

# NHS Lanarkshire

2016/17 Annual Audit Report



 AUDIT SCOTLAND

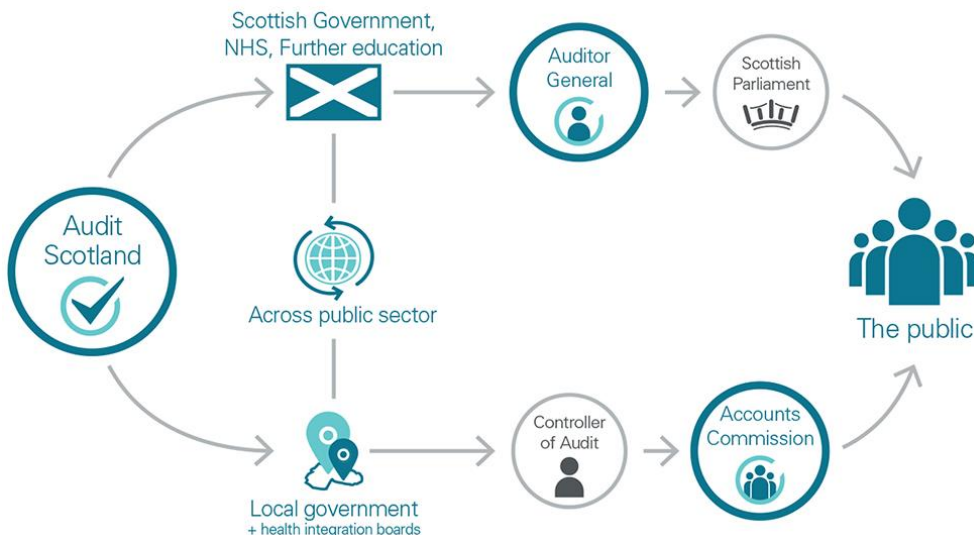
Prepared for the Board of NHS Lanarkshire and the Auditor General for Scotland

28 June 2017

# Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



# About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Contents

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Key messages	4
Introduction	5
Part 1 Audit of 2016/17 annual report and accounts	7
Part 2 Financial management	10
Part 3 Financial sustainability	15
Part 4 Governance and transparency	19
Part 5 Value for money	24
Appendix 1 Action plan 2016/17	29
Appendix 2 Significant audit risks identified during planning	31
Appendix 3 Summary of national performance reports 2016/17	35

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# Key messages

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## 2016/17 annual report and accounts

- 1 Our audit opinions are all unqualified. These cover the financial statements, regularity of transactions, remuneration and staff report, performance report and governance statement.

## Financial management

- 2 NHS Lanarkshire (the board) has effective arrangements in place for managing its finances and the use of resources. The board met all of its financial targets for 2016/17 and achieved an underspend of £0.210 million against its Revenue Resource Limit (RRL).
- 3 NHS Lanarkshire did well to achieve its savings target of £45.551 million during the year particularly given the unprecedented level of savings required in 2016/17 (3.6% of RRL).

## Financial sustainability

- 4 We concluded that NHS Lanarkshire has effective financial management arrangements in place. While the board achieved financial balance in 2016/17, it is facing an extremely challenging position in future. For 2017/18 alone the financial plan is projecting a funding gap of £36.112 million.
- 5 Efficiency savings will be crucial to maintaining financial balance over the medium term. Some of the efficiency savings required to deliver a balanced financial position in 2017/18 have yet to be identified.
- 6 NHS Lanarkshire is finding it difficult to recruit staff and relies on temporary or agency staff to fill gaps. Although agency staff costs reduced in 2016/17, the high level of agency staff costs are adding to the financial pressures facing the board.

## Governance and transparency

- 7 NHS Lanarkshire has appropriate governance arrangements in place that support scrutiny of decisions made by the board. Transparency could be improved by holding more committee meetings in public.

## Value for money

- 8 NHS Lanarkshire has an effective performance management framework in place which supports continuous improvement. However, the board continues to struggle to meet some key national performance targets. The board should continue to be proactive in seeking ways to balance the achievement of its financial targets with other national performance targets.

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# Introduction

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1. This report summarises the findings from our 2016/17 audit of Lanarkshire Health Board, commonly known as NHS Lanarkshire.

2. The scope of our audit was set out in our Annual Audit Plan presented to the December 2016 meeting of the Audit Committee. This report comprises:

- an audit of the annual report and accounts
- consideration of the wider dimensions set out in the [Code of Audit Practice \(2016\)](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

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3. The main elements of our audit work in 2016/17 have been:

- an interim audit of the board's main financial systems and governance arrangements
- an audit of the board's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- a local performance report on delayed discharges.

**4.** NHS Lanarkshire is responsible for preparing the annual report and accounts. It must also put arrangements in place for governance, propriety and regularity that enable them to successfully deliver their objectives.

**5.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice \(2016\)](#), and guided by the auditing profession's ethical guidance.

**6.** As public sector auditors we give independent opinions on the annual report and accounts. We also review and report on the arrangements within NHS Lanarkshire to manage its performance, regularity and use of resources such as money, staff and assets. In doing this, we aim to support improvement and accountability.

**7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice \(2016\)](#).

**8.** This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, or to maintain adequate systems of control.

**9.** Our annual audit report contains an action plan at [Appendix 1 \(page 29\)](#). It sets out specific recommendations, responsible officers and dates for implementation.

**10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

**11.** 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](http://www.audit-scotland.gov.uk).

**12.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2016/17 annual report and accounts



### Main judgements

**Unqualified audit opinions on the annual report and accounts.**

#### Unqualified audit opinions

**13.** The annual report and accounts for the year ended 31 March 2017 were approved by the Board on 28 June 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- unqualified opinions on the remuneration and staff report, performance report and governance statement.

**14.** Additionally, we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

#### Submission of annual report and accounts for audit

**15.** We commenced the audit of the unaudited annual report and accounts on 8 May 2017 as per our agreed audit timetable as set out in our Annual Audit Plan. In 2016/17, for the first time, the board's group accounts included the financial results of Integration Joint Boards (IJBs) within its area. We provided assurances to the external auditors of North and South Lanarkshire IJBs under International Standard on Auditing 402 (audit considerations relating to an entity using a service organization) in relation to the income received and expenditure incurred by the board on behalf of the IJBs.

**16.** The working papers provided with the unaudited financial statements were of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

**17.** Also, the accounts reflect good practice as set out in the Audit Scotland publication *'Improving the Quality of the NHS Annual Report and Accounts'* (December 2014).

#### Risks of material misstatement

**18.** [Appendix 2 \(page 31\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of staff resources to

The board's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

the audit and directing the efforts of the audit team. Also, included within the appendix are wider dimension risks, how we addressed these and conclusions.

## Materiality

**19.** Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**20.** Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically with regard to the annual report and accounts, we assess the materiality of uncorrected misstatements, both individually and collectively.

**21.** On receipt of the annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate.

## Exhibit 2

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£13.090 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.	£6.545 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the reporting threshold amount. This has been calculated at 1% of overall materiality.	£0.1 million

Source: Audit Scotland – NHS Lanarkshire Annual Audit Plan 2016/17

## How we evaluate misstatements

**22.** There were no material adjustments to the unaudited financial statements arising from our audit. There were also no material unadjusted errors in the financial statements, nor were there any which exceeded our clearly trivial reporting threshold of £100,000 [Appendix 3 \(page 34\)](#).

## Significant findings

**23.** International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1 \(page 29\)](#) has been included.



## Exhibit 3

### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. Health and Social Care Integration</b></p> <p>The integration joint boards (IJBs) activities have been reflected in the board's accounts for the first time. £736.072 million has been included in the board's clinical services expenditure and income relating to the boards payments to the two IJBs.</p> <p>The IJBs have been consolidated into the group accounts as joint ventures, £6.791 million has been shown in investments, representing the board's share of the IJBs' underspends in 2016/17.</p> <p>The IJB figures are based on the unaudited accounts for each IJB. We do not anticipate any material changes to the draft figures used in consolidation.</p>	<p>For information only.</p>
<p><b>2. Hub Company Shareholding</b></p> <p>As a participant of the Scottish Futures Trust - South West Hub, NHS Lanarkshire holds a 30% shareholding in the hub company. The board's investment of £0.976 million is correctly included as available for sale financial assets in the balance sheet. However, in 2016/17 the board received a payment of £0.078 million from the hub company and there is a lack of clarity around what this payment is for.</p>	<p>We were not able to confirm that the correct accounting treatment was applied to the payment received in 2016/17 due to lack of information available. However, as the value of the payment falls below our reporting threshold of £0.100 million it does not impact on our audit opinion in 2016/17. For future years the amount could be more significant, so the board should work with the hub company to identify what the receipt relates to and ensure that it applies the correct accounting treatment to any future receipts from investment in the hub company</p> <p><a href="#">Action Plan (Appendix 1, point 1)</a></p>
<p><b>3. Endowment Funds</b></p> <p>The Endowment Funds figures included in the 2016/17 group accounts were based on the unaudited financial statements. The Endowment Funds financial statements will be approved by the Board and external auditor on 28 June 2017. We do not anticipate any material changes to the draft figures used in consolidation.</p>	<p>For information only.</p>

Source: Audit Scotland

### Other findings

**24.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and accounts.

# Part 2

## Financial management



### Main judgements

NHS Lanarkshire has effective financial management arrangements in place, including budgetary control, that help Board members scrutinise the board's finances.

NHS Lanarkshire had adequate systems of internal control in place during 2016/17 and our testing of the key controls confirmed that they operated effectively.

### Financial performance in 2016/17

25. NHS Lanarkshire, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD) annually. As illustrated in [Exhibit 4](#), the board operated within all limits during 2016/17.

### Exhibit 4

Performance against resource limits in 2016/17

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	1,204.514	1,204.304	0.210
Non-core revenue resource limit	63.073	63.073	-
<b>Total revenue resource limit</b>	<b>1,267.587</b>	<b>1,267.377</b>	<b>0.210</b>
Core capital resource limit	14.887	14.887	-
Non-core capital resource limit	-	-	-
<b>Total capital resource limit</b>	<b>14.887</b>	<b>14.887</b>	<b>-</b>
<b>Cash requirement</b>	<b>1,288.318</b>	<b>1,288.318</b>	<b>-</b>

Source: NHS Lanarkshire Annual Report & Accounts 2016/17

## Underspend against Revenue Resource Limit (RRL)

**26.** NHS Lanarkshire achieved an underspend of £0.21 million (0.02%) against its 2016/17 RRL of £1,267.587 million. This outturn is consistent with the 2016/17 Local Delivery Plan (LDP) which forecast a breakeven position against its RRL, assuming the total efficiency savings target of £45.551 million would be achieved. This was achieved despite considerable cost pressures and reflects the board's focus on tight financial management. Overspends against the board's Acute Operating Division budget (£4.479 million) were offset by savings against budgets within Corporate Functions (£1.031 million), Other Healthcare Providers (£1.301 million) and Board wide (£2.357 million).

**27.** The overspend within the Acute Operating Division was due mainly to pay costs being £3.501 million higher than budget (£5.234 million overspend in 2015/16), the majority of which related to locum and agency costs. The board reports that whilst still significant, overspends in these areas have reduced from previous years, as a result of the introduction of strict measures to reduce the use of agency nursing, the recruitment of significant numbers of newly qualified nurses and each acute site targeting locum costs to find more cost effective solutions.

**28.** The underspend on Other Healthcare Providers budgets was due principally to fewer Lanarkshire residents requiring access to West of Scotland regional services over the three year period ending 31 March 2016. The main reason for the underspend against the Board wide budget was the release of the unused portion of the reserve set aside in the 2016/17 financial plan for growth in high cost drugs (£2.452 million).

**29.** The Scottish Government made a commitment that all boards would be within one per cent of the National Resource Allocation Committee (NRAC) target allocations by 2016/17. NHS Lanarkshire has moved from 12.48% to 12.42% of target share of relevant RRL, bringing NHS Lanarkshire's target share, which was previously £16.5 million higher than its actual funding, down by approximately £5 million. The board's initial 2016/17 funding allocation did not have an NRAC parity adjustment but it was agreed with the Scottish Government later in the year that one was due and £2 million was issued to the board in the July 2016 allocation schedule. The reduction in the board's target share of relevant RRL has no immediate impact on existing RRL only on expectations of future growth.

## Efficiency savings

**30.** NHS Lanarkshire's target for total efficiency savings in 2016/17, based on what was needed to stay within RRL and deliver LDP performance trajectories, was £45.551 million. Savings of this magnitude are unprecedented and the board did well to achieve its target, making £45.874 million of efficiency savings.

**31.** £36.769 million (80%) of the total efficiency savings achieved were on a recurring basis, with the remainder achieved on a non-recurring basis. Recurring savings are savings that, once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing (recurring) savings in future years.

**32.** As illustrated in [Exhibit 5](#), NHS Lanarkshire has been increasingly reliant on non-recurrent savings in recent years. This situation is not sustainable and only buys the board breathing space in the short term.

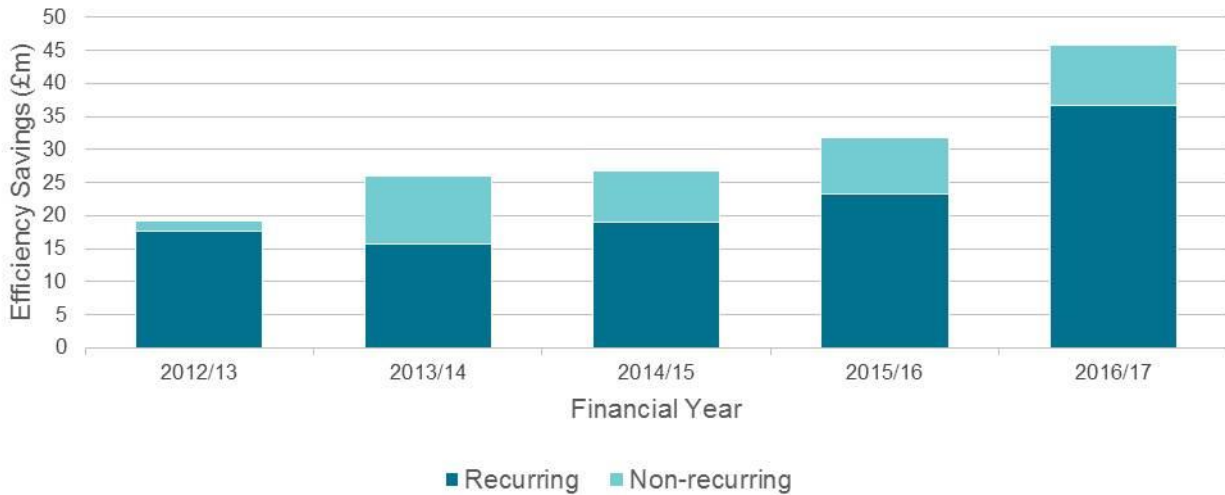
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Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

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## Exhibit 5

### Savings – recurring and non-recurring



Source: NHS Lanarkshire Annual Report & Accounts 2012/13 to 2016/17

## Capital allocation

**33.** NHS Lanarkshire received a total capital allocation of £14.887 million in 2016/17, all of which was core allocation. The capital allocation was fully utilised and spent on the theatres programme at Monklands Hospital, fire safety, drainage and roof replacement work, washer disinfectant purchases, urgent medical equipment replacements and IT equipment.

## Budgetary processes

**34.** We reviewed NHS Lanarkshire's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and Board members receive regular, timely and up to date financial information on the board's financial position.

**35.** We concluded that NHS Lanarkshire has strong budgetary monitoring and control arrangements that allow both members and officers to carry out scrutiny of the board's finances.

## Internal controls

**36.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that NHS Lanarkshire has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**37.** Our findings were included in an interim audit report presented to the Audit Committee on 6 June 2017. We identified several control weaknesses, which we do not consider to be significant in terms of their impact on NHS Lanarkshire's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. We did however identify two areas where additional audit testing was required to gain the necessary assurance for the financial statements audit. We selected a sample of employees to verify that they were valid employees of the board and we substantively tested a sample of journals to ensure they were raised for a valid

reason in the normal course of business for NHS Lanarkshire. No issues were identified from this additional testing.

### Prevention and detection of fraud and irregularity

**38.** We have a responsibility for reviewing the board's arrangements for the prevention and detection of fraud. Our audit work in this area covered a number of areas such as whistleblowing and liaison with Counter Fraud Services.

**39.** We concluded that NHS Lanarkshire is proactive in promoting fraud awareness and has adequate arrangements in place for fraud detection and prevention during 2016/17.

### National Fraud Initiative

**40.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

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## Exhibit 6

Total number of matches	Number recommended for investigation	Completed/closed investigations
		
4,377	452	166

Source: NHS Lanarkshire Internal Audit Service

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**41.** NFI activity is summarised in [Exhibit 6](#) and highlights that the board has made steady progress in investigating those matches issued to the board at the end of January 2017 that were recommended for investigation.

**42.** NHS payroll data was not included in the initial 2016/17 NFI data matching process. Consequently, NHS payroll matches were not included in the matches released to participating bodies in January 2017 and were only released to relevant bodies in mid-May 2017. As a result, NHS payroll matches are not included in [Exhibit 6](#).

**43.** The results of NFI activity are reported regularly to the Audit Committee by the Head of Internal Audit. In addition, the Head of Internal Audit completed the NFI self appraisal checklist which was presented to the Audit Committee in December 2016.

**44.** We concluded that the board is pro-active in investigating matches and reporting the outcomes of NFI activity.

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

**45.** The board has a range of activities in place designed to maintain standards of conduct including Codes of Conduct for members and officers. Also, there are established procedures for preventing and detecting bribery and corruption including a fraud, theft, bribery and corruption policy and response plan.

**46.** Based on our review of the evidence, we concluded that the board has adequate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

# Part 3

## Financial sustainability



### Main judgements

**NHS Lanarkshire has effective financial planning arrangements in place based on the Local Delivery Plan.**

**NHS Lanarkshire achieved its savings target in 2016/17 but will struggle to achieve its savings targets and maintain financial balance in future.**

### Financial planning

**47.** NHS Lanarkshire's LDP for 2017/18 sets out how the board's financial, workforce and services plans implement its strategic priorities. The LDP was submitted to the Scottish Government in line with the required timescales. It is expected to be approved by 30 September 2017. The financial plan is a key component of the LDP and sets out how the board plans to achieve financial balance in 2017/18. In addition, the 2017/18 financial plan includes a high level financial outlook for the three-year period 2017/18 to 2019/20 which takes account of new funding and costs over this period.

**48.** The financial outlook forecasts an excess of cost growth over income in each of its three years (£36.112 million in 2017/18, £39.848 million in 2018/19 and £28.637 million in 2019/20), and also recognises the significant cost pressures facing the board. These include staff pay, drugs, supplies and health and social care costs.

**49.** At the same time there are significant funding pressures over the period of the financial outlook. The basic funding uplift for 2017/18 is 0.37% while in 2018/19 and 2019/20 the funding uplift is assumed to be 0%.

**50.** In future, the board is facing an extremely challenging position. Rising costs and small increases in funding will make it difficult to achieve financial balance. The 2017/18 financial plan projects a potential funding gap of £36.112 million between out-turn and funding for the coming year. Efficiency savings will play a crucial part in bridging this gap next year and in future years.

Financial sustainability looks forward to the medium and long term. We consider whether the board is effectively planning how it will deliver its services in the future.

### Medium to long term efficiency savings

**51.** NHS Lanarkshire needs to achieve efficiency savings of 3.2% of baseline RRL (£1,135.9 million) in 2017/18. This is equivalent to a saving of £36.112 million with the majority (73%) planned to be on a recurring basis. Of the £36.112 million savings required, £7.798 million of savings are to be delivered by the North Lanarkshire and South Lanarkshire IJBs. This is a significant challenge for the board given that £6.586 million of the total efficiency savings required have yet to be identified for 2017/18.

## Recommendation 2

**The board should ensure that savings plans identify how the £6.586 million of savings in 2017/18 will be made.**

**52.** In each subsequent year of the plan the NHS Lanarkshire is required to achieve efficiency savings of 3.5% in 2018/19 and 2.5% in 2019/20 as illustrated in [Exhibit 7](#). Most of the savings required in 2018/19 and 2019/20 are unidentified. In recent years the board has had a good track record in achieving its savings targets. However, in our opinion, the board will struggle to achieve its saving targets in future years with many of the 'easier' savings already made.

## Exhibit 7

Savings forecast 2017/18 to 2019/20

	2017/18 £m	2018/19 £m	2019/20 £m
Recurring	26.505	39.848	28.637
Non-recurring	9.607		
<b>Total</b>	<b>36.112</b>	<b>39.848</b>	<b>28.637</b>
% of RRL	3.2%	3.5%	2.5%

Source: NHS Lanarkshire 2017/18 Financial Plan

## Asset management

**53.** NHS Lanarkshire is required to manage its hospitals, community buildings and other assets, such as medical equipment, in an effective way to ensure patients receive high quality care.

**54.** NHS Lanarkshire's Property and Asset Management Strategy 2017-2022 (PAMS) provides information on the condition of the board's estate (i.e. buildings). The PAMS supports NHS Lanarkshire's overall strategic vision and the delivery of its strategic plans by identifying and prioritising the improvements and investments necessary to its properties and other assets to support quality healthcare delivery. The PAMS highlights that the investment needed to bring the estate back to an acceptable condition (backlog maintenance costs) is £37.6 million (£37.9 million in 2015/16). This expenditure has been risk assessed to produce the following profile:

- Low risk - £12.4 million
- Moderate risk - £15.8 million
- Significant risk - £9.4 million
- High risk - £0 million

**55.** The 2017-2022 PAMS also highlights that the forecast expenditure on backlog property maintenance is as follows:



- 2017/18 - £1.6 million
- 2018/19 - £1.2 million
- 2019/20 - £1.0 million
- 2020/21 - £1.0 million
- 2021/22 - £1.0 million

**56.** The board has a risk based approach to improvements to existing facilities with outstanding backlog maintenance and statutory compliance standards assessed as significant. Overall, there has been a slight reduction in the backlog maintenance value since 2015/16, with more now in the high risk category. This is due to a number of initiatives, including a strategy towards reducing high and significant risk backlog maintenance within NHS Lanarkshire's existing estate. There is clearly a gap between the level of investment needed to bring the board's estate back to an acceptable condition and the forecast expenditure on backlog maintenance costs. There is a risk that the board's property assets could deteriorate to such an extent that there is an impact on service delivery.

**57.** Following the identification of structural defects at a number of Scottish school properties in recent years, Scottish public bodies were advised to carry out checks for defects if buildings met certain criteria in relation to age and construction type. In May 2017, the board identified five properties which met this criteria and intrusive sampling surveys were completed, the results of which were assessed by technical consultants. Some issues of a relatively minor nature were identified but the board were advised that none of these issues posed a risk to safety. The costs are currently estimated to be less than £25,000 for corrective action in relation to NHS Lanarkshire properties.

## Workforce planning

**58.** In February 2017, the Auditor General for Scotland published a data briefing on Scotland's NHS Workforce. It highlighted that NHS staff numbers are at their highest ever level, but there are key issues relating to the workforce. These include an ageing workforce, vacancy rates, increased spending on agency staff and sickness absence levels.

**59.** NHS Lanarkshire is facing a number of workforce challenges including on-going issues with medical staffing availability and an ageing workforce. At 31 March 2016 almost 38% of the workforce is aged 50 or over and this is set to rise by 2025 when the board will have an older workforce and a higher volume of retirements year on year. The board's 2016/17 Workforce Plan recognises the risks and implications of an ageing workforce and sets out the board's plans for the future model of its workforce.

**60.** The workforce plan also recognises that the board's future workforce must be based on a robust availability, adaptability and affordability model. The current economic challenges require NHS Lanarkshire to review and plan the most effective use of resources, including investment in the workforce. In order to address these workforce challenges, the workforce plan highlights that the board continues to develop and implement an annual Everyone Matters: 2020 Workforce Vision Implementation Plan.

**61.** The 2016/17 Implementation Plan specifically focused on a number of efficiency and quality of service related workforce initiatives (including more effective management of sickness absence, management of the temporary workforce, staff bank/agency arrangements and vacancy management). It includes continued investment in leadership and management development programmes to support integration, quality improvement and change. Delivery against the annual implementation plan is routinely assessed and monitored by the NHS Lanarkshire

Staff Governance Committee, Corporate Management Team, Area Partnership Forum (APF) and Human Resources (HR) Forum.

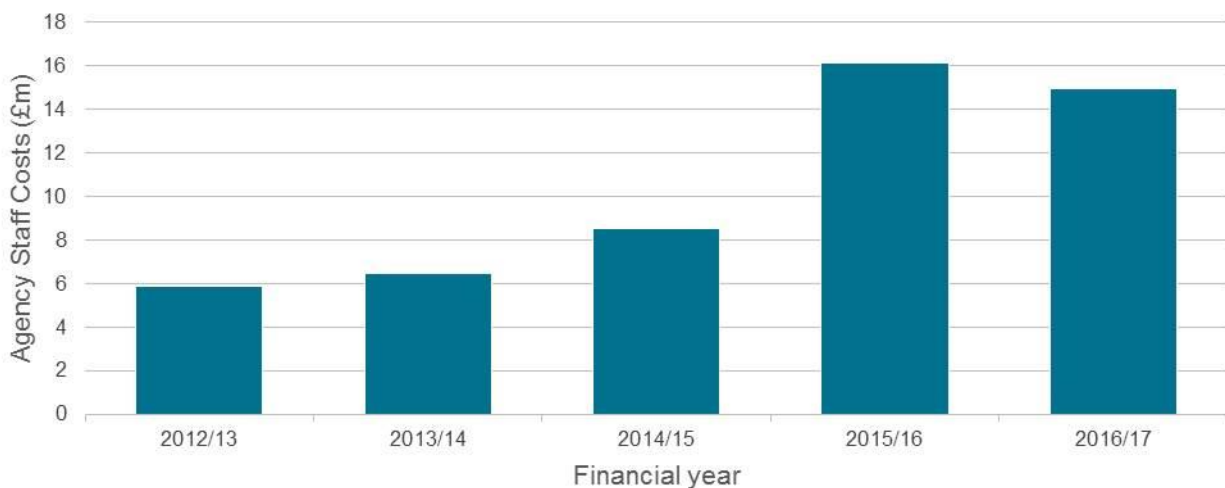
**62.** Also, NHS Lanarkshire is facing significant challenges in recruiting and retaining staff with turnover rates increasing (6.3% at March 2013 to 8.9% at March 2016). The board has had difficulties in filling consultant vacancies in Neonatology, Histopathology and Dermatology. In addition, there has been a high volume of Band 5 Acute Nursing vacancies (approx. 400 in 2015), although the majority have been successfully filled. Other specialist nursing areas continue to be difficult to recruit to, e.g. theatres and experienced neonates.

**63.** As a result of recruitment retention problems, and pressures to meet waiting time targets, the amount spent on temporary (agency) staff has increased over the last five years as illustrated in [Exhibit 8](#). Agency staff provide flexibility in the short term by providing cover for sickness absence and vacancies but that comes at a cost. Spending on agency staff by NHS Lanarkshire as a proportion of total staff costs has increased from 1.4% in 2012/13 to 3% in 2016/17.

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## Exhibit 8

### Agency staff costs



Source: NHS Lanarkshire Annual Report & Accounts 2012/13 to 2016/17

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**64.** The increasing use of agency staff, that can cost significantly more than permanent staff, is putting pressure on the board's budget and does not represent value for money. The board has taken measures to reduce its reliance on agency staff and as a result, agency staff costs reduced from a peak of £16.128 million in 2015/16 to £14.952 million in 2016/17. The board is continuing to look at ways of reducing its reliance on agency staff.

**65.** NHS Lanarkshire like most NHS boards is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence despite measures to maximise attendance at work. At December 2016 the sickness absence rate was 6.1% which had reduced to 5.5% by March 2017. The board's Attendance Management Policy has been reviewed and updated. In addition, monthly performance data is supplied to managers across NHS Lanarkshire to allow them to effectively manage sickness absence and support staff back to work. A sickness absence summit was held in March 2017 which involved staff from HR, Occupational Health, organisational development and staff from a number of departments to explore further ways of minimising absence. An action plan for 2017/18 was considered by the Staff Governance Committee in May 2017 and is now being implemented.

# Part 4

## Governance and transparency



### Main judgements

**NHS Lanarkshire has appropriate governance arrangements in place that support scrutiny of decisions made by the Board.**

**NHS Lanarkshire is open and transparent in the way it conducts its business but with some scope for improvement.**

### Governance arrangements

**66.** We reviewed the board's governance and accountability arrangements which included:

- confirming that the governance framework and governance arrangements, including decision-making and scrutiny, are regularly reviewed and updated to ensure they remain effective
- assessing the effectiveness of decision-making to ensure it is balanced by effective scrutiny and challenge by those independent of the body
- confirming that there is effective scrutiny and challenge in place over policy decisions, service performance, and programme management
- confirming that decision makers have the information they need to scrutinise, challenge and make best value and transparent decisions
- ensuring that it is clear what decisions have been made, who made them and the rationale supporting those decisions.

**67.** We concluded that the board's arrangements are appropriate and adequate in that they support good governance and accountability.

### Internal audit

**68.** Internal audit provides the Board and Accountable Officer with independent assurance on NHS Lanarkshire's overall risk management, internal control and corporate governance processes such as the roles and responsibilities of committees.

**69.** The internal audit function is provided as part of a managed service, overseen by Fife, Tayside and Forth Valley Audit and Management Services (FTF). We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**70.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on internal audit's review

Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making. Transparent reporting of financial and performance information is expected by public bodies.

of key controls through their work on financial process compliance in payroll, accounts payable, accounts receivable and banking arrangements. We also considered internal audit report findings as part of our wider dimension work.

## ICT risks

**71.** During 2016/17, we carried out an ICT Healthcheck review and identified that:

- the board's eHealth management arrangements are appropriate
- in common with all NHS Scotland boards, the board continues to use Microsoft Office 2007, for which Microsoft will cease to provide security updates from October 2017, which places increased emphasis on local cyber security tools
- the relevant documents in the board's Information Security Management System reflect the requirements of the Scottish Government's Information Governance and Security Improvement Measures 2015-2017 (DL (2015) 17)
- the board's deployment of the Fairwarning patient privacy intelligence system could be improved.

**72.** In May 2017 a number of health bodies in Scotland, including NHS Lanarkshire, were affected by a global ransomware cyber attack. As part of the board's business continuity plans, as a preventative measure, a decision was taken by the board to turn off a number of systems, including Clinical Portal, eCaseNote, Data SAN, SCI Store and any other key clinical applications.

**73.** A Strategic Group, led by the Chief Executive, was assembled to assess the situation and the potential impact on safe and effective patient care. The board prioritised patient safety and took the necessary steps, in accordance with its business continuity plan, to ensure the safe delivery of services across Lanarkshire. During the cyber attack some procedures and appointments were affected.

**74.** The board has reported that there is no evidence that any patient data was compromised and the business continuity arrangements in place to ensure minimal impact to patients resulted in 99% of outpatient clinics and planned operations going ahead as normal following the cyber attack.

**75.** The board has instructed a Significant Adverse Event Review (SAER) to ensure the lessons learned from this incident are used to improve its ICT infrastructure and reduce the risk of future cyber attacks taking place.

---

### Recommendation 3

**The board should ensure that the findings of the SAER are taken forward to ensure that the lessons learned from this incident are used to improve its ICT infrastructure and reduce the risk of future cyber attacks taking place.**

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## Risk management

**76.** We reviewed the risk management arrangements within the board to assess their effectiveness and appropriateness. This included consideration of the risk management strategy which sets out the board's vision for risk management with a supporting framework and a review of the board's corporate risk register.

**77.** We concluded that the board has adequate and effective risk management arrangements in place which includes the provision of regular comprehensive reports to the Audit Committee throughout the year.

## Transparency

**78.** Transparency means that the public, and in particular local residents, have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

**79.** There is evidence from a number of sources which demonstrates the board's commitment to transparency, including the annual accountability review (where members of the public can attend). Also, Board meetings are open to the public.

**80.** While committee meetings are held in private, the minutes of these meetings are publicly available on the board's website. We would recommend that more committee meetings are held in public with sensitive or confidential items held in private session.

**81.** The board's mid-year report on feedback, comments, concerns and complaints was presented to the Healthcare Quality Assurance & Improvement (HQAI) Committee in December 2016 and provides an update on activities between April 2016 and September 2016. This report highlights that 99% of the 694 complaints received during this period were acknowledged by the board within the national target of 3 working days. In addition, the board replied to 97% of the complaints received within the national target of 20 working days which compares well against the latest national figure of 69% for 2015/16. The 2016/17 annual report is currently being drafted and will be presented to next meeting of the HQAI Committee.

**82.** Overall, we concluded that the board conducts its business in an open and transparent manner but we believe that there is an area where the board could improve current arrangements (i.e. holding more committee meetings in public).

## Health and social care

**83.** Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on 1 April 2016. This brings together NHS and local council social care services under one partnership arrangement for each council area. These health and social care partnerships are formally known as Integration Joint Boards (IJBs).

**84.** Integration means a greater emphasis on enabling people to stay in their homes, or another homely setting where possible, sharing their lives with their family and friends, doing the things that give life meaning and value.

**85.** There are two IJBs within NHS Lanarkshire's catchment area and both became fully operational on 1 April 2016. These IJBs are commonly known as South Lanarkshire Health & Social Care Partnership and Health & Social Care North Lanarkshire.

**86.** The board received the relevant financial information it needed for its' financial statements from both IJBs at the end of May 2017. As the board's draft 2016/17 financial statements had already been passed to audit, the board had to update the draft financial statements to incorporate the IJBs financial results to allow the consolidated financial statements to be audited.

**87.** Each IJB has its own performance management framework to ensure that progress against key plans, strategies and budgets are monitored routinely in order that timely action can be taken to address any performance issues. Progress is monitored by senior management, appropriate scrutiny committees, the IJB and all partners.

**88.** The IJBs face financial challenges in the future as well as service delivery challenges from the new landscape as identified from our review of delayed discharges in 2016/17 (see paragraph 108).

**89.** Audit Scotland's publication *Health and Social Care Integration* (December 2015) highlighted that there are significant risks which need to be addressed if health and social care integration is to fundamentally change the delivery of health and care services. The report highlighted that health boards and their IJB partners needed to have realistic plans in place to make health and social care integration work effectively. In addition, Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. This report is not due until Spring 2018 and auditors will be in a better position to assess the effectiveness of the partnership arrangements after the work on this report has been completed.

## 2020 Vision

**90.** In 2011 the Scottish Government set out an ambitious vision for health and social care that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. In August 2015 the Cabinet Secretary for Health, Well-being and Sport opened a national conversation on creating a healthier Scotland which aimed to increase the pace of progress towards the 2020 Vision.

**91.** NHS Lanarkshire developed a strategic health planning framework to gain a shared understanding of the actions required to achieve the Scottish Government's 2020 Vision. The board identified four strategic aims to achieve this vision, which are set in the context of delivering a healthier future for all and establishing a quality driven organisation that delivers these aims. 'A Healthier Future 2012-2020' sets out how the board will achieve a quality driven organisation.

**92.** The Transforming Patient Safety and Quality of Care in NHS Lanarkshire - Healthcare Quality Assurance and Improvement Strategy 2014-17 supports the on-going implementation of A Healthier Future 2012-2020. The progress of this strategy is monitored regularly by the Healthcare Quality Assurance and Improvement Committee, the minutes of which are taken to meetings of the Board. In addition, Quality Assurance and Improvement Progress Reports are regularly presented to Board meetings.

**93.** We have concluded that the board gives the 2020 Vision the appropriate profile and has plans in place to work towards the delivery of the 2020 Vision.

## Equalities

**94.** The Equality Act 2010 (the Act) introduced a new public sector 'general duty' that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

**95.** We reviewed the various reports NHS Lanarkshire has produced to meet the requirements of the specific duties of the Act which support its equality and diversity aims. We concluded the board has met its statutory duty to:

- publish information on progress made in mainstreaming equality within the board
- report on progress made towards achieving equality outcomes published in 2013
- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay-gap information.

**96.** We concluded that, on the basis of evidence reviewed, the board is proactive in ensuring that equality is mainstreamed.

# Part 5

## Value for money



### Main judgements

**NHS Lanarkshire has an effective performance management framework in place. This helps support the board in its drive to achieve value for money and continually improve how it delivers services.**

**Our review of delayed discharges arrangements identified areas for improvement that can only be taken forward by NHS Lanarkshire working with and supporting the IJBs. This will improve the patient experience across Lanarkshire.**

### Performance management

**97.** The Scottish Government monitors how NHS Lanarkshire performs against targets it sets in its national performance framework. These include targets and their trajectories (plans) as set out in the board's LDP. Examples include waiting times for accessing treatment such as the proportion of patients that were seen within 12 weeks otherwise known as the Treatment Time Guarantee.

**98.** The Board is kept well informed of performance across all areas. The detailed review and scrutiny of performance has been delegated to the Planning, Performance and Resources Committee (PPRC) which meets quarterly. We regularly review papers received by members to find out how well the committee is scrutinising performance.

**99.** Each meeting of the PPRC receives an Integrated Corporate Performance Report (ICPR). Performance is reported on a traffic light system using an electronic dashboard of 105 key performance indicators (including the 21 LDP Standards for 2016/17) mapped to the Scottish Government's three quality ambitions. ICPRs contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance. Board members can view the online electronic dashboard at any time.

**100.** In addition, committee members receive supplementary reports on specific aspects of performance namely waiting times and the financial position. These enable members to focus on key risks relating to access to treatments and financial sustainability.

**101.** We concluded that the NHS Lanarkshire has an effective performance management framework in place. This helps board to achieve value for money and continually improve how it delivers services.

### Overview of service performance

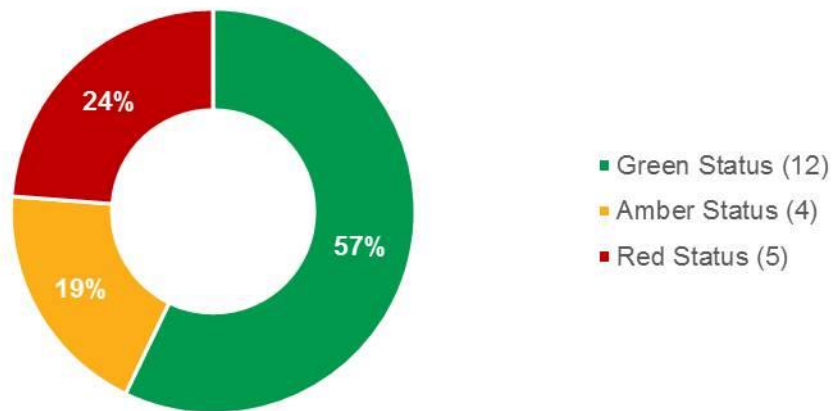
**102.** The board's performance against its 21 LDP Standards as reported in the 2016/17 annual report and accounts, and based on the most up-to-date position at the end of March 2017 (where data available) is summarised in [Exhibit 9](#).

Value for money is concerned with using resources effectively and continually improving services.



## Exhibit 9

### Overall performance



Source: NHS Lanarkshire Quarterly LDP Progress Report – Quarter 4 2016/17 and NHS Lanarkshire Annual Report & Accounts 2016/17

**103.** Of 21 LDP Standards, 12 were categorised as green, 4 amber and 5 red, where:

- green means targets being met or exceeded
- amber means performance is within 5% of target
- red means targets outwith acceptable standards (more than 5% below target).

**104.** Overall, NHS Lanarkshire performs well with the majority of targets categorised as green or amber. However, there are five targets that are outwith acceptable standards and more details on these are provided in [Exhibit 10](#).

## Exhibit 10

### Performance against key LDP standards

Standard/target	Performance at March 2017 <sup>1</sup>	Action being taken by Board
<b>Treatment Time Guarantee (TTG)</b> Proportion of patients that were seen within 12 weeks TTG	100% <span style="color: red;">●</span> 71.7%	Ophthalmology and orthopaedics present the biggest challenge for the TTG target. Use of the Golden Jubilee Hospital plus looking at additional local theatre capacity and improving theatre efficiency features in the plans for improving this. The orthopaedic redesign has generated improved capacity at Monklands Hospital for general surgery, urology and ENT since November 2016 and this will be realised during 2017/18. There are also plans to develop new roles in theatres so that there is a robust workforce despite a national shortage of theatre nurses.

Standard/target	Performance at March 2017 <sup>1</sup>	Action being taken by Board
<p><b>12 Weeks First Outpatient Appointment</b></p> <p>Percentage of patients waiting no more than 12 weeks from referral to first outpatient appointment</p>	95% ● 83.4%	There were challenges in a range of specialties including ophthalmology, ENT, orthopaedics, dermatology and neurology. In the final quarter of 2016/17 a significant investment was made to reduce the number of long waits, relying by necessity on short term external capacity. A programme of reconfiguration and redesign is currently underway within orthopaedic services following the move in November 2016 to two sites which will generate improved capacity to treat patients in 2017/18. A major review of the totality of ophthalmology services took place during 2016/17 resulting in service redesign with significant investment in the nurse injectors and optometrist resource.
<p><b>18 weeks Referral to Treatment (RTT)</b></p> <p>Percentage of patients seen and treated within 18 weeks from initial referral.</p>	90% ● 78.7%	In March 2017 across NHS Scotland, 83.2% of patients whose 18 Weeks RTT journey could be fully measured were reported as being seen within 18 weeks. Eleven of the fifteen NHS Boards who submitted valid data to the Scottish Government did not meet the RTT standard. Vacancies are having a significant impact on some RTT target specialties such as dermatology. The board monitors the RTT standard within a substantive Waiting Times Report submitted to and reviewed by the Corporate Management Team, the Acute Operating Management Committee, the PPRC and the Board.
<p><b>Primary Care Advance Booking</b></p> <p>Proportion of positive responses for booking an appointment with a GP three or more working days in advance</p>	90% ● 69.0%	This is reported to the South Lanarkshire IJB and is a biennial survey, with the next update due May 2018. Sustaining primary care services in future is one of the high risks recognised by the board and over 2017/18 investment through the primary care transformation fund and a new national contract will be a major focus.
<p><b>Staphylococcus Aureus Bacteraemia (SABs)</b></p> <p>Rate of SABs per 1,000 total occupied bed days</p>	0.24 ● 0.38	For SABs the national rate was 0.32 in the year to end of December 2016. NHS Lanarkshire sat at 0.38. The rates in the mainland boards ranged from 0.21 to 0.42. Each SAB in NHS Lanarkshire continues to undergo a joint rapid review by the infection control team and the clinical team responsible for the patient.

Note: 1. Figures still to be validated by NHS Information Services Division. Where March 2017 data is not yet available, the most recent data is used.

Source: NHS Lanarkshire Quarterly LDP Progress Report – Quarter 4 2016/17 and NHS Lanarkshire Annual Report & Accounts 2016/17

**105.** Based on available evidence, we concluded that the board's plans for addressing those LDP standards assessed as 'red' are reasonable.

**106.** The board should continue to be proactive in seeking ways to balance the achievement of its financial targets with other national performance targets.

## Shared services

**107.** The financial challenges facing the health service in Scotland are well documented. The speed at which substantial changes are needed within the NHS means that greater sharing of services between boards is vital if the Scottish Government is to achieve the overall ambitions of the 2020 vision and beyond. In 2015, the Scottish Government established a transformational programme board, including senior representatives from NHS boards, to try to provide greater coordination across boards and various healthcare programmes and initiatives.

## Local performance studies

**108.** In 2015/16 NHS Lanarkshire reported a deteriorating position of a 16.1% increase in delayed discharge bed days compared with 2014/15. This has led to increased scrutiny from the Scottish Government. On this basis, it was agreed with the board that this was an area to be considered as part of our 2016/17 audit.

**109.** As part of our audit we reviewed the board's arrangements for managing delayed discharges and identified a number of areas where improvements could be made. The board can only reduce delayed discharges by working closely with the North and South Lanarkshire IJBs. Our draft report was issued to the board in June 2016. The board is discussing the recommendations with the IJBs, prior to providing a management response to the points raised.

**110.** Health and social care integration in Scotland has added complexity to who is responsible for reducing instances of delayed discharge. However, it has also presented opportunities for the board and its partners to work together. Our review identified areas of good practice in the management of delayed discharges in Lanarkshire, including:

- Delayed discharge statistics are regularly monitored by both the Corporate Management Team (CMT) and Board.
- The Lanarkshire Unscheduled Care Improvement Board / Whole System Delayed Discharge Group brings together representatives from the health board, North Lanarkshire IJB and South Lanarkshire IJB, to identify trends and issues in delayed discharge and unscheduled care and to seek ways to address these.
- Delayed discharge hubs are in place to arrange the ongoing care of patients.

**111.** We also identified areas where improvements should be considered including:

- Keeping performance monitoring arrangements of delayed discharges in the IJBs under review to ensure they are effective in identifying areas for focus to improve performance.
- Reviewing the role and operation of the discharge hubs to ensure their staff and resources services are used effectively.
- Reviewing the use of patient information systems such as Wardview and the Social Work Information System to ensure they assist staff in the management of patient flow.
- Reviewing the timing of ward rounds to discharge patients.

- Comparing working practices between North and South Lanarkshire services and rolling out good practice across the Lanarkshire area, to promote a consistent patient experience.
- Developing a communication strategy for staff and patients to make them aware of how health and care services work in Lanarkshire.

**112.** Throughout the report, we set out the complexities of the responsibility for managing and reducing delayed discharges under the new health and social care landscape. There are areas where lines of responsibility are blurred and improvement actions can only be taken forward by NHS Lanarkshire working with and supporting the IJBs. Taking steps to implement these actions will improve the patient experience across Lanarkshire.

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#### **Recommendation 4**

**The board should agree management responses with its IJB partners to the recommendations made in the Review of Delayed Discharges report.**

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#### **National performance audit reports**

**113.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which are of direct interest to the board. These are outlined in [Appendix 3](#) of this report.

**114.** NHS Lanarkshire has processes in place to ensure that all national performance reports and their impact on the board are considered by the Audit Committee and other governance committees, as appropriate.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
9	<p><b>1. Hub company shareholding</b></p> <p>In 2016/17 the board received income of £0.078 million from the hub company in relation to the board's investment. However, due to a lack of supporting information from the hub company we were unable to confirm that the board has correctly accounted for this income.</p> <p><b>Risk</b></p> <p>The board may not be accounting properly for the investment income received from the hub company.</p>	<p>The board should work with the hub company to identify what the income relates to and ensure that it applies the correct accounting treatment to any future receipts from investment in the hub company.</p>	<p>The board will discuss with the Hub company to ensure all information is available and the accounting treatment is correct.</p> <p>Head of Finance – Corporate Services</p> <p>October 2017</p>
16	<p><b>2. Efficiency savings</b></p> <p>For 2017/18 the board is required to deliver £36.112 million of efficiency savings. The board has yet to identify £6.587 million of the savings required for next year. Of those savings identified to date, £2.421 million are considered high risk and may not materialise.</p> <p><b>Risk</b></p> <p>The board may not be able to deliver the targeted savings in 2017/18.</p>	<p>The board should ensure that saving plans show how the remaining £6.586 million of savings in 2017/18 will be made.</p>	<p>The Board, PPRC and Audit Committee are being kept informed of progress and risks. The risk is also being reviewed monthly through the risk management process to ensure controls are adequate. Work continues to identify opportunities to close the gap and the board should expect these plans to be in place by October 2017.</p> <p>Director of Finance</p> <p>October 2017</p>
20	<p><b>3. Board response to the ransomware cyber attack</b></p> <p>In May 2017 the board was affected by a global ransomware attack which could have seriously impacted</p>	<p>The board should ensure that the findings of the Significant Adverse Event Review (SAER) are taken forward to ensure that the lessons learned from this incident are used to improve its ICT infrastructure</p>	<p>The SAER is underway. The Board will receive assurance on actions taken in response to its findings.</p> <p>Chief Executive</p> <p>Ongoing with assurance on</p>



**Page  
no.**

**Issue/risk**

**Recommendation**

**Agreed management  
action/timing**

upon safe and effective patient care.

and reduce the risk of future cyber attacks taking place.

actions taken expected  
September 2017

**Risk**

The board may be subject to future cyber attacks.

**28**

**4. Review of delayed discharges**

The Review of Delayed Discharges report made a number of recommendations for improvement for the board to take forward with its IJB partners.

**Risk**

Performance in relation to delayed discharges may deteriorate and negatively impact upon patient care.

The board should agree management responses with the IJBs to the recommendations made in the Review of Delayed Discharges report.

The board is to agree management responses with its IJB partners and report back to external audit and the Audit Committee.

Director of Finance

September 2017

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Focused testing of accruals and prepayments.</p> <p>Reviewed significant management estimates and evaluated the impact of any variability in key assumptions.</p> <p>Evaluated significant transactions that were outside the normal course of business.</p> <p>Substantive testing of transactions after the year end to confirm expenditure and income had been accounted for in the correct financial year.</p>	<p>We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>We did not identify any incidents of management override of controls.</p>
<p><b>2 Risk of fraud over income</b></p> <p>NHS Lanarkshire receives approximately 6% of income from sources other than Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud that requires an audit response.</p>	<p>Performed analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions which focused on the areas of greatest risk.</p>	<p>We undertook detailed testing of income streams.</p> <p>No frauds were identified.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice requires consideration of risk of fraud over expenditure (excluding payroll costs which are already a core part of all annual audits). NHS Lanarkshire incurs significant expenditure on family health services which require audit</p>	<p>Performed walk-through testing of controls over family health service expenditure.</p> <p>Reviewed work on the follow up of National Fraud Initiative (NFI) matches.</p> <p>Obtained assurances from the Counter Fraud Service.</p>	<p>No significant issues were identified from our testing of the family health services expenditure disclosed in the financial statements.</p> <p>We concluded that the board is proactive in following up NFI matches.</p> <p>The Head of Internal Audit provides an update to each Audit Committee meeting in relation to</p>

Audit risk	Assurance procedure	Results and conclusions
coverage.		the work of CFS in relation to the board and no significant issues have been highlighted.
<p><b>4 Estimation and judgements</b></p> <p>There is a degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completed a 'review of the work of an expert' for the professional valuer.</p> <p>Reviewed information provided by the Central Legal Office (CLO).</p> <p>Focused substantive testing of provisions.</p>	<p>We reviewed the professional valuer in accordance with ISA 500 and undertook detailed testing of key valuations within the accounts.</p> <p>We reviewed the CLO information and performed testing of provisions.</p> <p>No material misstatements were identified.</p>
<p><b>5 Consolidation of Health and Social Care costs: North Lanarkshire and South Lanarkshire Health and Social Care Partnerships (HSCPs)</b></p> <p>The results of the HSCPs will be consolidated into the accounts of NHS Lanarkshire for the first time in 2016/17 from the integrated joint boards (IJBs) accounts.</p> <p>The board needs to agree a timetable and approach to obtaining the IJB figures for consolidation, and assurances required for the group governance disclosures. As this is the first year, there is a risk that the timetable may not be achieved. There is also an increased risk of errors in accuracy and disclosure.</p>	<p>Considered the timetable and process for consolidation of the group accounts.</p> <p>Considered the assurances obtained by the board's Director of Finance for the group governance disclosures.</p> <p>Agreed the consolidation adjustment was accurate and correctly disclosed.</p> <p>Confirmed that any balances relating to IJBs had been agreed by the partner bodies.</p>	<p>No significant issues were identified from our review of the Health and Social Care Partnerships' disclosures in the board's 2016/17 single entity and group financial statements.</p> <p>We considered the assurances the board received from both IJBs for the board's group governance disclosures. No significant issues have been identified.</p> <p>The board has agreed balances with the IJBs.</p>
<p><b>6 Implementation of new asset management system (RAM)</b></p> <p>System changes present an audit risk due to the uncertainty over the integrity of migration arrangements and the output from the new system. The board is implementing the RAM system during 2016/17 to replace its existing system for recording non-current assets.</p> <p>There is a risk that the information from the new system used to prepare the financial statements may contain errors.</p>	<p>Not Applicable – the implementation of the RAM system was delayed until 2017/18.</p>	<p>Not Applicable – the implementation of the RAM system was delayed until 2017/18.</p>



Audit risk	Assurance procedure	Results and conclusions
<p><b>7 System generated accruals</b></p> <p>In the 2015/16 Annual Audit Report the previous auditors, Scott Moncrieff, highlighted concerns that the eFinancials automatic accrual for goods received that have not yet been invoiced (GRNI) may continue to be overstated in 2016/17.</p> <p>There is a risk that the accounts payable amount recorded in the financial statements may be overstated.</p>	<p>Focused substantive testing on the system generated accruals included within accounts payable in the financial statements.</p>	<p>No significant issues were identified from our testing of system generated accruals within the accounts payable amount disclosed in the financial statements.</p>

### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p><b>8 Financial sustainability</b></p> <p>NHS Lanarkshire set its 2016/17 Financial Plan in March 2016. The plan identified a budget gap of £42.988 million to be addressed by efficiency measures. Although the profile of savings proposals to address the budget gap was established, there were no specific savings measures in place for £10.4 million of the budget gap. The August 2016 financial monitoring report for the Board highlighted that this gap had reduced to £4 million.</p> <p>Delivering recurring efficiency savings is increasingly challenging and represents a risk to the financial sustainability of NHS Lanarkshire.</p>	<p>Reviewed financial monitoring reports and the financial position.</p> <p>Undertook specific audit work on financial planning and governance. This included assessing the robustness of long term financial planning.</p>	<p>In 2016/17 the board achieved efficiency savings of £45.874 million, of which £36.769 million (80%) were recurring, which ensured the board delivered a break even position against its RRL.</p> <p>See part 3 of this report, our review of financial planning and governance concluded that the board has adequate financial planning arrangements in place. We also concluded that the board's financial position is sustainable currently, although rising demand for and costs of services will continue to place a strain on the board's capacity to deliver services.</p> <p>During the year the board carried out a review of its Scheme of Delegation and Standing Financial Instructions to reflect recent changes to legislation, guidance and standards particularly around procurement.</p>
<p><b>9 Delayed discharges</b></p> <p>Reducing delayed discharges is a key performance target for NHS boards and health and social care providers. The performance target was not met consistently by any NHS board throughout 2015/16. In 2015/16 NHS Lanarkshire reported a deteriorating position of a 16.1% increase in delayed discharge bed days compared with 2014/15.</p> <p>On this basis it has been</p>	<p>We undertook a review of the reasons for delayed discharges in NHS Lanarkshire and assessed the board's arrangements for managing and minimising these.</p>	<p>The findings of our review of delayed discharges were reported in June 2017(see paragraph 108). Our report identified areas of good practice and also areas for improvement for the board and its IJB partners to take forward in order to improve delayed discharges performance.</p>





















<b>Audit risk</b>	<b>Assurance procedure</b>	<b>Results and conclusions</b>
agreed with the board that this is an area to be considered as part of the audit.		

---

# Appendix 3

## Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Briefing paper: Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

### NHS relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[NHS in Scotland 2016](#) – October 2016

[Social work in Scotland](#) – September 2016

[Scotland's NHS workforce](#) – February 2017

# NHS Lanarkshire

## 2016/17 Annual Audit Report

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