Scott-Moncrieff
business advisers and accountants

NHS Lanarkshire

Annual external audit report to the Board and the Auditor General for Scotland 2015/16

June 2016

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Executive summary

Annual accounts

The annual report and accounts for the year ended 31 March 2016 were approved by the Board on 29 June 2016.

Our audit opinions on the financial statements, the regularity of transactions and on other prescribed matters are all unqualified. There are no matters which we are required to report by exception.

Financial management

The Board has effective arrangements in place for financial management and the use of resources. We found the Board's key financial systems to be generally well designed and operating effectively.

The Board achieved all of its financial targets for the year, delivering a saving of £0.281million against its revenue resource limit. The Board achieved efficiency savings of £31.728million during the year and recognised capital additions of £33.21million.

Financial sustainability

We consider that the Board has adequate financial planning arrangements in place. However, some of the efficiency savings required to deliver a break even position in 2016/17 have yet to be identified.

The Board submitted its local delivery plan to the Scottish Government in line with the required timescales. Ongoing discussions with the Scottish Government have resulted in some amendments being made to the financial plan after the formal submission deadline of 31 May 2016.

The financial plan projects a potential £6million gap between outturn and funding for the coming year. Formal agreement of the plan will require the Board and the Scottish Government to agree a plan of action to reduce the risk associated with the gap.

The Board continues to actively investigate further savings schemes and cost control measures with a view to achieving a break even position in 2016/17. Of the 2016/17 savings identified to date, 48% are classified as high or medium risk which could further exacerbate the challenge in achieving financial balance.

- **Unqualified audit opinions on:**
  - **the financial statements**
  - **regularity**
  - **other prescribed matters**
- **All financial targets achieved**
- **Effective arrangements for financial management and use of resources**
- **Adequate financial planning arrangements in place recognising risk to the 2016/17 outturn**
- **Appropriate governance arrangements**
- **Good performance management arrangements**

Governance and transparency

We have found that the Board has appropriate governance arrangements in place. However, further clarity is required over decision making, roles and responsibilities in relation to health and social care integration.

Value for money

The Board continues to have appropriate performance management arrangements in place which support the achievement of value for money.

At the yearend, 64% of the Board's LDP standards were on or above target, 18% were below target by less than 5% and 18% were below target by more than 5%.

Conclusion

This report concludes our audit for 2015/16. 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
June 2016

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Introduction

Introduction

1. This report summarises the findings from our 2015/16 audit of NHS Lanarkshire ('the Board').

2. The scope of our audit was set out in our External Audit Plan, which was presented to the Audit Committee in December 2015. The plan summarised four key audit issues for 2015/16:
   - financial position;
   - PPP/PFI and Hub assets;
   - revenue recognition; and
   - management override.

3. This report includes our findings in relation to the key audit issues above. The main elements of our audit work in 2015/16 have been:
   - an interim audit of the Board's key financial systems and governance arrangements;
   - a final audit of the Board's 2015/16 annual report and accounts;
   - completion of a minimum dataset of information as requested by Audit Scotland; and
   - consideration of the local impact of the national performance report *Scotland's Public Sector Workforce.*

4. This report is addressed to both the Board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

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Annual accounts

Annual accounts

5. The Board's annual accounts 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 annual accounts are outlined in *Appendix 3*.

Overall Conclusion

An unqualified audit opinion

6. The annual report and accounts for the year ended 31 March 2016 were approved by the Board on 29 June 2016. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on regularity; and
- an unqualified audit opinion on other prescribed matters.

7. We are also satisfied that there are no matters which we are required to report by exception.

Good administrative processes were 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 our thanks go to finance management and staff for their assistance.

9. Arrangements were in place to enable the annual accounts to be submitted to the Scottish Government and the Auditor General for Scotland prior to the 30 June 2016 deadline.

Our assessment of risks of material misstatement

10. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures.

1. Financial position

The Board has produced a local delivery plan (LDP) covering the financial years 2015/16 to 2017/18. Although the core resources available to the Board are expected to remain broadly consistent, the Board is expected to make efficiency savings totalling approximately 3% of its core resources in each year of the plan. At the time the plan was submitted, 20% of the savings required to meet the 2015/16 savings target were unidentified. The Board had also still to identify 49% of the savings required for 2016/17 and 94% of the savings required for 2017/18.

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. This could affect the planned outturn in 2015/16 as well as the achievement of the remaining three years of the LDP. There is also a risk that delivery of the Board's efficiency savings plans are at the detriment of services and/or on-going financial health.

Excerpt from the 2015/16 External Audit Plan

11. We have 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 arrangements in place for financial management and the use of resources. While we consider the Board has adequate financial planning arrangements in place, the financial outlook for the health sector continues to be challenging and the Board has not yet identified sufficient efficiency savings to enable it to deliver a break even position in 2016/17.The Board fully recognises the risks related to the projected 2016/17 outturn and continues to actively investigate further savings schemes and cost control measures with a view to achieving a break even position. Further context is presented in the *Financial management* and *Financial sustainability* sections below.

2. PPP/PFI and Hub

The Board has three facilities which are funded through the PPP/PFI mechanism; Hairmyres, Wishaw and Stonehouse Hospitals. Three new health facilities have also been delivered through the Hub funding model. There is a risk that the Board's financial statements do not show the correct lease commitments and disclosures. Additionally, the unitary payments in relation to these facilities may not be correctly accounted for.

Excerpt from the 2015/16 External Audit Plan

12. The new Hub facilities became operational in 2015/16. The contracts agreed over the Hub assets run until May 2040 at which point ownership of the facilities will transfer to the Board. In practice, the accounting arrangements for the new health centres are consistent with those used for the Board's legacy PPP/PFI assets. We reviewed the Board's PFI and Hub accounting and disclosures against the requirements of the Government Financial Reporting Manual (FReM) and against the underlying contracts. We found that the Board has accounted for its PFI and Hub assets appropriately.

13. The Board's PFI and Hub assets have been subject to revaluation, in accordance with the FReM and international accounting standards. As at 31 March 2016 the combined value of all six facilities was £274.771million. 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 £185.344million.

3. Revenue Recognition

Under ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise income in a way that materially misstates the Board's financial performance.

Excerpt from the 2015/16 External Audit Plan

14. We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we evaluated the Board's key revenue streams and reviewed the controls in place over revenue accounting by the Board. We also carried out testing to confirm that the Board's revenue recognition policy is appropriate and has been applied consistently throughout the year.

4. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA 240.

Excerpt from the 2015/16 External Audit Plan

15. We have not identified any indications of management override in the year. We have reviewed the Board's accounting records and obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed the journal entries processed in the period and around the year end.

Audit differences

16. There were no material adjustments to the draft financial statements arising from our audit. We did identify some minor disclosure and presentational adjustments, which have been reflected in the final set of financial statements.

Board representations

17. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the financial statements. We identified one unadjusted difference during our audit work. The difference was not considered material to the financial statements. Through discussion with the Director of Finance the decision was taken not to adjust the financial statements. The difference is reported to the Board through the representation letter.

Regularity

18. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

Qualitative aspects of accounting practices and financial reporting

19. We have considered the qualitative aspects of the financial reporting process including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. The following table summarises our findings:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The significant accounting policies, which are disclosed in the financial statements, are considered appropriate to the Board.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The accounting estimates and judgements used by management in preparing the financial statements are considered appropriate. The principal areas of estimates and judgements have been: property valuations, asset depreciation rates and the valuation of provisions. Where appropriate, the Board has utilised the work of independent experts or industry practice to support the estimates made.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report and accounts or material inconsistencies with the financial statements.	The annual report and accounts contain no material misstatements or inconsistencies with the financial statements.

Qualitative aspect considered	Audit conclusion
Any significant financial statements disclosures to bring to your attention.	There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statements disclosure.	There was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

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Financial management

Financial management

Introduction

20. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is the Board's responsibility to ensure that its financial affairs are conducted in a proper manner.

Overall conclusion

21. We found that the Board has effective arrangements in place for financial management and the use of resources. Our conclusion is based on a review of the Board's key financial systems, financial performance, financial reporting and achievement of savings targets.

Performance against resource limits	Resource limit £million	Actual £million	Saving £million	Target achieved?
Core revenue resource limit	1,161.19	1,160.909	0.281	Yes
Non-core revenue resource limit	26.606	26.606	-	Yes
Total revenue resource limit	**1,187.796**	**1,187.515**	**0.281**	Yes
Core capital resource limit	21.9	21.9	-	Yes
Non-core capital resource limit	11.31	11.31	-	Yes
Total capital resource limit	**33.21**	**33.21**	**-**	Yes
Cash requirement	**1,252.021**	**1,252.021**	**-**	Yes

The Board met its key financial targets for 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). As shown above, the Board operated within all limits during 2015/16.

A saving of £0.281million against RRL

23. The Board reported a saving of £0.281million (0.02%) against its 2015/16 revenue resource limit (RRL) of £1,187.796million. This outturn is consistent with the 2015/16 Local Delivery Plan (LDP) which forecast a saving of £0.279million.

24. The 2015/16 outturn included the £0.4million saving brought forward from 2014/15, which was received as a non-recurring revenue allocation in 2015/16.

25. The Board's saving against RRL was achieved despite considerable ongoing financial pressures. Overspends against the Board's Acute budget (£6.041million) and Primary Care budget (£4.747million) were offset through savings on Health and Social Care Partnerships, Corporate Functions and other Board-wide budgets, as summarised below.

Breakdown of the £0.281million saving against RRL by budget heading						
Acute £6.041million overspend	North H&SCP £1.781million underspend	South H&SCP £0.41million underspend	Other H&SCP £4.747million overspend	Corporate £2.176million underspend	Other providers £0.572million underspend	Board wide £6.13million underspend

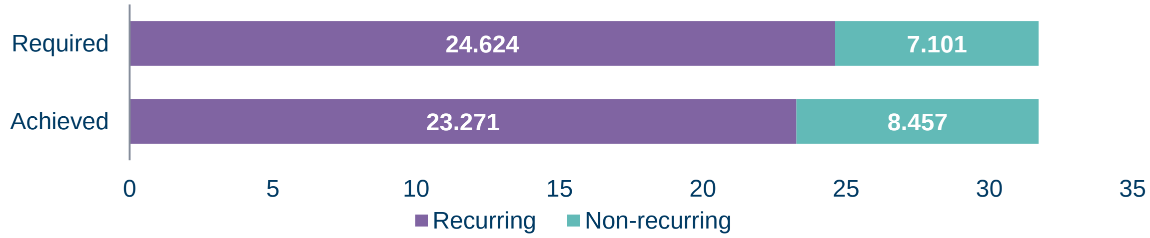
26. The overspend within the Acute Division was principally due to pay costs being £5.234million higher than budget, in particular due to locum and agency costs.

27. The Board reports that the majority of areas within the Acute Division have experienced staffing challenges. As in 2014/15, the Board considers that national shortages combined with local rota gaps mean these staffing challenges are expected to continue in the short term.

28. While small underspends were reported on both the North and South Lanarkshire Health and Social Care Partnership budgets, there was an overspend of £4.747million on other Health and Social Care Partnership services. That overspend is mainly attributable to GP prescribing costs being £4.968million higher than expected.

29. The underspend on “Board wide” budgets represents the carry forward of the prior year’s £0.4million saving against RRL and some minor areas of slippage against the financial plan.

2015/16 efficiency savings (£million)



Efficiency savings of £31.728million

30. As part of the 2015/16 LDP the Board agreed to make 3% efficiency savings. This equated to £31.725mllion. The Board achieved the targeted level, making £31.728million of efficiency savings. However, the graph above shows that the Board did not meet the targeted level of recurring savings.

31. While the Board has a strong track record in achieving efficiency savings it is finding it increasingly difficult to continue to deliver 3% savings year on year. This challenge will be exacerbated if significant levels of savings are made on a non-recurring basis. This issue is discussed in more detail in the *Financial sustainability* section below.

Capital additions of £33.21million

32. The Board received a total capital allocation of £33.21million for 2015/16, comprising a £21.9million core allocation and an £11.31million non-core allocation.

33. Core allocations reflect cash funding to be spent on the purchase of assets. Non-core allocations reflect non-cash funding required to recognise the Board’s Hub assets, as described in *Our assessment of risks of material misstatement* above.

34. The non-core capital allocation was fully utilised through recognition of the Hub facilities. The Board invested its full core capital allocation in assets during the year, with the most significant projects shown below.

Various projects at Monklands	West of Scotland Radiotherapy Centre	Medical equipment	Equipping new health centres	Information management and technology
£10.055million	£6.073million	£3.807million	£1.101million	£2.137 million

Financial systems are well designed and operating effectively

35. As reported to the Board more fully in our interim audit report, we found that the internal controls over the Board's key financial systems were well designed and operating effectively. While we identified two recommendations to further strengthen the control environment we considered both issues were of relatively low risk.

36. As a result of our interim audit work we were able to place reliance on a number of the Board's key financial controls. This reduced the level of detailed audit testing required over the financial statements.

37. As identified during our 2014/15 audit, we still consider there to be a risk that system-generated accruals may be overstated. However, our testing did not indicate a requirement for adjustment to the financial statements.

Action Plan Point 1

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Financial sustainability

Financial sustainability

Introduction

38. Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered.

Overall conclusion

39. We consider the Board has adequate financial planning arrangements in place. However, the financial outlook for the health sector continues to be challenging and the Board has not yet identified sufficient efficiency savings to enable it to deliver a break even position in 2016/17.

Financial plans

40. The LDP was approved by the Board and submitted to the SGHSCD in line with the required timescales.

41. There have been ongoing discussions with the SGHSCD throughout the process regarding the projected outturn position for 2016/17 and the related efficiency savings that will be required. These discussions have resulted in some amendments to the financial plan that supports LDP after the formal submission deadline of 31 May 2016.

Projected outturn position (£million)	2016/17	2017/18	2018/19
Core Revenue Resource Outturn	1,273.921	1,288.934	1,310.833
Core Revenue Resource Limit	1,267.921	1,288.934	1,310.833
Saving / **(excess)** against Core RRL	**(6)**	-	-

The Board has not yet identified sufficient savings to project a balanced outturn position for 2016/17

42. The Board's LDP, as summarised above, identifies a potential £6million gap between the projected outturn and funding for the coming year. The Board recognises that delivering a break even position against RRL in 2016/17will be particularly challenging.

43. The Board's draft LDP originally identified a £42.988million gap between forecast expenditure and funding in 2016/17, before efficiency savings plans had been taken in to account. While the Board has a strong recent track record in achieving efficiency savings, the magnitude of the savings required in 2016/17 is unprecedented.

44. To date over 200 separate savings schemes have been identified. If successful it is estimated they could deliver £32.188million of cash releasing savings (CRES). Liaison with the SGHSCD suggests a further £4.8million of nationally identified savings will reduce the potential gap to £6milion.

In response, the Board has further strengthened scrutiny arrangements over efficiency schemes

45. The Board's arrangements for managing and monitoring savings schemes have been further strengthened and formally reported to members during the year. Arrangements include:

- All divisions have a savings target of 5% of recurring base budget.
- A lead director identified for every scheme.
- A minimum dataset required for each scheme including: risk assessment, key milestones and delivery trajectory.
- A Scrutiny Group, comprising the Chief Executive, Director of Strategic Planning and Director of Finance, monitors progress. The Chair and Vice Chair provide oversight and input through periodic attendance.
- Assurance papers and progress reports to be regularly reported to members.

46. Through the strengthened arrangements, the Board continues to actively investigate further savings schemes and cost control measures with a view to achieving a break even position in 2016/17. Formal agreement of the LDP, expected to be achieved by the end of June 2016, will require the Board and the SGHSCD to agree a plan of action to reduce the risk associated with the potential £6million gap.

Almost half of the efficiency savings identified to date are classified as high or medium risk

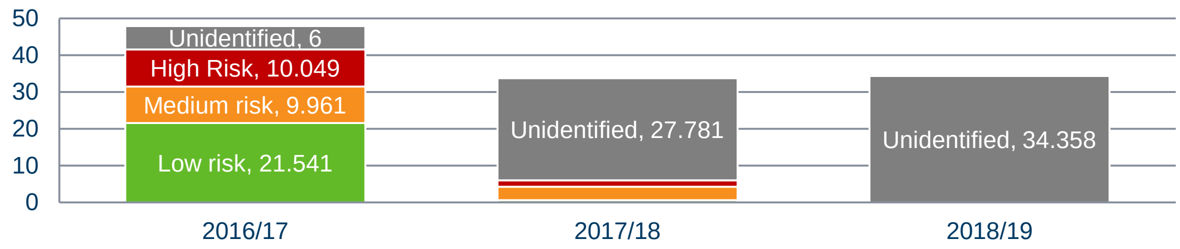
47. The Board is required to demonstrate the achievement of efficiency and productivity savings of around 3% of RRL in each year of the LDP. For 2016/17 this equates to savings of £33.153million. However, as previously discussed, in order to achieve financial balance a minimum of £42.988million CRES is needed.

48. Additionally, the Board estimates it will have to improve productivity and efficiency by a further £4.563million to maintain current levels of performance and avoid potential cost increases. The resulting target for total efficiency savings in 2016/17 is £47.551million.

49. In 2015/16 the 3% efficiency target was £31.725million of which the Board had estimated £9.452million needed to be cash releasing to balance the opening LDP. The significantly higher figures required for 2016/17 clearly illustrate the scale of the challenge the Board faces.

50. To date the board has identified savings of £41.551million (87%) of the total required savings, £36.988million of which are the CRES discussed above.

Identification of LDP efficiency savings (£million)



51. Of the total savings identified for 2016/17, £20.01million (48%) are classified as high or medium risk. The reliance on high and medium risk savings could further exacerbate the challenge in achieving financial balance in 2016/17.

52. The majority of the savings required in 2017/18 and 2018/19 are as yet unidentified.

Key assumptions and risks in the LDP appear reasonable

53. The Board has clear rationale for all of the financial assumptions made within the LDP. When compared to the assumptions applied in previous years and those we have experience of in the sector they appear reasonable.

54. Key assumptions within the LDP include:

- Baseline funding available for use by the Board will increase by 1.7% in 2016/17;
- The projected efficiency savings reported above will be achieved;
- The impact of NI increases will equate to 1.9% of the pay bill;
- Staff will receive a 1% cost of living rise with a minimum uplift of £400 and a living wage guarantee;
- There will be a 3.69% increase in GP prescribing costs;
- A 10.6% uplift in expected in Acute prescribing costs; and
- Payments to other health and social care providers will increase by 1.7%.

55. The assumption of a 1.7% increase in baseline funding reflects that although the baseline funding allocation will be £49.47million (4.7%) higher than 2015/16, the Board is required to delegate £31.493million of the uplift to the local Integrated Joint Boards (IJBs) for investment in social care. The remaining uplift would reflect a 1.7% increase compared to 2015/16.

56. The Board has received notification from the SGHSCD that the value of certain allocations will be lower in 2016/17 than in the previous year. The Board estimates that this will have a £6.077million impact which has been factored in to the £42.988million CRES requirement.

57. The SGHSCD has also given advance notification that there will be additional funding available for transforming primary care, improving mental health and expanding the health visitor workforce. The LDP assumes that any such additional funding will generate equivalent expenditure and so will be financially neutral.

58. The LDP also describes the key risks to the successful delivery of the plan which are summarised in the table below:

Key risk	Risk rating	Impact (£)
Efficiency savings The identified savings have a high risk profile and are of a greater scale than those delivered in any previous year. To deliver the recurring balance against the current pressures it is assessed that a further £6m of savings need to be found.	High	£6million
GP prescribing The plan assumes the price per item on GP prescribing will stabilise following a period of increases.	Medium	£5.4million
Acute prescribing Cost increases from acute prescribing are expected to increase by 10.6% per annum after increasing by 47.3% between 2013/14 and 2015/16.	Medium	£7.4million
Acute services Additional funding invested in the IJBs and social care must have the expected impact on the requirement for Acute services.	Medium	£4million
Patient flow The patient flow from Glasgow to Lanarkshire is increasing following the closure of the Victoria Hospital.	Medium	£1.7million - £3million
Nationally identified savings £4.65million savings will be made through national schemes and a further £0.15million will be made through national initiatives to reduce locum costs.	Low	£4.8million

Workforce planning

59. In November 2013, the Accounts Commission and Auditor General for Scotland published the report *Scotland's public sector workforce*. The report highlighted a number of key messages on workforce changes across Scotland in the public sector and made a number of recommendations to the Scottish Government, central government bodies, the NHS, COSLA and local authorities.

60. As part of our 2015/16 audits, Audit Scotland asked us to undertake a follow up review to help understand the extent to which public bodies are implementing the recommendations and to help identify common and emerging issues.

Adequate workforce planning arrangements in place

61. We found that the board had adequate workforce planning arrangements in place. Key findings from our work are summarised below:

- **The Board applies the six step methodology to integrated workforce planning, as advised by the Scottish Government.**
- **An organisation-wide workforce plan has been approved by the Board. The plan is aligned to the corporate objectives set out in the LDP.**
- **The Board's workforce plan is subject to scrutiny by management, the Partnership Forum and the Staff Governance Committee.**
- **The Board seeks to ensure it has a resilient workforce through Personal Development Planning and the application of the NHS Scotland Knowledge and Skills Framework.**
- **The Board has a Service Redesign Programme and the impact of service redesign is considered during workforce planning.**
- **The Board's 2020 Workforce Vision Implementation Plan 2015/16 reflects "Healthy Organisational Culture" as one of the 5 key priorities for action.**
- **The Board has clear procedures and guidelines regulating the use of early departure schemes.**

5

Governance and transparency

Governance and transparency

Introduction

62. This section is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

63. The Board is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.

Overall conclusion

64. We have found that the Board has appropriate governance arrangements in place.

Governance arrangements

65. The Board's governance statement reports that no significant control weaknesses or issues have arisen during the year and that no significant failures have arisen in the expected standards for good governance, risk management and control.

66. The Board's overall assessment is supported by the findings of internal audit. The internal auditor concluded The Board has adequate and effective internal controls in place.

67. While no significant weaknesses are identified in the governance statement, the statement does make notable disclosures of the key risks the Board is facing:

Governance statement disclosures of the Board's key risks	
High risks	Meeting the emergency care target that 98% of patients will wait less than 4 hours from arrival to admission, discharge or transfer for accident and emergency treatment
	Realising the required savings for 2016/17, in order to deliver a balanced budget.
	Achieving more cost effective prescribing.
Very high risk	Meeting all Local Delivery Plan targets in 2016/17 in the absence of additional financial resources.

68. The Board has taken a considered and evidence based approach to the content of the 2016/17 governance statement. We have reviewed the statement and are satisfied it complies with the Scottish Ministers' guidance and that the content is not inconsistent with information gathered during the course of our normal audit work.

Health and social care integration

69. The Board received regular progress reports on health and social care integration throughout the year. During 2015/16, the North and South Lanarkshire Integrated Joint Boards ('the IJBs') established governance structures, regulations and strategies in line with the agreed Integration Schemes.

70. Strategic Commissioning Plans set out the direction for health and social care across Lanarkshire for the next three years and functions were formally delegated to the IJBs from 1 April 2016.

Best value review of the Board's governance and performance management arrangements for IJBs

71. During 2015/16 we reviewed the Board's governance and performance management arrangements relating to the IJBs. Our review was conducted in line with the principles of best value and we applied aspects from four relevant *best value toolkits*: governance; risk management; financial management; and vision and strategic direction. Our detailed findings were reported to the Board in June 2016.

72. In summary, we found that while the Board is meeting basic best value practice there were opportunities for improvement in all four areas reviewed.

73. In particular, clarity is still required over decision making, roles and responsibilities of the IJB, councils and health boards, and there is a need to improve reporting between organisations.

Key findings from the review of governance and performance management arrangements for IJBs
The Board made appropriate arrangements to meet the requirements of health and social care integration.
The two integration schemes set out high level financial management arrangements for health and social care and both are supported by detailed financial regulations.
The Board has not set out the criteria it will use to assess planned integration budgets or the criteria that will be used to assess integrated spend against other strategic priorities.
There is a lack of clarity about how potential IJB overspends or underspends will be managed in practice.
The 2016/17 LDP will not be formally confirmed until June 2016, three months in to the financial year. There may be a requirement for amendments to the budget delegated to the IJBs as a result.
There remains a lack of clarity around decision making, roles and responsibilities (in particular between the Board and the North IJB regarding clinical governance responsibilities).
The Board's risk register adequately reflects the risks relating to health and social care.
There is a lack of clarity around the responsibility for, and the reporting of, joint risk registers.

74. The internal auditor has also reviewed the Board's approach to health and social care integration, and specifically the Board's approach to financial assurance as required by Scottish Government's *Guidance for Integration Financial Assurance*.

75. Discussions with the internal auditor indicate that no significant weaknesses were identified with the Board's approach to financial assurance. However, formal reporting on the assurance process has not yet taken place.

76. Scottish Government guidance recommends that joint reports are made by the internal auditors of the health board and the local authority.

77. We understand that the Board's internal auditor continues to liaise with local authority counterparts in order to observe that recommendation.

Risk management

The Board has further strengthened risk management arrangements during 2015/16

78. During 2014/15 the Board carried out a validated self-assessment of its risk management arrangements using a *best value toolkit*. The assessment led to the development of a work plan for improvements. Of seven high level aims for 2015/16, five are now complete and two are ongoing, as shown below.

Develop a new Risk Register Policy.	Complete
Develop a model to support managers in decision making when an adverse event occurs.	Ongoing
Report on compliance with the risk management policies and procedures.	Complete
Review and improve the Adverse Event Policy in line with the National Framework.	Complete
Contribute to the development of risk management strategies, policies and procedures for the H&SCPs.	Complete
Improve the effectiveness of recording of adverse events, integrating risk data with patient safety data.	Ongoing
Apply learning and benchmarking to enable continuous improvement of the risk management framework.	Complete

79. The Board continued to have adequate and effective risk management arrangements in place throughout 2015/16 which were further strengthened by the improvements noted above.

80. Comprehensive reports have been provided to the Audit Committee during the year on the framework as a whole and the changes adopted. Further areas for continuous improvement have been identified and inform the 2016/17 risk management work plan.

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

81. In our opinion, the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption remain adequate and appropriate. The Board also has adequate controls in place to ensure compliance with the regulatory guidance produced by the Scottish Government throughout the year.

Prevention and detection of fraud and irregularity

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

83. The governance statement discloses that a suspected fraud case, potentially involving supplier collusion, was identified during 20151/6. The case remains the subject of an ongoing police investigation. While no significant weaknesses in related internal controls have been identified to date, the Board has enhanced controls in the area affected and is considering further actions to reduce the chance of a similar incident recurring.

National Fraud Initiative

84. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. We found the Board's arrangements for participation in the NFI were satisfactory.

Internal audit

85. The Board's internal audit service is provided by the Internal Audit Consortium of Lanarkshire. This is delivered in collaboration with Fife, Tayside and Forth Valley Audit and Management Services (FTF).

86. 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 the main, in accordance with Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place.

87. To avoid duplication of effort and to ensure an efficient audit process we have taken cognisance of the work of internal audit. We are grateful to the FTF team for their assistance during the course of our work.

6

Value for Money

Value for money

Introduction

88. Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.

Overall conclusions

89. We found that the Board has effective arrangements in place for financial management and the use of resources, as reported above. In addition, we have found that the Board continues to have appropriate performance management arrangements in place which support the achievement of value for money.

Performance management framework

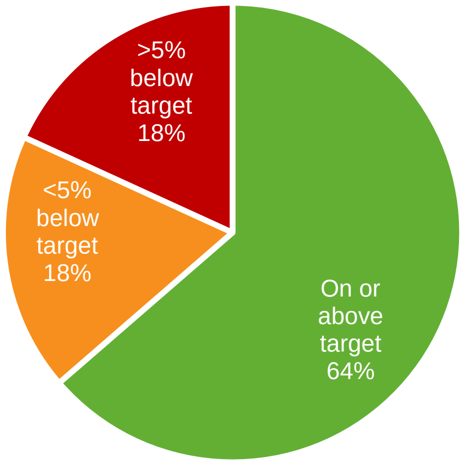
90. In March 2015, the Board established the Planning, Performance and Resources Committee (PPRC). The PPRC acts as the performance management committee of the Board. The Board considers that the updated governance structure enables performance, and the other issues remitted to the PPRC, to be considered in a level of detail that would not be possible through formal Board meetings.

91. Each meeting of the PPRC receives an integrated corporate performance report. Performance is reported on a traffic light system using an electronic dashboard of 89 key performance indicators (including the 22 LDP Standards for 2015/16) mapped to the Scottish Government's three quality ambitions.

92. The performance indicators adopted have been selected from a range of nationally recognised measures with validated published sources.

93. Board members can view the dashboard at any time and the information therein is supplemented by a suite of narrative reports to the PPRC, structured around the eight narrative sections of the LDP.

Performance against LDP standards



94. The chart above summarises performance against the Board's 22 LDP standards. The chart shows that 14 measures (64%) were on or above target for 2015/16, four measures (18%) were below target by less than 5% and four (18%) were below target by more than 5%.

95. The table below gives more information on the four red rated measures:

	Performance measure	Target	Actual	Board analysis
Person Centred	**Treatment Time Guarantee (TTG)** Proportion of patients that were seen within the 12 weeks TTG	100%	91%	Overall performance of this standard shows deterioration over time which mirrors the NHS Scotland position. Performance in March is an improvement on February (89%). Breaches for orthopaedic patients remain high due to the challenges in medical staffing and the pressures in delivering services over three sites. In addition there were pressures in general surgery. The healthcare strategy will outline options to redesign orthopaedic services.

	Performance measure	Target	Actual	Board analysis
Safe	**Clostridium Difficile (CDI)** Rate of CDI per 1,000 total occupied bed days	0.32	0.41	Each CDI case in NHS Lanarkshire undergoes a rapid review by the Infection Prevention and Control Team (IPCT) and the clinical team responsible for the patient. All CDI cases deemed as severe undergo a multidisciplinary case review within 48 hours. The CDI Severe Case Investigation Tool is used for every patient who develops severe CDI to assess their care in relation to CDI and if necessary, change systems to reduce risk for other patients. The rate for NHS Scotland is 0.38. While the Board did not meet the LDP standard, performance has improved.
	Staphylococcus Aureus Bacteraemias (SABs) Rate of SABs per 1,000 total occupied bed days	0.24	0.37	Each SABs case in NHS Lanarkshire undergoes a joint rapid review by the IPCT and the clinical team responsible for the patient. Where issues concerning staff practices are identified, a DATIX risk management report is completed. The rate for NHS Scotland is 0.33. While the Board did not meet the LDP standard, performance has improved.
Effective	**Sickness Absence** Board sickness absence rate	4%	5.5%	Overall performance reflects that a number of areas within the Board have recurring, stubborn high sickness absence rates. Board analysis demonstrates that performance against short term sickness absence is amongst the best performing NHS boards in Scotland. Attention and management action is therefore being focussed on performance against long term sickness absence. Performance against the sickness absence indicator is routinely considered at all meetings of the Operating Management Committees and action has been taken seeking to address and improve performance towards the 4% standard. In the period December 2015 to May 2016 sickness absence has reduced from 5.61% to 5.16%. To reflect the importance of this measure, performance will also be reported directly to the Staff Governance Committee.

8

Appendices

Appendix 1: Management action plan

Our action plan details the control weaknesses that we have identified during the course of our audit. The action plan details the officer responsible for implementing each recommendation and an implementation date. The Board should assess each recommendation for 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 annual accounts 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.

Action plan grading structure

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

The grading structure for our recommendations is as follows:

Grade 5	Very high risk exposure – major concerns requiring Board attention
Grade 4	High risk exposure – material observations requiring senior management attention
Grade 3	Moderate risk exposure – significant observations requiring management attention
Grade 2	Limited risk exposure – minor observations requiring management attention
Grade 1	Efficiency / housekeeping point

No.	Issue & Recommendation	Management Comments
1 **Rating** **Grade 2** **Para** **37**	**System generated accruals** The eFinancials system generates an automatic accrual for goods received that have not yet been invoiced (GRNI). As at 31 March 2016 the GRNI accrual totalled £12.7million. Of that, £4.8million related to orders that were recorded as received prior to 31 March 2015. Given the nature of the accrual it may be expected to accumulate over time if not subject to review. The Board does have a process in place to identify items in the GRNI accrual that do not need to be accrued, however not all old accruals have been subject to review. There is a risk that the automatic accrual may be overstated if the payments made for goods and services are not properly matched to the purchase order records; or actual costs incurred vary from purchase orders. Whilst we have not identified evidence to indicate a requirement for an audit adjustment, the Board should ensure that old GRNI accruals continue to be reviewed and the eFinancials system updated to reflect the findings of the review process.	The total value of GRNI accruals at March 2016 is lower than at March 2015. The three main factors behind the rise in aged balances are: • There has been a concerted effort, through the purchase to pay group, to reduce the level of automatic accruals raised through the year. This led to in-year accruals being £2.322million lower than the prior year. • The level of GRNI accruals required during 2014/15 was out with the trend before or since, resulting in more aged orders requiring investigation during 2015/16. • The Board prioritised the investigation of a relatively small number of complex aged orders during the year, resulting in fewer ‘typical’ aged orders being reviewed compared to prior years. Overall the Board has reduced the level of GRNI accruals. The GRNI accrual is a common issue with NHS systems and is expected to affect all Scottish Board’s to a greater or lesser extent. The Board will continue to review the GRNI accrual during 2016/17 to ensure that the amounts accrued remain reasonable. **Responsible Officer:** Director of Finance **Completion Date:** March 2017

Appendix 2: Scope of the audit

An overview of the scope of our audit

Our procedures are carried out solely for the purpose of our audit so that we can form and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) (ISAs).

Our 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 during our audit work this year.

The significant risks that had greatest effect on our audit, our response to those risks and our findings from the work performed are set out within *Our assessment of risks of material misstatement* within section 2 of this report. The audit response to each of these risks was designed in the context of the financial statements as a whole, and consequently, we do not express an opinion on individual risks.

Our standard audit approach is based on performing a review of the key 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.

Our application of 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 annual report and accounts during our planning work was £20million (approximately 1.7% of the Board's RRL). We consider that assessment to have remained reasonable throughout the audit. Achieving a breakeven position against RRL is a key target for the Board and one of the principal considerations for the users of the accounts when assessing financial performance.

Performance materiality

We set a performance materiality for each area of work which was based on a risk assessment for the area and percentage application of overall materiality. We have performed audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

Area risk assessment	Weighting	Performance materiality
High	45%	£9million
Medium	55%	£11million
Low	70%	£14million

Reporting

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

- All material corrected misstatements;
- Uncorrected misstatements with a value in excess of £0.2million, being our clearly trivial threshold; and
- Other misstatements below £0.2million that we believe warrant reporting on qualitative grounds.

We also report to the Audit Committee on significant disclosure matters that we identified when assessing the overall presentation of the annual report and accounts.

Appendix 3: Respective responsibilities of the Board and the Auditor

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 FReM 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 them to ensure that the accounts comply with the National Health Service (Scotland) Act 1978 and the requirements of the Scottish Ministers. They are 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 ISAs.

Audit of the financial statements

We are responsible for auditing the financial statements and giving 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 2016 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 2015/16 FReM;
- whether the financial statements have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;
- whether in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- whether part of the Remuneration and Staff 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 information given in the Performance Report 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 and Staff 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.

Code of audit practice responsibilities

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that 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 governance statements, but providing a view also, 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'.

Our main additional responsibilities under the Code of Audit Practice are to review and report on:

- the Board's arrangements for managing its performance and for securing economy, efficiency and effectiveness in its use of resources;
- the Board's systems of internal control, including its reporting arrangements;
- the Board's arrangements as they relate to prevention and detection of fraud and irregularity;
- the Board's arrangements as they relate to standards of conduct and prevention and detection of corruption; and
- the Board's financial position.

Independence

We confirm that we have complied with Auditing Practices Board Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:

- There are and have been no relationships between Scott-Moncrieff and the Board, its directors and senior management that may reasonably be thought to bear on our objectivity and independence; and
- Scott-Moncrieff has not provided any consultancy or non-audit services to the Board.

Scott-Moncrieff
business advisers and accountants