board ('the Board'). The scope of our audit was set out in our External Audit Plan, which was presented to the Audit Committee in December 2014. Further information on the scope of our audit is presented in Appendix 3.
2. Public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance not only on the financial statements and associated documents such as the governance statement, but also providing a view, where appropriate, on matters such as propriety, performance and the use of resources in accordance with the principles of Best Value and 'value for money'.
3. The main elements of our audit work in 2014/15 have been:
 - Audit of the financial statements, including a review of the governance statement;
 - Review of governance arrangements, internal controls and financial systems;
 - Review of the Board's self-assessment of its arrangements for effective risk management;
 - Review of the Board's participation in the National Fraud Initiative; and
 - Collation of information on the Board's financial capacity and the use of temporary staff.
4. 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

5. The Board's annual financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of the Board and the auditor in relation to the financial statements are outlined in Appendix 2.

Overall conclusion

An unqualified audit opinion

6. The annual accounts for the year ended 31 March 2015 were approved by the Board on 22 June 2015. We reported, within our independent auditor's report:
 - an unqualified opinion on the financial statements;
 - an unqualified opinion on regularity;
 - an unqualified opinion on other prescribed matters.
7. We were also satisfied that there were no matters which we were required to report to you by exception.

Good administrative processes in place

8. 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 we are grateful to the finance team for their assistance with our work.
9. The annual accounts were submitted to the Scottish Government and the Auditor General for Scotland prior to the 30 June 2015 deadline.

Key areas of audit focus and significant findings

10. Our External Audit Plan identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks. No additional significant risks were identified after the planning stage of our audit work this year.

Audit risk 1: Financial position

In response to the financial challenges facing the Board, significant real cash efficiency savings are to be achieved over the coming years to deliver a balanced budget. Financial implications of boundary changes, significant increases in hospital drugs costs, meeting access targets, unscheduled care, and other cost pressures are all having a significant impact on the Board's finances and related risks. There are also ongoing financial implications of achieving a range of performance targets, Health and Social Care Integration, and other service redesign initiatives. There was a risk that the Board's financial position may not be soundly based and the delivery of efficiency savings plans may detrimentally affect services and/or ongoing financial health.

11. We reviewed the Board's financial position and related budgets and projections to ensure that they are soundly based. We found that the Board has effective financial management arrangements in place. Further context and detail in relation to our findings are presented in the *Use of resources* section below.

Audit risk 2: Senior personnel changes

The Board has had a number of changes at senior management level during the year that could have had implications for financial and non-financial disclosures to be made in the 2014/15 annual accounts, and related assurances such as the Governance Statement.

12. At the end of December 2014 the Chief Executive retired and was replaced by the former Chief Executive of NHS Borders. Following retirements, two other directors were also replaced during the year: the Director of Nurses, Midwives and Allied Health Professions and the Director of Acute Services. Following a change in the Board's structure, the Director of the North Lanarkshire Community Healthcare Partnership became the Director of Strategic Planning and Performance. The Board also appointed a new Head of Finance (Corporate Services), following the retirement of the previous Head of Financial Services.
13. We carried out audit testing as appropriate to ensure that the personnel changes did not affect the recording of transactions throughout the year and we found no instances where transactions have not been correctly recorded in the financial statements. We reviewed the approach taken by the Board to the changes, including the formal assurances on governance given by the outgoing Chief Executive. We found the disclosures made to be adequate and appropriate. We also found that the changes in senior personnel had been properly reflected in the Board's annual report and accounts.

Audit risk 3: PFI and Hub assets

The Board has three facilities which are funded through the Private Finance Initiative (PFI): Hairmyres, Wishaw and Stonehouse Hospitals. New health centres in Kilsyth, East Kilbride and Wishaw are being delivered through the Hub funding model. Accounting for PFI and Hub funded assets is complex. There was a risk that the Board's financial statements did not show the correct PFI commitments and that the unitary payments in relation to these facilities were not correctly accounted for. Hub accounting and disclosure could also have been inappropriate.

14. Kilsyth Community Health Centre opened on 27 April 2015, Hunter Community Health Centre (East Kilbride) opened on 26 May 2015 and Wishaw Community Health Centre is due to open in late 2015. In accordance with the Government Financial Reporting Manual 2014/15 ("the FReM") and international accounting standards, the Board recognised assets under construction totalling £27.563 million in relation to these health centres as at 31 March 2015.
15. The Board's PFI assets have been subject to revaluation, in accordance with the FReM and international accounting standards. As at 31 March 2015 the three PFI facilities were valued at £228.6 million. The financial statements also recognise the present value of the remaining lease payments on these assets as liabilities in the balance sheet. At the year end, the remaining lease payments amounted to £153.078 million.
16. We reviewed the Board's PFI and Hub accounting and disclosures against the requirements of the FReM and against the underlying contracts. We found that the Board has accounted for its PFI and Hub assets appropriately. The Board has implemented our previous audit recommendations, reviewing its PFI accounting models during 2014/15 and ensuring that the assumptions therein remained appropriate and that the models reflected the actual charges incurred.

17. Our detailed audit work during 2014/15 identified that the accounting entries made to reflect capital repayments against the PFI liability may have been marginally overstated due to the treatment of some inflationary uplifts. However, from the work undertaken we are content that this would not lead to significant misstatement in the financial statements. The Board should continue to review the accounting entries and disclosures calculated by the PFI models, including the treatment of inflationary uplifts. Management should ensure that the findings from recent work on the PFI accounting models are reflected in the accounting models being adopted for Hub assets from 2015/16 onwards.

Action Plan Point 1

Audit risks 4 & 5: Revenue recognition & management override

Auditing standards require us to presume that there is a risk of fraud in relation to revenue recognition. 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

18. We have evaluated each type of revenue transaction and carried out testing to confirm that the Board's revenue recognition policy is appropriate and has been applied correctly. Additionally, following specific audit testing we identified no indication of management override.

Audit Adjustments

19. The audit identified some disclosure and presentational adjustments and we are pleased to report that these were reflected in the final financial statements. The adjustments, taken individually and in aggregate, did not have any effect on the Board's reported financial outturn for the year. The adjustments primarily related to:

The presentation of the new provision in respect of the CNORIS risk indemnity scheme

Revision of the age profile within provisions of a recently-settled, significant clinical negligence case

Update to the disclosure of the liability in relation to the Board's Hub assets

Update to the cash flow statement for intra-board asset transfer

Reclassifications across property, plant and equipment

Update to the remuneration report, to explain the context of certain disclosures made

Reclassification of some payables and receivables.

Qualitative aspects of accounting practices and financial reporting

20. 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. Our findings are summarised below.

<p>The accounting policies used</p>	<ul style="list-style-type: none"> • The significant accounting policies, which are disclosed in the financial statements, are considered appropriate to the Board.
<p>The timing of the transactions and the period in which they are recorded.</p>	<ul style="list-style-type: none"> • We did not identify any concerns over the timing of transactions or the period in which they were recognised.
<p>The accounting estimates and judgements used</p>	<ul style="list-style-type: none"> • The accounting estimates and judgements used by management in preparing the financial statements are considered appropriate.
<p>The potential effect on the financial statements of any uncertainties, including significant risks</p>	<ul style="list-style-type: none"> • We have not identified any uncertainties, including any significant risk, which should be included in the financial statements (beyond the existing disclosures made).
<p>The extent to which the financial statements have been affected by unusual transactions</p>	<ul style="list-style-type: none"> • From the testing performed, we identified no significant unusual transactions in the period.
<p>Apparent misstatements in the annual report or inconsistencies with the financial statements</p>	<ul style="list-style-type: none"> • We noted no such issues between the financial statements and management commentary.
<p>Any significant financial statement disclosures to bring to your attention</p>	<ul style="list-style-type: none"> • There are no significant financial statement disclosures that we consider should be brought specifically to your attention.
<p>Disagreement over any accounting treatment or financial statement disclosure</p>	<ul style="list-style-type: none"> • There was no material disagreement during the course of the audit over any accounting treatment or disclosure.
<p>Difficulties encountered in the audit</p>	<ul style="list-style-type: none"> • There were no significant difficulties encountered during the audit.

Use of resources

Overall conclusion

The Board has effective arrangements in place for financial management and the use of resources

21. Overall, we found that the Board has effective arrangements in place for financial management and the use of resources. Our conclusion has been based on a review of the Board's financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets. Each of these elements is discussed in more detail below.

The Board's financial performance in 2014/15

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

22. The Board has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD) and the table below shows that the Board met all of its key financial targets in 2014/15.

Performance against budget limits	Target (£million)	Actual (£million)	Saving (£million)	Target achieved?
Core revenue resource limit	1,107.141	1,106.741	0.4	Yes
Non-core revenue resource limit	20.767	20.767	0	Yes
Core capital resource limit	25.850	25.850	0	Yes
Non-core capital resource limit	27.563	27.563	0	Yes
Cash requirement	1,188	1,187.146	0.854	Yes

The Board achieved a saving of £0.4million (0.04%) against its RRL

23. The Board's £0.4million saving against revenue resource limit (RRL) was consistent with the planned outturn agreed with SGHSCD through the 2014/15 Local Delivery Plan. The outturn was supported by the carry forward of the £3.544million saving against RRL that was reported in 2013/14.
24. The Board achieved a balanced financial outturn against its recurring revenue allocations. However, taking the 2014/15 financial year in isolation, the Board reported a deficit of £3.144million against non-recurring revenue allocations. This was part of a managed approach, agreed with SGHSCD in 2013/14, recognising that the Board would have to incur non-recurring expenditure on refurbishment works at Monklands Hospital and on the implementation of the Board's adult mental health strategy during the year.
25. NHS Lanarkshire's 2014/15 saving against RRL was achieved despite considerable financial pressures. The Board has been able to balance overspends on nursing pay costs, medical pay costs, acute prescribing and primary care prescribing with additional income, efficiency savings and a range of small underspends. The table below show the outturn position for each of the Board's budget areas.

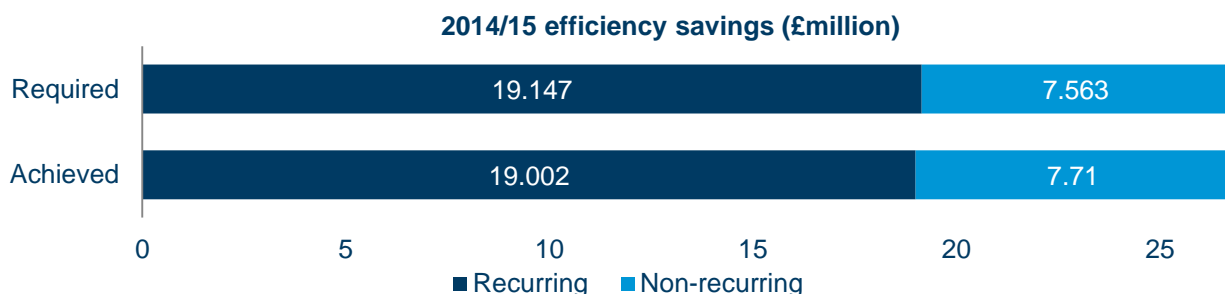
Breakdown of the £0.4million saving against RRL by budget heading						
Acute £4.945million overspend	North CHP £0.864million underspend	South CHP £0.882million underspend	Primary Care £2.811million overspend	Corporate £0.435million underspend	Other providers £0.042million underspend	Board wide £5.933million underspend

26. The overspend within the Acute Division is principally due to higher than expected pay costs and prescribing costs. Nursing pay costs were £1.726million higher than budget and medical pay costs were £0.566million higher. The Board recognises that there are national difficulties in filling posts and that locum costs are increasing as a result. In response, pay costs are being closely monitored however pressure on pay costs is anticipated to be a continued risk in 2015/16.
27. The spend on drugs within the Acute Division was £2.415million higher than expected. The most significant factor in the overspend was the cost of new Hepatitis C drugs which came into use during the summer. Prescribing costs in the Primary Care Division were also £2.745million higher than budget. Prescribing costs are closely monitored throughout the year.
28. The underspend on “Board wide” budgets represents the carry forward of the prior year’s £3.544million saving against RRL and some minor slippage against various aspects of the financial plan in 2014/15.

Efficiency savings

The Board achieved its savings target for the year

29. In line with all territorial health boards, NHS Lanarkshire was tasked with making efficiency savings totalling 3% of its baseline RRL in 2014/15. This equated to £26.71million, split between £19.147million recurring savings and £7.563million of non-recurring savings.



30. The Board has achieved its overall savings target for the year, making total efficiency savings of £26.712million. Whilst it fell short of its recurring savings target by £0.145million (0.8% of the target), this was offset by achieving £0.147million additional non-recurring savings. 62% of the total savings made (£16.594million) were cash releasing savings and 38% (£10.118million) were due to non-cash releasing productivity gains. Although there has been a very small underachievement on recurring savings in the year, we consider that the Board’s arrangements for delivering efficiency savings are strong. The ever-increasing challenge will be to continue to deliver 3% efficiency savings every year going forward, in the face of increasing pay and prescribing costs. This is discussed in more detail below, under financial plans, funding and costs pressures.

Capital Resource Limit

The Board met its Capital Resource Limit of £53.41million in 2014/15

31. In 2014/15 the Board received a total capital allocation of £53.41million, comprising a £25.85million core allocation and a £27.56million non-core allocation. Core allocations reflect cash funding to be spent on the purchase of assets. The Board invested its full core capital allocation in assets during the year. The most significant projects are shown below.



32. The £27.56million non-core allocation reflects non-cash funding to allow the Board to recognise assets under construction for the health centres in Kilsyth, East Kilbride and Wishaw that are being delivered through the Hub model. As reported in the *Key areas of audit focus and significant findings* section above, we reviewed the accounting treatment applied to the Board's Hub assets against the requirements of the FReM and found that the Board has accounted for its Hub assets appropriately.

Financial plans, funding and cost pressures

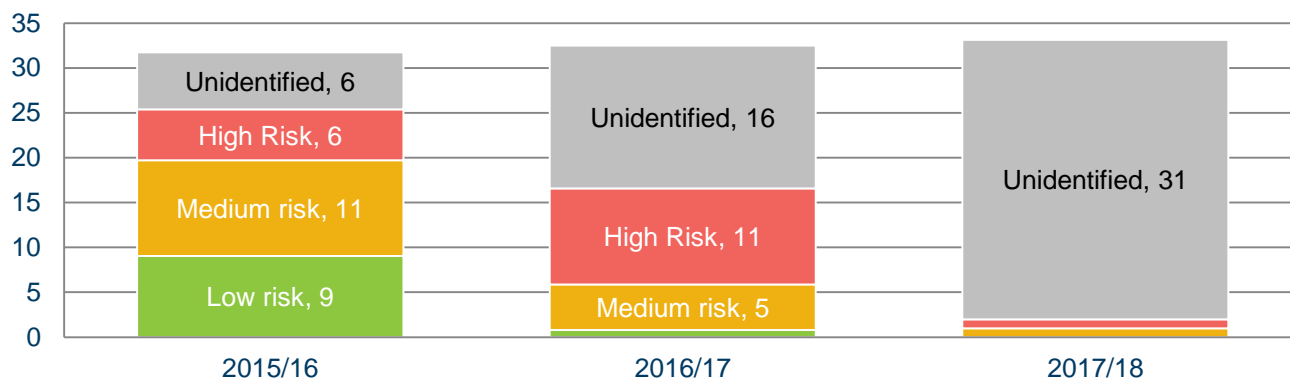
33. The Board has submitted a Local Delivery Plan (LDP) to the SGHSCD outlining financial plans to 2017/18. The LDP forecasts a very small surplus in each of the next three years, with at least break even against recurring and non-recurring allocations in each year. The Board expects core RRL to rise by 4% in 2015/16, and 2% per year thereafter. Of the 4% increase notified for 2015/16, 0.5% has been allocated to support the integration of health and social care and 0.4% has been allocated to support a reduction in delayed discharges.

Forecast financial position	2015/16	2016/17	2017/18
Anticipated core RRL (£million)	1,153.336	1,177.851	1,199.923
Forecast outturn (£million)	0.279	0.429	0.429
Outturn as a % of core RRL	0.02%	0.04%	0.04%

The Board has not yet identified all of the efficiency savings required to deliver the LDP

34. Although small increases in the core RRL are anticipated over the three year LDP, the Board is still expected to make recurring efficiency savings of around 3% of its core RRL in each year of the plan. That equates to approximately £32million each year. To date, 20% of the savings required to meet the 3% target in 2015/16 have not been identified. The Board has also still to identify 49% of the savings required for 2016/17 and 94% of the savings required for 2017/18. This is set out in the table below.

Identification of LDP efficiency savings (£million)

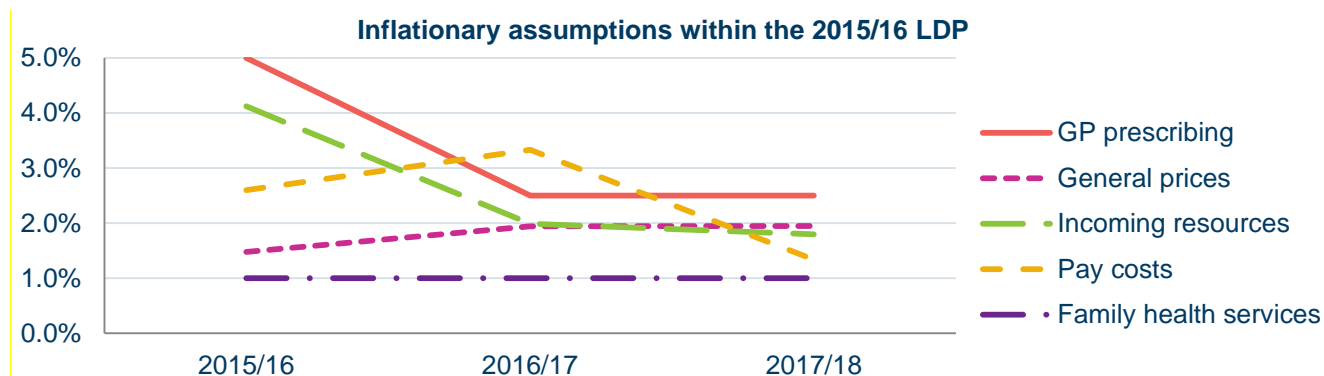


35. The Board has a good track record of achieving its efficiency savings targets. However, there remains a risk that the Board may not achieve the targeted savings in 2015/16 if it cannot identify where they will be made. The Board should ensure that savings plans are developed identifying how the remaining £6million of savings required in 2015/16 will be made. The Board should also attempt to identify how the required savings will be made in the remaining two years of the LDP.

Action plan point 2

The Board continues to face significant cost pressures

36. The Board makes a range of assumptions in its LDP. These include estimates of increases in prescribing costs, general prices, incoming resources, pay costs, and family health services costs. The financial assumptions made by the Board are generally in line with the rates applied by comparable bodies that we are aware of and appear to be reasonable and consistent with our understanding of the Board's financial position.



37. In addition to the inflationary assumptions outlined in the graph above, the Board anticipates significant increases in the cost of hospital drugs, due to both cost and volume increases. In total, the Board has assumed increases in hospital drugs costs of 30% in 2015/16 and 16% in each of the two remaining years of the plan. The Board reports that hospital initiated drugs costs increased by 19% in 2014/15. However, the 2014/15 LDP only assumed an increase of 12%. As a result the uplift assumed in the 2015/16 LDP includes a 7% increase in order to rebase the budget. Additionally, 22.5% growth is forecast in 2015/16.

38. The Board recognises that the uplifts are substantial, however the assumptions have been informed by changes in both the Scottish Medicines Consortium approval process and the Individual Patient Treatment Request process. It is expected that these changes will bring into use rare and end-of-life drugs that are

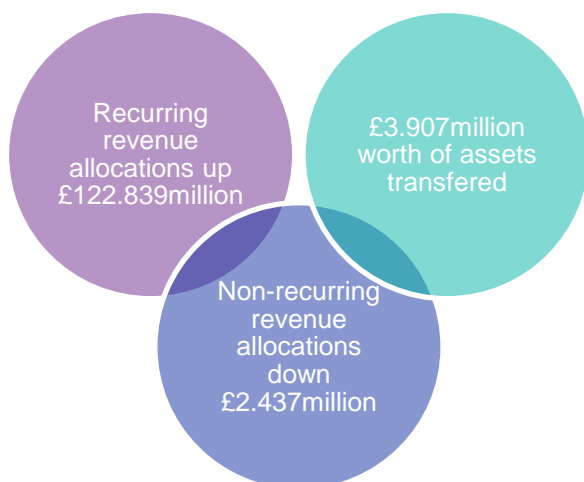
less cost effective than would have previously been recommended. In particular, the roll out of new drugs for treating hepatitis C has already had a significant impact on drugs spend.

39. In addition to forecasting inflationary uplifts, the Board has to make a range of other assumptions in the LDP. The remaining key assumptions and risks, and the estimated financial impact, are shown below.

<p>High risk Hepatitis C treatment cost could exceed the estimate in the financial plan. £4million</p>	<p>Medium risk Uncertainty over the potential influx of patients to Hairmyres when the Victoria Infirmary closes. £0.7million in 2015/16</p>	<p>Medium risk The full plan for meeting access targets has not been finalised. £2million</p>	<p>Medium risk Extensive improvement work underway to improve hospital flow and unscheduled care waits. £2million</p>
<p>Medium risk 2015/16 capital plan delivery assumes support from property disposals. £3.5million</p>	<p>Medium risk Potential over-commitment of NRAC share from the boundary change transfer. £2million</p>	<p>Low risk The Board assumes it will receive its NRAC share of the £90m new drugs fund. <£4.57million</p>	<p>Low risk The plan relies on savings from renegotiating soft facilities management agreements. £1.272million</p>

Health board boundaries changed on 1 April 2014

40. 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. From 1 April 2014 the boundaries were changed and responsibility for providing health services to the residents of Cambuslang, Rutherglen and the Northern Corridor transferred from NHS Greater Glasgow and Clyde to NHS Lanarkshire. The diagram below shows the financial impact of the boundary changes.



41. Responsibility for 79,033 patients transferred from NHS Greater Glasgow and Clyde to NHS Lanarkshire, 1,783 patients from NHS Lanarkshire to NHS Greater Glasgow and Clyde and 408 patients from NHS Lanarkshire to NHS Lothian. The key handover date for services was 1 October 2014. At that time responsibilities for community children's nursing services; paediatric occupational therapy; paediatric physiotherapy; community midwifery; learning disabilities community services; and speech and language therapy for adults transferred between boards.

Performance

Overall conclusion

NHS Lanarkshire faces considerable challenges to achieving its HEAT targets

42. An effective performance management system is vital to ensure the delivery of safe, effective, sustainable, person-centred care. The Board's performance management framework is aligned with its LDP and corporate objectives. During 2014/15, performance was reported to the Board regularly on a range of metrics including finance, waiting times, patient safety, Health, Efficiency, Access and Treatment (HEAT) targets and progress against the corporate plan. In March 2015, the Board established a Planning, Performance and Resources Committee with a view to strengthening governance arrangements further.

Scottish Government targets

43. The Board remains well-informed on current progress towards its LDP and its HEAT targets. Each quarter the Board receives a local delivery plan report comprising performance against HEAT targets and progress against the Scottish Government's 2020 vision. The reports compare performance against target, outline projected performance and provide explanations where the Board is not meeting the targets set.

44. The LDP is the annual delivery contract between the Board and Scottish Government. In 2014/15 the LDP included 12 HEAT targets and associated measures, 8 HEAT standards and associated measures and 3 local targets. In total, the quarterly LDP reports cover 29 measures, each grouped under one of the three quality ambitions: Person-Centred (14 measures), Safe (3 measures) and Effective (12 measures). 2014/15 performance is shown below. The Board has been unable to report performance against three measures as the data is not available nationally.

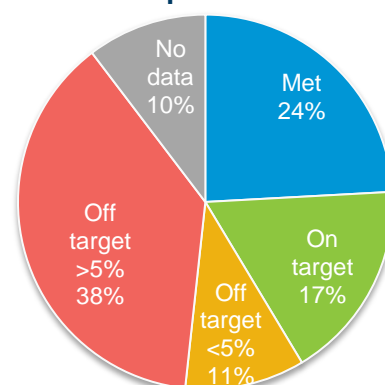
45. The chart of overall performance shows that 11 (38%) of the Board's measures were off target by over 5% for the year. This is a significant figure. Of the 11 measures that are off target by over 5%, three related to the following 'person-centred' waiting times targets:

- 95% of patients will wait less than 4 hours from arrival to admission, discharge or transfer for A&E treatment;
- 98% of patients will wait less than 4 hours from arrival for admission, discharge or transfer for A&E treatment; and
- Outpatients waiting over 12 weeks.

46. The Board recognises that it faces significant challenges in achieving the treatment time targets and in particular those related to unscheduled care. Reflecting the significance of performance in this area, the Board receives an update on waiting times each time it meets. The standing reports highlight areas of pressure and describe the actions planned to deliver sustained improvement. All of the Board's hospitals have detailed improvement plans in place to support changes to improve performance in waiting times for unscheduled care.

47. The Board has not achieved targeted reductions in the rates of staphylococcus aureus bacteraemia (also known as MRSA and MSSA) and the rates of clostridium difficile infections. Both of these measures fall under the 'safe' ambition. The Board receives bi-monthly reports on healthcare associated infection control

Overall performance



performance which includes commentary on targets as well as remedial actions being taken to improve performance. The actual performance of all measures which were off target by over 5%, is shown below:

	Measure	Target	Performance
Person-centred	Patients waiting less than 4 hours from arrival to admission, discharge or transfer for A&E treatment by year ending September 2014	95%	87.8%
	Patients waiting less than 4 hours from arrival for admission, discharge or transfer for A&E treatment	98%	91.7%
	Number of outpatients waiting over 12 weeks	0	1,305
	Patients able to book GP appointment in advance	90%	72%
Safe	Rate of all staphylococcus aureus bacteraemia infections (cases per 1,000 acute occupied bed days) by March 2015	0.24	0.36
	Rate of clostridium difficile infections (cases per 1,000 acute occupied bed days) by March 2015	0.32	0.36
Effective	Reduce rate of 75+ occupied emergency bed days between 2009/10 and 2014/15	3,714	4,766
	Delayed Discharges – people waiting more than 14 days	10	49
	Smoking Cessation – 12 week quitters (9 months to December 2014)	835	734
	Sickness Absence	4%	5.3%
	New Outpatient Appointment DNAs	9.5%	11.2%

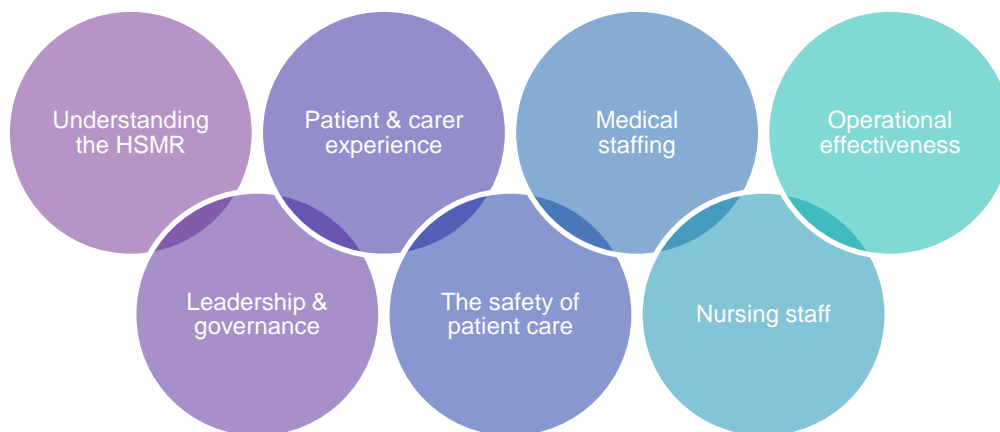
48. The Board has not been able to meet all of the LDP targets in 2014/15. However, wherever performance has been below target the Board has ensured that remedial actions have been planned and monitored. Given the level of improvement required, the Board faces a considerable challenge to achieve all of its HEAT targets in the coming years whilst at the same time contending with the requirement for efficiency savings and other financial pressures.

Healthcare Improvement Scotland Rapid Review and Hospital Standardised Mortality Ratio Programme Plan

Progress has been made on HSMR issues, with further work planned

49. In August 2013 the Cabinet Secretary for Health & Wellbeing commissioned HIS to carry out a review of the safety and quality of care of adult patients in NHS Lanarkshire. The HIS Rapid Review was the first of its kind and focused on the factors that could impact on the Hospital Standardised Mortality Ratio (HSMR). It was conducted by a team of over 30 individuals, including doctors, nurses and other healthcare professionals. The team heard from over 300 patients and carers, over 200 members of staff, reviewed the records of 152 patients and visited over 40 clinical areas.

50. HIS reported its findings in December 2013. The review made 21 recommendations, structured around seven themes:



51. In advance of the review being reported, the Board had implemented the HSMR Improvement Programme to prioritise the Board's response to the ongoing HSMR issues across its three main hospitals. In response to the HIS report, and the internal work already conducted, the Board produced one consolidated action plan with 77 identified actions. The Board has translated the 77 actions into 116 detailed tasks/activities, set out within a Programme Plan. Each task/activity has been allocated to an Executive Director and a Governance Committee. The Corporate Management Team (CMT) oversees progress against the Programme Plan and there are regular reports to members.

52. The Programme Plan was last reported to the committee in June 2015. At that time, of the 42 actions outstanding from the previous update, 16 (38%) had been achieved, 21 (50%) remained open and 5 (12%) were not met by the targeted time. The open and outstanding actions continue to be subject to CMT review on a regular basis.

Governance

53. The *Good Governance Standard for Public Services* was issued by the Independent Commission on Good Governance in Public Services. The Standard describes the function of governance as “ensuring that an organisation fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in an effective, efficient and ethical manner.”

Overall conclusion

54. 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.

The Governance Statement complies with the Scottish Ministers' guidance

55. 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.

56. The Board's 2014/15 Governance Statement discloses that HIS carried out an unannounced inspection into the safety and cleanliness at Hairmyres Hospital in September 2014. The Governance Statement provides a link to the final report which concluded that HIS found varying compliance with the Healthcare Associated Infection standards to protect patients, staff and visitors from the risk of acquiring an infection. The report raised seven requirements and three recommendations and identified that significant improvements were required in the following areas:

- cleanliness of patient equipment in all wards and departments inspected;
- ensuring the environment in all wards and departments is clean, and
- standard infection control practices need to be recorded accurately in the data management system to target areas where improvement is needed.

57. The considerable disclosure given in the Governance Statement reflects the high priority that the Board gave to findings of the HIS report. No other significant control weaknesses or issues are disclosed in the Governance Statement. This assessment is supported by Internal Audit's annual report, which concluded 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.

Committee structure

The Board has established a Planning, Performance and Resources Committee

58. In 2013/14 internal audit reviewed the effectiveness and efficiency of the Board's committee operations. Internal audit did not identify any material issues but, following on from the internal audit, the Board decided, in March 2015, to establish a Planning, Performance and Resources Committee (PPRC). All Board members will be members of the PPRC and the committee's remit is to:
- oversee policy and strategic development;
 - act as the performance management committee of the Board;
 - have strategic oversight of the service redesign programme of the Board and act as the service redesign committee; and
 - influence the early development of the strategic direction of the Board.
59. The Board reports that the PPRC will enable all Board Members to consider the remitted issues in a level of detail that would not be possible through formal Board meetings. The intention is that the enhanced scrutiny of performance and early involvement in strategic planning and development should strengthen governance and decision-making at NHS Board level. The PPRC will meet bimonthly and, as a result, the NHS Board will also move from monthly to bimonthly meetings.
60. The Board recognises that it will be important to be able to demonstrate that governance arrangements have been strengthened by the establishment of the new committee. To that end, it plans to carry out a review of the effectiveness of the committee and the Board by the end of 2015. The results of the review will inform decisions about future operating arrangements. We will consider the results of this review as part of our 2015/16 audit.

Accounting and internal control systems

61. As reported in our interim management report, the Board has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses in the Board's accounting and internal control systems during our final audit. We have however raised an observation requiring management attention, in relation to the automatically-generated Goods Received Not Invoiced (GRNI) accrual, from our final audit.

Action Plan Point 3

Best value assessment of risk management

62. NHS Boards currently face increasing demand for quality services, but also have to face the challenge of tighter financial budgets. Risk management helps with a planned and informed approach to balancing service quality with budgetary constraints. Effective risk management encourages effective decision making and better use of resources.
63. During 2014/15 the Board carried out a self-assessment of its risk management arrangements using an Audit Scotland best value toolkit. The toolkit is an audit diagnostic, which helps establish the extent to which arrangements are designed to achieve, and are actually delivering, best value. The toolkit takes the form of structured key questions, with a matrix of possible levels of performance between basic, better or advanced practice.

64. We reviewed the self-assessment prepared by management and validated the responses to supporting evidence. We used our experience and knowledge gained from across the public sector to help management identify areas where improvement may be made. The findings of the review were included in a separate report but are summarised in the table below.

Key question	Validated self-assessment
Is risk management actively supported and promoted by senior officers and board members?	Better practice.
Is there a systematic approach to help ensure that all key risks are identified, prioritised and matched with appropriate responses?	Elements of better practice and advanced practice.
Are risks and the action taken to mitigate them regularly monitored?	Better practice.
Does risk management contribute toward the achievement of corporate objectives?	Better practice.

65. Overall, management has self-assessed the Board as mainly achieving ‘better’ practice against the risk management toolkit, with some aspects being ‘basic’ and some ‘advanced’ practice. From our review of evidence provided, we have validated this overall assessment and consider it to be reasonable and fair. NHS Lanarkshire can demonstrate adherence to risk management best value principles in all areas, albeit to varying levels.

66. There is a strong commitment to continuous improvement in risk management within the Board. This improvement culture is demonstrated by a recent Short Life Working Group led by the Audit Committee Chair and supported by the Corporate Risk Manager. The Board should now consider where it wants to be on the spectrum of basic to advanced practice. The desired position is unlikely to be ‘advanced’ in every area (particularly given the tightening financial environment). Taking this self-assessment forward and identifying any gaps between current and desired practice will allow for management to identify the most important and targeted continuous improvement actions.

Action plan point 4

Internal audit

67. To avoid duplication of effort we aim to take cognisance of the work of internal audit wherever possible. 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). FTF provides internal audit services to a number of NHS bodies. 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 (PSIAS) and has appropriate documentation standards and reporting procedures in place.

68. In 2014/15 our work was informed by internal audit reviews in the following areas:

- Savings programme
- Payroll system
- Cash and bank
- Service contract income
- Ordering, requisition and receipt.

Prevention and detection of fraud and irregularity

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

National Fraud Initiative

70. 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. The NFI produces 'matches' by using data matching to compare a range of information held on bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.



71. The Board's arrangements for the 2014 NFI exercise have been satisfactory. The required data was submitted on time and the Board received 6,171 data matches in total, of which 364 were recommended for investigation. The Board began to investigate the matches in good time after they were released and, by the end of June 2015, 91 matches had been investigated, with no frauds or error being found. The Board plans to investigate the remaining recommended matches, and a sample of other matches, during 2015. The investigation of data matches is led by the Head of Internal Audit (as the Fraud Liaison Officer) and the results of the investigations will be reported as part of the regular fraud updates to the Audit Committee.

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

72. In our opinion the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. 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 have 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

73. 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 an integrated joint board (IJB) and will be headed by a Chief Operating Officer.

74. A summary of the progress made in the year was presented in the Board's governance statement. During 2014/15 the membership of the IJBs was agreed, work programmes were set and interim Chief Officers were appointed. Preparatory work, including the submission of an integration scheme for approval to the Scottish Government, also took place in 2014/15, and will continue in 2015/16. The IJBs will prepare a strategic plan during 2015/16. From 1 April 2016 the IJBs will be responsible for the planning,

commissioning and oversight of adult social care, primary and community care, mental health and a range of hospital services including Accident and Emergency, geriatric medicine and general medical inpatients. To date there have been no indications that the IJBs will not be fully operational by 1 April 2016.

May 2015 update to the Board on the progress of the integration of Health & Social Care

North Lanarkshire Transition Integration Board

- Following discussion with the Scottish Government, the integration scheme will be amended to accommodate changes in:
 - Operational Delivery of Functions
 - Care and Clinical Governance
 - Risk
- The Shadow Integration Board (SIB) met for the first time on 12 May 2015. There will be 4 formal meetings in 2015/16.
- The analysis of data to inform the Strategic Needs Assessment is well advanced.
- The Chief Officer was appointed in August 2014.
- The posts which will report directly to the Chief Accountable Officer have been agreed.
- A programme of Organisational Development has been ongoing in North Lanarkshire over the last 2 years.
- A communication and engagement plan is under development.

South Lanarkshire Transition Integration Board

- The SIB has now been in place for almost one year with 8 voting members and an indicative membership comprising of senior officials from across the partnership.
- The integration scheme has been submitted to the Scottish Government for approval.
- Following the anticipated approval of the integration scheme a Joint Strategic Needs Assessment will be produced.
- The Chief Officer has now been in post for one year and has dual reporting arrangements to the Chief Executives of the Council and NHS Board.
- The Chief Officer has initiated six weekly meetings with senior managers across the partnership as part of developing a shared vision and to discuss/action areas for development.
- An organisational development manager post and organisational development advisor post have been successfully appointed.

75. In June 2015 the Director of Finance presented a paper to the Audit Committee summarising the progress to date on financial and other assurance processes put in place to ensure the opening budgets for the IJBs are transparent and reliable and that proper financial governance systems are established. The Board's internal audit service has been involved throughout the planning process and during the year it has:

Provided advice and information to officers on integration regulations and guidance as required, as well as sharing best practice

Provided detailed analysis of both integration schemes which will be shared with Board officers

Liaised with local authority colleagues in order to agree the approach to internal audit for the North and South Lanarkshire Integration joint boards

Jointly provided ICOs with guidance on audit and assurance, including potential project management assurance, and have agreed our approach to the due diligence work required by national guidance

Liaised with the SGHSCD, Audit Scotland and external audit to ensure the approach taken is in line with national expectations and to identify best practice elsewhere

Appendix 1 – Action plan

This action plan details the more significant control weaknesses and opportunities for improvement that we have identified from our audit work during 2014/15. The action plan details the officers responsible for implementing the recommendations and implementation dates. The Board should assess these recommendations for their wider implications before approving the action plan.

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

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.

Issues identified during the 2014/15 audit

No	Title	Issue identified	Risk and recommendation	Management comments
1.	PFI financial models (Paragraph 17)	Accounting for PFI liabilities is complex. Detailed audit work during 2014/15 identified that the accounting entries made to reflect capital repayments against the PFI liability may have been marginally overstated due to the treatment of some inflationary uplifts.	<p>There remains a risk that accounting entries and disclosures are not fully accurate. However, from the work undertaken we are content that this would not lead to significant misstatement in the financial statements.</p> <p>The Board should continue to review the accounting entries and disclosures calculated by the PFI models, including the treatment of inflationary uplifts. Management should ensure that the findings from recent work on the PFI accounting models are reflected in the accounting models being adopted for Hub assets from 2015/16 onwards.</p> <p>Grade 2</p>	<p>The accounting treatment and disclosures will continue to be reviewed for PFI and taken into account for Hub assets.</p> <p>Responsible officer: Head of Finance - Corporate Services</p> <p>Implementation date: March 2016</p>

No	Title	Issue identified	Risk and recommendation	Management comments
2.	Savings plans (Paragraph 35)	<p>The Board has a good track record of achieving its efficiency savings targets. However, to date 20% of the savings required to deliver its 3% savings target in 2015/16 have not been identified.</p> <p>The Board also needs to identify 49% of the savings required for 2016/17 and 94% of the savings required for 2017/18.</p>	<p>The Board may not achieve the targeted savings in 2015/16 if it cannot identify where they will be made.</p> <p>The Board should ensure that savings plans are developed identifying how the remaining £6million of savings required in 2015/16 will be made.</p> <p>Grade 3</p>	<p>Work to identify further efficiencies is ongoing. Efficiency savings have been made a standing item at CMT meetings focussing on finance each month and progress will be reported monthly to the Board.</p> <p>Responsible officer: Director of Finance</p> <p>Implementation date: March 2016</p>

No	Title	Issue identified	Risk and recommendation	Management comments
3.	Automatic accruals (Paragraph 61)	<p>The eFinancials system generates an automatic accrual for goods received that have not yet been invoiced (GRNI). As at 31 March 2015 the GRNI accrual totalled £13.452 million. Of that, £2.881 million related to orders that were recorded as received prior to 31 March 2014 (with the oldest accrual being for an item recorded as received in June 2012).</p> <p>The Board has a process in place to identify items in the GRNI accrual that do not need to be accrued, however not all old accruals have yet been reviewed.</p>	<p>There is a risk that the automatic accrual may be overstated if:</p> <ul style="list-style-type: none"> the payments made for goods and services are not properly matched to the purchase order records; or if actual order costs vary from purchase orders. <p>Whilst we have not identified evidence to indicate a requirement for an adjustment, the Board should ensure that old GRNI accruals are reviewed and the eFinancials system is updated to reflect the findings of its review process.</p> <p>Grade 2</p>	<p>A group has been set up to review the GRNI accrual and investigate the accuracy of accruals being made.</p> <p>Responsible officer: Director of Finance</p> <p>Implementation date: March 2016</p>

No	Title	Issue identified	Risk and recommendation	Management comments
4.	Risk management (Paragraph 66)	<p>Overall, management has assessed that the Board is mainly achieving 'better' practice against the risk management best value toolkit, with some aspects being 'basic' and some 'advanced' practice.</p> <p>From our review of evidence provided, we have validated this overall assessment. NHS Lanarkshire can demonstrate adherence to risk management best value principles in all areas, albeit to varying levels.</p>	<p>Management may not identify the most important and targeted continuous improvement actions.</p> <p>The Board should now consider where it wants to be on the spectrum of basic to advanced practice as outlined in the best value toolkit. Areas for consideration should include:</p> <ul style="list-style-type: none"> • The board's processes for defining its risk appetite are not fully developed. • The approach to risk management and supporting processes need to be standardised and embedded across the organisation. <p>Grade 2</p>	<p>An initial assessment will be undertaken of the aspirations of the Board on the spectrum of basic to advanced practice for discussion and approval at the Risk Management Steering Group.</p> <p>The Board has set out its risk appetite statement and communicated it through a series of presentations. There are 4 Key Performance Indicators (KPIs), including the monitoring of individual risk tolerance, relating to risk register management that will be monitored and reported to the Audit Committee.</p> <p>To standardise and embed the risk systems and processes there are 3 key endorsed documents:</p> <ul style="list-style-type: none"> • Risk Management Strategy • Risk Register Policy • Management of Adverse Events Policy <p>The application of the methodology is subject to monitoring and review through the KPIs. This will be extended in year to be included in the Chief Executive Performance Reviews.</p> <p>Responsible officer: Medical Director, supported Corporate Risk Manager</p> <p>Implementation date: August 2015 - for assessment of where the Board would want to be on the spectrum and the integration of actions into risk management workplan.</p>

Appendix 2 – Board and auditor responsibilities

Board responsibilities

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare 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:

- observing the accounts direction issued by the Scottish Ministers including the relevant accounting and disclosure requirements and applying suitable accounting policies on a consistent basis;
- making judgements and estimates on a reasonable basis;
- stating whether applicable accounting standards as set out in the government Financial Reporting Manual have been followed and disclosing and explaining any material departures; and
- preparing the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate.

The Board is 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 it to ensure that the accounts comply with the National Health Service (Scotland) Act 1978 and the requirements of the Scottish Ministers. It is also responsible for implementing appropriate internal control systems, safeguarding the assets of the Board and hence taking reasonable steps for the prevention of fraud and other irregularities.

Our responsibilities

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 2015 and of its net operating cost for the year then ended;
- whether the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Government Financial Reporting Manual (FRM);
- 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 Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

We also report to you by exception if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers; or
- there has been a failure to achieve a prescribed financial objective.

Appendix 3 – Scope of the audit

An overview of the scope of the audit

The External Audit Plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks. No additional significant risks were identified after the planning stage during our audit work this year.

The significant risks that had the greatest effect on our audit, our response to those risks and our findings from the work performed are set out within the *Key areas of audit focus and significant findings* section of this report. The audit response to each significant risk was designed in the context of the financial statements as a whole and, consequently, where we set out findings we do not express any opinion on these individual risks.

Our standard audit approach is based on performing a review of the significant accounting systems in place, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality.

Overall materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement.

Our initial assessment of materiality for the financial statements, as presented in the external audit plan, was £15million. Based on the draft financial statements our assessment of materiality was updated to £19.5million. Our updated assessment of materiality equates to approximately 1.7% of the Board's Revenue Resource Limit (RRL). The performance against RRL is one of the principal considerations for the users of the accounts when assessing the financial performance of the Board. We consider that our updated assessment has remained appropriate throughout the audit and that it is equally relevant to both the Board and consolidated position (i.e. including the endowment funds).

Performance materiality

At the planning stage we set a performance (testing) materiality for each area of work that was based on a risk assessment for the area. We performed audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement.

We set performance materiality as a percentage of overall materiality. Our final assessment of performance materiality was lower than that reported in our external audit plan.

Calculation of performance materiality (£million)

Area risk assessment	Performance materiality weighting at planning stage	Performance materiality weighting at final audit
High	50%	40%
Medium	65%	60%
Low	85%	75%

Reporting

We have reported all misstatements identified through our audit that fell into one of the following categories:

- Material corrected misstatements, i.e. all corrected misstatements over £19.5m;
- Uncorrected misstatements with a value in excess of 1% of overall materiality, i.e. over £195,000; and
- Other misstatements below 1% of overall materiality that we believe warrant reporting on qualitative grounds.

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