

# NHS Lanarkshire

2017/18 Annual Audit Report



 AUDIT SCOTLAND

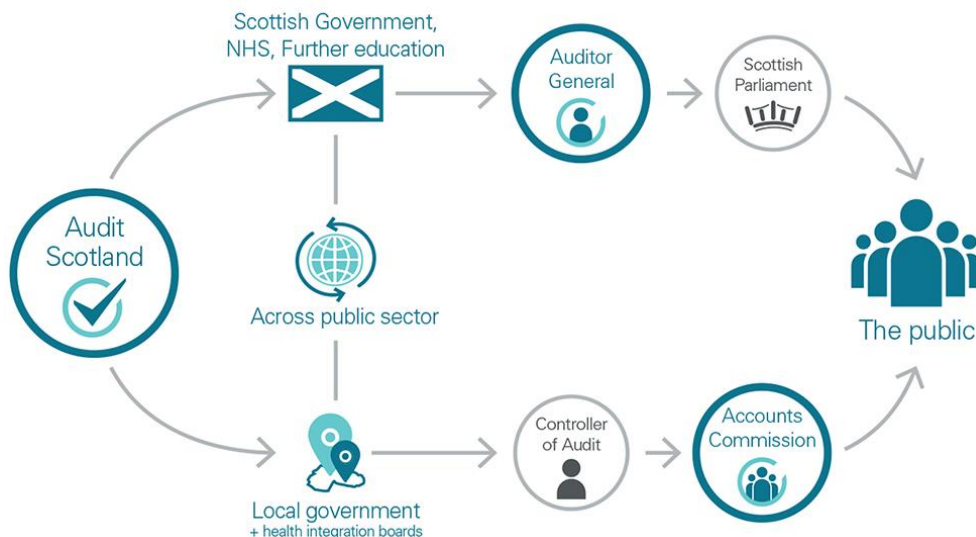
Prepared for the Board of NHS Lanarkshire and the Auditor General for Scotland

27 June 2018

## 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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# Key messages

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## 2017/18 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.
- 2 The financial statements give a true and fair view of the financial transactions for the year.

## Financial management

- 3 NHS Lanarkshire (the board) has effective arrangements in place for managing its finances and the use of resources. NHS Lanarkshire met all of its financial targets for 2017/18 and achieved an underspend of £0.381 million against its Revenue Resource Limit (RRL).
- 4 NHS Lanarkshire did well to almost fully achieve its savings target of £36.112 million during the year particularly given the level of savings required in 2017/18.
- 5 Effective internal control systems operated throughout the year.

## Financial sustainability

- 6 We concluded that NHS Lanarkshire has effective financial planning arrangements in place. While the board achieved financial balance in 2017/18 it is facing an extremely challenging position in future. For 2018/19 alone the financial plan is projecting a funding gap of £25.821 million.
- 7 Efficiency savings will be crucial to maintaining financial balance over the medium term. Savings required in 2018/19 currently stand at £25.821 million or 2.2% of RRL. Some of the efficiency savings required to deliver a balanced financial position in 2018/19 have yet to be identified and the board continues to place reliance on non-recurring savings which is not sustainable in the future.
- 8 In the medium to longer term there is considerable uncertainty on the board's financial position due to EU withdrawal and the impact of New Financial Powers on budgets. The board should consider scenario planning as part of a medium term financial plan.
- 9 NHS Lanarkshire is finding it difficult to recruit staff and relies on temporary or agency staff to fill gaps. The rising costs of temporary staff are adding to the financial pressures facing the board, although the board has had some success in reducing the number of agency staff used in one of its acute sites.

## Governance and transparency

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

- 11** The internal audit service operates in accordance with the Public Sector Internal Audit Standards. An independent evaluation of the service is required by the standards and is currently ongoing.
- 12** In 2017 NHS Lanarkshire experienced two cyber attacks which caused disruption to services. In response IT security has been strengthened. The board is now seeking Cyber Essentials accreditation to provide reassurance over the security arrangements.

## Value for money

- 13** 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.
- 14** Our review of the board's use of temporary staff identified that the board has mechanisms in place to monitor and challenge the use of temporary staff at all levels. However, there is limited evidence that good practice in the management of temporary staff is being shared across the three acute sites.
- 15** The board and its IJB partners are proactively taking forward the recommendations in our 2016/17 review of delayed discharges report.

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# Introduction

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1. This report summarises the findings from our 2017/18 audit of Lanarkshire Health Board, commonly known as NHS Lanarkshire.

2. 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.

3. The scope of our audit was set out in our Annual Audit Plan presented to the December 2017 meeting of the Audit Committee. This report comprises the findings from:

- an audit of the board's annual report and accounts
- consideration of the wider dimensions that frame the wider scope of public audit 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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4. As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the board's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this, we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#). The other main elements of our audit work in 2017/18 have been:

- a review of the board's main financial systems
- consideration of the four audit dimensions
- a local performance report on the use of temporary staff.

**5.** This report includes matters from all our audit work on the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to their attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**6.** NHS Lanarkshire has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. The board's annual report and accounts includes the following:

- Performance Report
- Accountability Report (which includes the Directors' Report, Governance Statement and Remuneration and Staff Report)
- Financial statements and supporting notes.

**7.** The board is also responsible for compliance with legislation and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

### **Adding value through the audit**

**8.** Our aim is to add value to NHS Lanarkshire by providing insight and foresight on financial sustainability, risk and performance and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

**9.** This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

**10.** This report is addressed to 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) in due course.

**11.** We can confirm that in conducting the audit we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £191,580, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

# Part 1

## Audit of 2017/18 annual report and accounts



### Main judgements

**NHS Lanarkshire's financial statements give a true and fair view of its financial transactions. They were prepared in accordance with accounting requirements.**

**Expenditure and income were in accordance with applicable legislation and guidance.**

**The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction**

**A number of other sections of the annual report and accounts were not provided until later in the audit process, which impacted on the flow of the audit.**

### Audit opinions on the annual report and accounts

**13.** The annual report and accounts for the year ended 31 March 2018 were approved by the Board on 27 June 2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- the audited part of the remuneration and staff report performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

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.

### Submission of annual report and accounts for audit

**14.** We received the unaudited financial statements template on 7 May 2018, in line with our agreed audit timetable. The working papers provided 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.

**15.** A number of other sections of the annual report and accounts were not provided until later in the audit process, namely the governance statement (29 May 2018), performance report and accounting policies (1 June 2018), Integration Joint Board(s) (IJB) financial results (5 June 2018) and the accountability report (6 June 2018). The delays in receiving these key sections of the accounts impacted on the flow of the audit and resulted in a bottleneck of audit work at the completion stage.





## Recommendation 1

**The board should review its process for the submission of the 2018/19 annual report and accounts for audit.**

### Risks of material misstatement

16. [Appendix 2](#) provides a description of areas we assessed as being at risk of material misstatement at the audit planning stage, how we addressed them and our conclusions thereon. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and how the efforts of the audit team were directed. Also included within the appendix are wider dimension risks.

### Materiality

17. If material misstatements were identified in any set of financial statements it would impact on the audit opinion. Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

18. 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](#). With regards to the annual report and accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

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

## Exhibit 2

### Materiality values

Materiality level	Amount
Overall materiality	£13.316 million
Performance materiality	£7.990 million
Reporting threshold of misstatements	£100 thousand

Source: NHS Lanarkshire Annual Audit Plan 2017/18

### How we evaluate misstatements

20. There were a number of adjustments to the unaudited financial statements arising from our audit which were above our reporting threshold. Adjusting errors mainly related to classification errors within the notes to the accounts and the impact of these adjustments was a reduction in net assets of £0.616 million. Two other misstatements, including Road Traffic Accident (RTA) income as detailed in [Exhibit 3](#), were identified which were not processed through the financial statements and these have been classified as unadjusted errors. These are detailed in [Appendix 3](#).

**21.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. Management do not propose to adjust for the item(s) above as the amounts are not considered material in the context of the financial statements and have no significant impact on the board's achievement of its financial targets.

### Significant findings from the audit in accordance with ISA 260

**22.** International Standard on Auditing (UK) 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](#) has been included.


**23.** The findings include our views about significant qualitative aspects of the board's accounting practices including:

- |   |   |
|---|---|
| • Accounting policies   | • Accounting estimates and judgements   |
| • Significant financial statements disclosures                | • Timing of transactions and the period in which they are recorded              |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements            |
| • Misstatements in the annual report and accounts             | • Disagreement over any accounting treatment or financial statements disclosure |

## Exhibit 3

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

Finding	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 second year. £751.500 million has been included in the board's clinical services expenditure relating to the board's payments to the two IJBs. Income of £748.224 million for services commissioned by the two IJBs has also been included.</p> <p>The IJBs have been consolidated into the group accounts as joint ventures, £6.449 million has been shown in reserves, representing the board's share of the IJBs' underspends in 2017/18.</p> <p>The IJB figures are based on the unaudited accounts for each IJB and the deadline for these accounts to be audited is 30 September 2018. We do not anticipate any material changes to the draft figures used in consolidation.</p>	<p>For information only.</p>
<p><b>2. IJB Creditor Balance</b></p> <p>Our audit work identified that the amount due to the two IJBs at 31 March 2018 of £15.620 million has been disclosed in the board's accounts as deferred income. This balance is the total underspend reported by the two IJBs in relation to</p>	<p>The IJB creditor amount is now appropriately disclosed within the accruals balance in the board accounts with no impact on the total creditors balance. The 2016/17 deferred income</p>

Finding	Resolution
<p>healthcare services provided by the board in the past two years (£11.357 million in 2016/17 and £4.263 million in 2017/18). These amounts are held by the board on behalf of the IJB until they are spent in future years. A corresponding debtor balance is included in the accounts of the IJBs.</p> <p>By its nature, this balance should not be disclosed in the board's accounts as deferred income but shown as accrued expenditure.</p>	<p>and accruals balances have also been restated for consistency.</p>
<p><b>3. Road Traffic Accident (RTA) Debtor</b></p> <p>In 2017/18 the Department of Health issued guidance in relation to the NHS Injury Cost Recovery Scheme. The Compensation Recovery Unit (CRU) within the Department for Work and Pensions pursues claims on behalf of NHS boards against insurance providers of drivers where an accident has resulted in treatment provided by the board. The board provides details of the treatment a patient receives and the CRU calculate how much is due based on 'tariff rates'.</p> <p>The guidance stipulates that an accrual of income should be disclosed within NHS boards' accounts from the point at which details are processed and split between short and long term debtors. A corresponding bad debt provision should be established to recognise the possibility of rebuttal of claim or non-payment (the CRU recommends a rate of 22.84% is used).</p> <p>The board's 2017/18 RTA income accrual is based on the actual RTA income received in 2017/18 which has been reduced by 8% for potential non-payment. This approach was adopted by the board in 2007/08 following a review by Internal Audit and advice from the CRU at that date. This approach means that the 2017/18 RTA income accrual of £1.761 million is disclosed within the board's accounts as a short term debtor (as it is based on current year income). Therefore, the board is not currently accruing for RTA income receivable in line with the Department of Health's guidance.</p> <p>In order to comply with this guidance, the board would need to obtain access to the government system which provides details of live confirmed claims made by the board for which payment is outstanding.</p>	<p>This issue was discussed with the board who advised that it has recalculated the 2017/18 RTA income accrual using the CRU guidance. The net impact of this would be to decrease the board's 2017/18 reported underspend against the RRL by £31,642. Given that the net impact is not material, the board has decided not to adjust the 2017/18 accounts but will comply with the CRU guidance in 2018/19. We have included this as an unadjusted error in the accounts (see <a href="#">Appendix 3</a>) as while the net impact is not material, applying the CRU guidance means that debtors are understated by £483,084 and the bad debt provision is understated by £514,726.</p> <p> <a href="#">Recommendation 2 (refer appendix 1, action plan)</a></p>
<p><b>4. Endowment Funds</b></p> <p>The Endowment Funds figures included in the 2017/18 group accounts were based on the unaudited financial statements. The Endowment Funds financial statements will be approved by the trustees and external auditor of the Endowment Funds on 27 June 2018. We do not anticipate any material changes to the unaudited figures used in consolidation and the external auditor of the Endowment Funds has raised no significant issues in relation to their audit.</p> <p>In response to concerns with the use of the NHS Tayside endowment fund, the Office of the Scottish Charity Regulator (OSCR) have recently provided a letter to the Scottish Government on the operation of NHS endowment funds. The letter concludes that there are no issues in other NHS endowment funds that would merit further investigation by OSCR. This includes the Lanarkshire endowment fund.</p>	<p>For information only.</p>

## **Good practice in financial reporting**

**24.** The annual report and accounts reflect good practice as set out in Audit Scotland good practice notes.

## **Follow up of prior year recommendations**

**25.** We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).

**26.** In total, 4 agreed actions were raised in 2016/17 and all 4 have been fully implemented.

# Part 2

## Financial management



### Main judgements

**NHS Lanarkshire has effective financial management arrangements in place, supporting the setting and scrutiny of budgets.**

**NHS Lanarkshire met all of its financial targets for 2017/18 and achieved an underspend of £0.381 million against its RRL.**

**NHS Lanarkshire did well to almost fully achieve its savings target of £36.112 million during the year particularly given the level of savings required in 2017/18.**

**Effective internal control systems operated throughout the year.**

### Funding allocations

**27.** 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, for a number of years, received less than its target share of national funding calculated by the NRAC formula. At the start of 2017/18 the Board was reporting a recurring funding gap of £9.503 million. The board's initial 2017/18 funding allocation from the Scottish Government included a £6 million adjustment to the board's RRL to partially address the Board's historic underfunding. This reduced the recurring funding gap to £3.503 million.

**28.** NHS bodies receive allocation letters throughout the year with funding often ring-fenced for specific purposes. Our audit work confirmed that the funding the board received from the Scottish Government throughout 2017/18 has been accounted for in the correct year. The finance report presented to each meeting of the NHS Lanarkshire Board provides details of the board's current RRL and lists each individual change to the funding allocation (RRL) since the previous finance report to the Board. This provides Board members with sufficient detail on the nature of changes to the board's funding allocation as a description is provided for each change to the funding allocation along with the monetary values.

### Financial performance in 2017/18

**29.** 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 2017/18.

## Exhibit 4

### Performance against resource limits in 2017/18

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	1,239.828	1,239.447	0.381
Non-core revenue resource limit	35.715	35.715	-
<b>Total revenue resource limit</b>	<b>1,275.543</b>	<b>1,275.162</b>	<b>0.381</b>
Core capital resource limit	20.733	20.733	-
Non-core capital resource limit	-	-	-
<b>Total capital resource limit</b>	<b>20.733</b>	<b>20.733</b>	<b>-</b>
<b>Cash requirement</b>	<b>1,317.334</b>	<b>1,317.334</b>	<b>-</b>

Source: NHS Lanarkshire Annual Report and Accounts 2017/18

### Underspend against Revenue Resource Limit (RRL)

**30.** NHS Lanarkshire achieved an underspend of £0.381 million (0.03%) against its total 2017/18 RRL of £1,267.892 million. This outturn is consistent with the 2017/18 Local Delivery Plan (LDP) which forecast a breakeven position against its RRL, assuming the total efficiency savings target of £36.112 million would be achieved. This was achieved despite considerable cost pressures and reflects the board's focus on tight financial management. An overspend against the board's Acute Operating Division budget (£4.247 million) was offset by savings against budgets within Other Healthcare Providers (£1.060 million), Corporate Functions (£0.241 million) and Board wide (£3.327 million).

**31.** The largest overspend within the Acute Operating Division was on pay costs being £2.278 million higher than budget (£3.501 million overspend in 2016/17). The majority related to nursing pay costs, with 67% of the nursing overspend attributable to University Hospital Hairmyres, with the remainder spread between trauma and orthopaedics and University Hospital Wishaw.

**32.** All non-pay categories within the Acute Operating Division were overspent against budget apart from drugs and administration supplies. The expenditure on laboratory and theatres supplies was £1.031 million over budget and the board reports that one significant factor in this is an increase in laboratory activity which is estimated at around 5%.

**33.** The largest underspend in relation to Other Healthcare Providers was £1.453 million reported against service level agreements. This arises from fewer Lanarkshire residents requiring access to West of Scotland regional services over a three year rolling average. This was offset by an overspend of £0.654 million against the budget for unplanned and out of area treatment activity. The underspend against the Board wide budget was made up of a number of diverse items.

### Efficiency savings

**34.** NHS Lanarkshire's target for total efficiency savings in 2017/18, based on what was needed to stay within RRL and deliver LDP performance trajectories, was

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

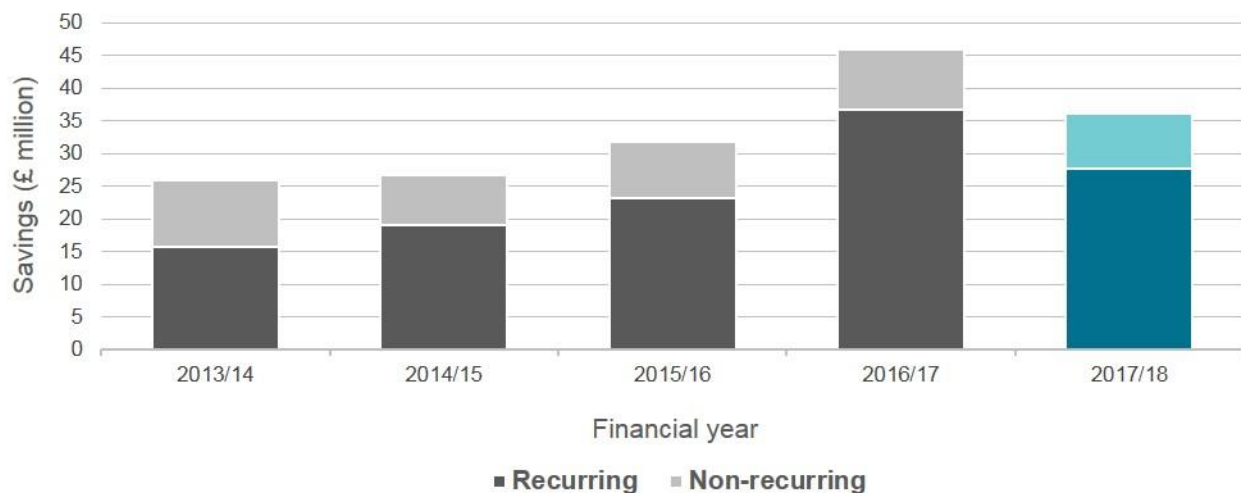
£36.112 million. Savings of this magnitude are unprecedented and the board did well to almost fully achieve its target, making £36.050 million of efficiency savings.

**35.** £27.764 million (77%) of the total efficiency savings achieved were on a recurring basis, with the remainder (£8.286 million) achieved on a non-recurring (one off) basis. Therefore, 23% of the total efficiency savings achieved in 2017/18 were non-recurring (20% in 2016/17).

**36.** As illustrated in [Exhibit 5](#), NHS Lanarkshire has continued to rely on non-recurrent savings in recent years. In our opinion, this situation is not sustainable for the board in the longer term.

## Exhibit 5

### Savings – recurring and non-recurring



Source: NHS Lanarkshire Annual Report & Accounts 2013/14 to 2017/18

## Capital Resource Limit (CRL)

**37.** NHS Lanarkshire received a total capital allocation of £20.733 million in 2017/18, all of which was core allocation. The capital allocation was fully utilised and spent on the theatres/ICU programme at University Monklands Hospital, acute property works, decontamination estates work and medical equipment. The final allocation letter was received on 30 April 2018 and this shows the final adjustment to the board's core capital allocation was made in December 2017. The final spending on the capital programme was reported to the Board in May 2018.

## Budgetary processes

**38.** 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. The budget monitoring reports presented to each Board meeting clearly show the extent of the board's reliance on non-recurring savings and the content and format of the reports allow members to perform their scrutiny role.

**39.** The 2017/18 Internal Audit Annual Report presented to the Audit Committee meeting on 5 June 2018, highlights that the board's financial reporting framework and budgetary control system were assessed as 'Good' which is the highest assurance rating given by internal audit. This means that there is an adequate and

effective system of risk management, control and governance to address risks to the achievement of objectives.

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

### **Systems of internal control**

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

**42.** Our findings were included in an interim audit report presented to the Audit Committee on 6 March 2018. We identified no significant control weaknesses from our 2017/18 interim audit work. We reported that a small number of control weakness reported by us in 2016/17 remain, and as a result we carried out additional audit testing in two specific areas to gain the necessary audit assurances on aspects of the financial statements. 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. As a result we concluded that these weaknesses have not has an impact on the financial statements.

### **ICT controls**

**43.** We reviewed the ICT access controls in relation to the board's main financial system as part of our interim audit work in 2017/18 and identified no significant issues (see paragraph 41).

### **Financial capacity**

**44.** As a result of our interactions with officers, we concluded that NHS Lanarkshire has suitably qualified and experienced officials leading the board's finance team, and there are sufficient financial skills, capacity and capability in the board.



# Part 3

## Financial sustainability



### Main judgements

**NHS Lanarkshire has effective financial planning arrangements in place.**

**NHS Lanarkshire achieved almost all of its savings target in 2017/18 but achieving financial balance in 2018/19 and beyond will be extremely challenging.**

**In the medium to longer term there is considerable uncertainty on the board's financial position due to EU withdrawal and the impact of New Financial Powers on budgets. In the absence of scenario planning or modelling the board will find it difficult to manage its finances effectively.**

**NHS Lanarkshire is finding it difficult to recruit staff and relies on temporary or agency staff to fill gaps. The rising costs of temporary staff are adding to the financial pressures facing the board, although the board has had some success in reducing the number of agency staff used in one of its acute sites.**

### Financial planning

**45.** NHS Lanarkshire's financial plan for 2018/19 was approved at a meeting of the Board in March 2018. The 2018/19 financial plan estimated that the board would start 2018/19 with an estimated £7.247 million recurring funding gap. Historically, the board received less than its target share of funding under the NRAC formula and a parity adjustment in the 2018/19 allocation will reduce this gap to £3.580 million.

**46.** During 2018/19 costs of existing services are now forecast to rise by £47.551 million. The ending of the public sector pay cap will make it more challenging to maintain financial balance and the draft 2018/19 financial plan presented to the Board in March 2018 makes reference to this issue. Specifically, it highlights that, in line with Scottish Government guidance, a planning assumption has been used that additional funding will be received later in the year to cover all but the first 1% of the Agenda for Change (AFC) pay deal once agreed. The board expects to receive £25.310 million of additional income through a 1.5% funding allocation uplift and central funding towards the Agenda for Change pay deal.

**47.** To operate within available resources the board needs to achieve £25.821 million of efficiency savings. As at March 2018, deliverable efficiency savings plans totalling £20.436 million had been identified, leaving a gap of £5.385 million of efficiencies still to be identified. This shows that the board is facing an extremely challenging financial position for this year.

**48.** Efficiency savings play a crucial part in filling funding gaps. NHS Lanarkshire needs to achieve efficiency savings of 2.2% of baseline RRL (£1,173.6 million) in 2018/19. This is equivalent to a saving of £25.821 million with the majority (69%) planned to be on a recurring basis. £3.676 million of the total savings required are to be delivered by the North Lanarkshire and South Lanarkshire IJBs. In addition, £5.385 million of the total efficiency savings required have yet to be identified for

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

2018/19. Of the £20.436 million savings identified to date, £1.344 million are considered high risk and may not materialise.



### Recommendation 3

#### **The board should ensure that savings plans are developed identifying how the £5.385 million of savings in 2018/19 will be made.**

**49.** Following confirmation of its 2018/19 funding allocation, the board's draft 2018/19 annual operational plan (AOP) was presented to the Board in May 2018 and the covering paper highlights that the draft 2018/19 AOP was submitted to the SGHSCD at the end of February 2018. The board is awaiting feedback on the draft AOP from the SGHSCD in order to agree and sign-off a final AOP for 2018/19. The financial plan also notes that the SGHSCD intends health boards to move to a more regional approach in future years.

### EU withdrawal

**50.** There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

**51.** The board is awaiting guidance from the Scottish Government in respect of the impact of EU withdrawal.

### Uncertainties delaying longer term financial planning

**52.** Due to the uncertainty around EU withdrawal and New Financial Powers likely to be introduced for the 2019/20 Scottish budget, the board has not produced a financial plan beyond 2018/19.

**53.** In addition, the board is of the view that it is more realistic to wait until the national and regional financial frameworks are published, to provide clarity around some important areas including:

- There has only been a one year (2018/19) settlement and no indication of future years assumptions from the Scottish Government
- The pay deal for 2018/19 and the next 2 years is still under negotiation and could have various new features (e.g. changes to pay bands or to terms and conditions)
- The funding for the pay deal is not yet known. There is an assumption that consequential will be funded by the UK Government but, to the extent England uses productivity, money won't flow. Although the board has been told to assume any rise over 1% will be funded, there is still uncertainty around how this will balance out in 2018/19 and more uncertainty in respect of future years

- The GMS contract represents a major change. Some details are still unclear as to how they will practically be enacted (e.g. loans for premises) and the funding the board is due to receive for this and mental health has to date (late May 2018) not been notified to the board
- Waiting times funding is uncertain. The board was told to rely on 6 months funding at the same level as the previous year (2017/18) with the final 6 months funding to be confirmed at a later date. The board is of the view that funding will be less than anticipated
- The board does not yet know how the £126 million transformation fund will be deployed by the Scottish Government (other than that around £50 million will be used to support waiting times).

**54.** The board intends to start developing medium term financial plans from 2019/20 onwards later in 2018 when the longer term planning framework should be clearer. The board should ensure that its medium term financial plans include scenario planning or modelling.



#### Recommendation 4

**The board should develop a medium to long term financial plan from 2019/20 as soon as the Scottish Government's funding plans are clearer and ensure that this plan includes scenario planning or modelling (e.g. impact of EU withdrawal).**

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### Workforce planning

**55.** In July 2017 the Auditor General for Scotland published a data briefing on Scotland's NHS Workforce Planning. 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.

**56.** NHS Lanarkshire is facing a number of workforce challenges including on-going issues with medical staffing availability and an ageing workforce. At 31 March 2017 almost 39% 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 NHS Lanarkshire Workforce Plan 2017-2020 was approved by the Board in August 2017 and recognises the risks and implications of an ageing workforce and sets out the board's plans for the future model of its workforce.

**57.** The workforce plan recognises that the board's future workforce must be based on a robust availability, adaptability and affordability model. In order to address these workforce challenges, the board continues to develop and implement an annual Everyone Matters: 2020 Workforce Vision Implementation Plan.

**58.** The 2017/18 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.

**59.** Also, NHS Lanarkshire is facing significant challenges in recruiting and retaining staff with turnover rates increasing (6.3% at March 2013 to 8.4% at March 2017). Medical staffing continues to present a challenge for recruitment. The board

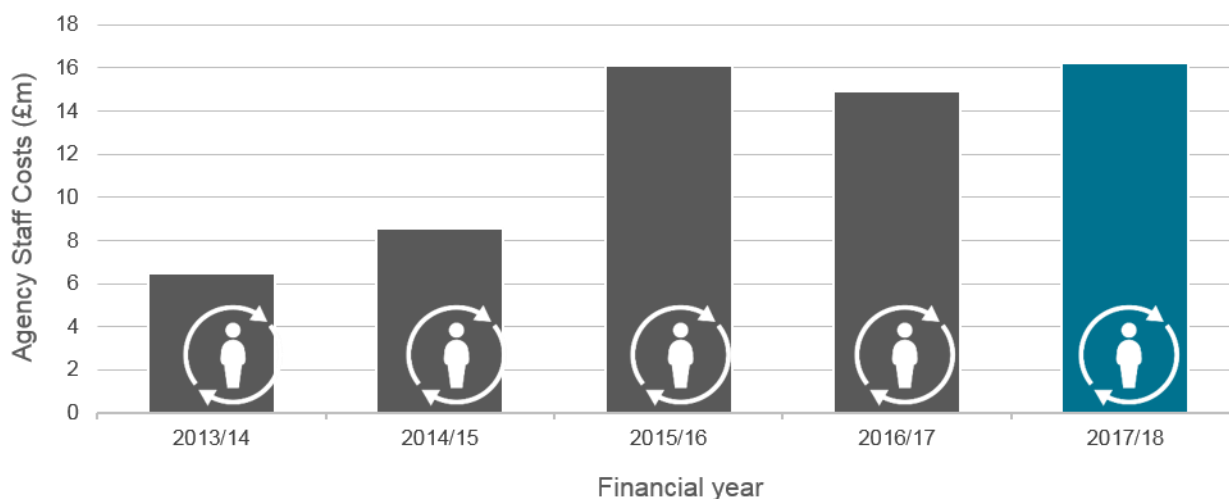
has been successful in recruiting for consultant vacancies in paediatrics, orthopaedics, anaesthetics, ophthalmology, care of the elderly, acute medicine, general surgery, breast surgery, urology and Rheumatology. However, the board has been unsuccessful in filling vacancies in neonatology, histopathology and dermatology.

**60.** There are also some recruitment challenges within nursing. Although there has been a high volume of Band 5 acute nursing vacancies in recent years (around 400 in 2015), the majority have been successfully filled. In 2016 the board also proactively recruited 96 acute adult nurses. Despite this, there were still vacancies in this area at the start of 2017/18.

**61.** As a result of recruitment retention problems and pressures to meet waiting time targets, expenditure on agency staff has increased over the last five years (with the exception of a slight reduction in 2016/17) as illustrated in [Exhibit 6](#). Although agency staff provide flexibility in the short term it comes at a cost and can impact on the quality of care. Spending on agency staff by NHS Lanarkshire as a proportion of total staff costs has increased from 1.4% in 2013/14 to 3.2% in 2017/18.

## Exhibit 6

### Agency staff costs



Source: NHS Lanarkshire Annual Report & Accounts 2013/14 to 2017/18

**62.** The increasing use of agency staff, that can cost significantly more than permanent staff, is putting pressure on the board's budget. Although the board has taken measures to reduce its reliance on agency staff, agency staff costs increased from £14.952 million in 2016/17 to £16.219 million in 2017/18. The board is continuing to look at ways of reducing its reliance on agency staff. As part of this year's audit we carried out a review of the Board's use of temporary staff. The results are summarised in Part 5 of this report on Value for Money.

**63.** 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. As at March 2018 the sickness absence rate was 5.6% compared to 5.5% at March 2017. As part of our review of temporary staffing, we identified that action is being taken by the board to address this issue, including return to work interviews being held by a senior member of staff to ensure a higher profile of sickness absence monitoring and managers are being encouraged to challenge frequent absences.

# Part 4

## Governance and transparency



### Main judgements

**NHS Lanarkshire has effective governance arrangements in place that support good governance and accountability. Board members provide effective challenge and scrutiny on the board's performance.**

**NHS Lanarkshire is open and transparent in the way it conducts its business but it could enhance this with more meetings being held in public.**

**Our view is that, the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS). An independent evaluation of the service is required by the standards and is currently ongoing.**

**The board has made good progress on planning for and implementing the GDPR requirements.**

**In 2017 NHS Lanarkshire experienced two cyber attacks which caused disruption to services. In response IT security has been strengthened. The board is now seeking Cyber Essentials accreditation to provide reassurance over the security arrangements.**

### Governance arrangements

**64.** 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.

**65.** We concluded that the board's arrangements are appropriate and adequate in that they support good governance and accountability. Board members provide adequate scrutiny and challenge at regular bi-monthly meetings to ensure the Board's performance is effectively reviewed.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

## Transparency

**66.** Transparency means that the public, 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.

**67.** 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.

**68.** 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.

**69.** The board received a total of 1,383 complaints between April and September 2017 (717 Stage 1 complaints, 666 Stage 2 complaints). 99% of the complaints received by the board during this period were acknowledged within the national target of 3 working days. In addition, the board replied to 92% of the complaints received within the national target of 20 working days which compares well against the latest national figure of 72% for 2016/17.

**70.** 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).



### Recommendation 5

**The board should consider holding more committee meetings in public in order to increase openness and transparency.**

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## Internal audit

**71.** 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 reviewed the board's internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors), to determine the extent we could rely on the work of internal audit. Overall, we concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**72.** The one area of non compliance relates to the requirement for an external quality assessment of internal audit's compliance with the PSIAS at least once every five years. An external quality review of the board's internal audit function is currently being carried out by a retired Chief Officer Audit & Risk of Scottish Borders Council. The results of this review will be reported to the Audit Committee in the coming months. The results of this review will be considered by us in 2018/19.

**73.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2017/18 we placed formal reliance on internal audit's review of key controls through their work on financial process compliance and service contract expenditure. We also considered internal audit report findings as part of our wider dimension work. The internal audit plan for 2017/18 was substantially complete at the year end, with only two draft audit reports to be finalised in June 2018.

## Governance statement

**74.** Our review of the governance statement assessed the assurances which are provided to the Chief Executive as Accountable Officer regarding the adequacy and effectiveness of the board's system of internal control which operated in the financial year.

**75.** A number of risks graded as very high are set out in the governance statement. These include issues such as the sustainability of GP services, achievement of the required level of efficiency savings to close the gap between income growth and rising costs and the ability of the board to prevent malicious cyber attacks. Within the risks graded as high there are risks relating to the ability to maintain unscheduled and planned care access targets and other LDP standards, the board's ability to recruit and retain sufficient clinical staff, community bed modelling and compliance with new legislation in relation to Duty of Candour and GDPR. The sustainability of the Out of Hours (OOH) services and the sustainability of cost effective prescribing are also graded as high. The statement also summarises internal audit findings and key reports issued in the year, with internal audit's annual report concluding that the board had adequate and effective internal controls in place during 2017/18.

**76.** We are satisfied that the information in the governance statement is consistent with information gathered during the course of our audit work.

## Quality of financial and performance reporting

**77.** As highlighted in paragraph 40, we concluded that NHS Lanarkshire has appropriate budgetary monitoring and control arrangements that support effective scrutiny and challenge of the board's finances by both members and officers. The board's performance management framework is detailed in Part 5 (Value for money) of this report, which highlights that the board has an effective performance management framework in place which supports continuous improvement.

## National Fraud Initiative

**78.** 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 irregularity.

**79.** NFI activity is summarised in [Exhibit 7](#) and highlights that the board has made excellent progress in investigating 100% of those matches issued to the board that were recommended for investigation.

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## Exhibit 7

### NFI activity



4,663

Matches



486

Recommended  
for investigation



486

Completed/closed  
investigations

**80.** The results of NFI activity are reported regularly to the Audit Committee by the Head of Internal Audit. The Head of Internal Audit reported to the Audit Committee in March 2018 that, as a result of NFI activity, six duplicate supplier invoices amounting to almost £38,000 had been identified and these had either been deducted from subsequent payments to suppliers or credit notes received.

**81.** We concluded that the board is proactive in investigating matches and reporting the outcomes of NFI activity.

## **Standards of conduct and arrangements for the prevention and detection of fraud and error**

**82.** The board has a range of established procedures in place designed to maintain standards of conduct, prevent and detect bribery and corruption and prevent and detect of fraud and error. These include codes of conduct for members and officers, a whistleblowing policy, a fraud, theft, bribery and corruption policy and response plan. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

**83.** We concluded that the board has appropriate arrangements in place for the prevention and detection of bribery and corruption and has adequate arrangements in place for fraud detection and prevention. We are not aware of any specific issues we require to bring to your attention.

## **Cyber security**

**84.** The Scottish Government issued a Public Sector Action Plan (PSAP) on Cyber Resilience in November 2017 which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

**85.** As part of the PSAP public bodies are encouraged to achieve Cyber Essentials or Cyber Essential Plus accreditation by 31 October 2018. Following a pre-assessment undertaken in early 2018, NHS Lanarkshire has taken the decision that they will be seeking Cyber Essentials accreditation. Cyber Essentials is a set of cyber security standards covering the management and operation of IT systems and services. Accreditation is obtained by performing a self-assessment against the critical criteria which is then independently reviewed by an external certifying body.

**86.** In 2017 NHS Lanarkshire experienced two high profile cyber attacks which caused disruption to services. In response to this, we reviewed the action taken to strengthen IT and cyber security arrangements within the board. We found that the board has now strengthened its arrangements around IT security through a number of measures. These include:

- Service restructure to better align skills and expertise with business need
- Establishing risk committees in respect of Infrastructure, Information and IT Security
- Inclusion of the risk of a cyber attack on the corporate risk register along with mitigating actions
- Developing a Cyber Security Plan and Disaster Recovery pack
- Improved arrangements for applying software patches
- Increased staffing levels within the service.



## General Data Protection Regulation

**87.** The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. All EU member states have to implement the Regulation in the same way. The GDPR has introduced new and significantly changed data protection concepts.

**88.** The GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and decisions taken by automated processes. Failure to comply with the new GDPR data handling arrangements could result in the board incurring significant fines.

**89.** A report was presented to the Board in March 2018 and provided an update on the board's preparedness for complying with the GDPR. The report highlighted that an action plan in relation to the GDPR was devised and presented, discussed and endorsed at the Information Governance Committee in November 2017. The progress of this action plan is reported to meetings of the Corporate Management Team (CMT) and Board.

**90.** The report also highlighted that the CMT acknowledged that the scope of implementation and ongoing compliance tasks associated with the GDPR could not be carried out using the current resources allocated to information governance, and agreed to allocate £0.113 million additional budgeted expenditure in 2018/19 to implement the GDPR requirements (which was also reported to the Board in January 2018).

**91.** At the start of June 2018 the board's GDPR status report highlighted that, of the eleven GDPR working groups tasked with implementing GDPR requirements, only three working groups still had work to complete. We have concluded that the board has made good progress on planning for and implementing the GDPR requirements.

## Health and social care

**92.** There are two Integration Joint Boards (IJBs) within NHS Lanarkshire's catchment area which have now been operational for two years. These IJBs are commonly known as South Lanarkshire Health & Social Care Partnership and Health & Social Care North Lanarkshire.

**93.** The board received the relevant financial information it needed for its financial statements from both IJBs in mid-May 2018. As the board's draft 2017/18 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.

**94.** 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.

**95.** An area where new ways of working that promote integration has occurred across Lanarkshire relates to delayed discharges:

- In North Lanarkshire IJB, there was a change in process within the delayed discharge team (which comprises co-located nursing and social services staff) at University Hospital Monklands and we have been told that staff have found this to be very helpful. Previously, each patient was assigned their own social work officer and could only access home care services through this officer which could lead to bottlenecks in the process. Criteria were developed and if the need was not complex the case could go to a central

co-ordination point to be arranged which has helped to speed up the process.

- In South Lanarkshire IJB better integrated working across professions and staff groups has had a visible impact, as the number of bed days occupied by delayed discharges decreased significantly in the final four months of 2017/18 (see [Exhibit 10](#)).

**96.** The IJBs face financial challenges in the future as well as service delivery challenges from the new landscape. 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 Autumn 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.

### **Review of the North Lanarkshire IJB strategic plan**

**97.** The Care Inspectorate and Healthcare Improvement Scotland were asked by Scottish Ministers to report on the effectiveness of strategic plans prepared by integration authorities from April 2017 supported by inspections in each relevant authority area. North Lanarkshire IJB (HSCNL) was the first integration authority in Scotland to be inspected.

**98.** The inspection took place between May and August 2017 and included a review of strategic plans and an overview of delivery against national targets. The inspection team held a series of meetings over a two week period with over 250 members of staff, partners and stakeholders ranging from the Chief Accountable Officer and senior leadership team to elected members, IJB Board members and frontline staff.

**99.** The inspection report was published in February 2018 and identified a number of strengths as well as areas for improvement. The findings of the inspection report were presented to a meeting of the Board in March 2018 by the Chief Accountable Officer of HSCNL. HSCNL is taking forward the areas identified for improvement in partnership with NHS Lanarkshire and North Lanarkshire Council.

# Part 5

## Value for money



### Main judgements

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

**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.**

**Our review of the board's use of temporary staff identified that the board has mechanisms in place to monitor and challenge the use of temporary staff at all levels. However, there is limited evidence that good practice in the management of temporary staff is being shared across the three acute sites.**

**The board and its IJB partners are proactively taking forward the recommendations in our 2016/17 review of delayed discharges report.**

### Best value

**100.** During 2017/18 the board carried out a review of its arrangements to secure Best Value across the seven characteristics set out in guidance issued to Accountable Officers by the Scottish Government. The primary focus of the review was to look at the strategy, policy or assurance mechanism that the Board or its committees have in place to ensure the expected feature of Best Value is delivered.

**101.** The previous Best Value review was presented to the Audit Committee in June 2015. On 1 April 2016 the IJBs became operational and this has been reflected in the updated review presented to the Audit Committee in May 2018. The 2018 review ensured that the latest position in relation to board policies, legislative changes and governance arrangements has been considered. The board now intends to formally review its arrangements for securing Best Value every three years with annual update reviews to reflect any changes to board arrangements in the interim.

### 2020 Vision

**102.** 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 vision for health and social care is that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. The board has 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. The board's healthcare strategy, 'Achieving Excellence' builds on this and was approved by the Cabinet Secretary in April 2017.

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

**103.** The board's Transforming Patient Safety and Quality of Care Strategy Implementation Plan for 2017/18 was approved by the Healthcare Quality Assurance and Improvement Committee in July 2017 and supports the on-going implementation of A Healthier Future 2012-2020. The progress of this implementation plan 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. In May 2018 the Board approved NHS Lanarkshire's Quality Strategy 2018-2023: The Quality Approach to Achieving Excellence, which replaces the board's Transforming Patient Safety and Quality of Care Strategy 2014-2017.

**104.** 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.

## Shared services

**105.** 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 health boards is vital if the Scottish Government is to achieve the overall ambitions of the 2020 vision. In 2015, the Scottish Government established a transformational programme board including senior representatives from NHS boards to try provide greater coordination across boards and various healthcare programme and initiatives.

## Performance management

**106.** The Scottish Government monitors how NHS Lanarkshire performs against the 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.

**107.** 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.

**108.** 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 2017/18) 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.

**109.** 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.

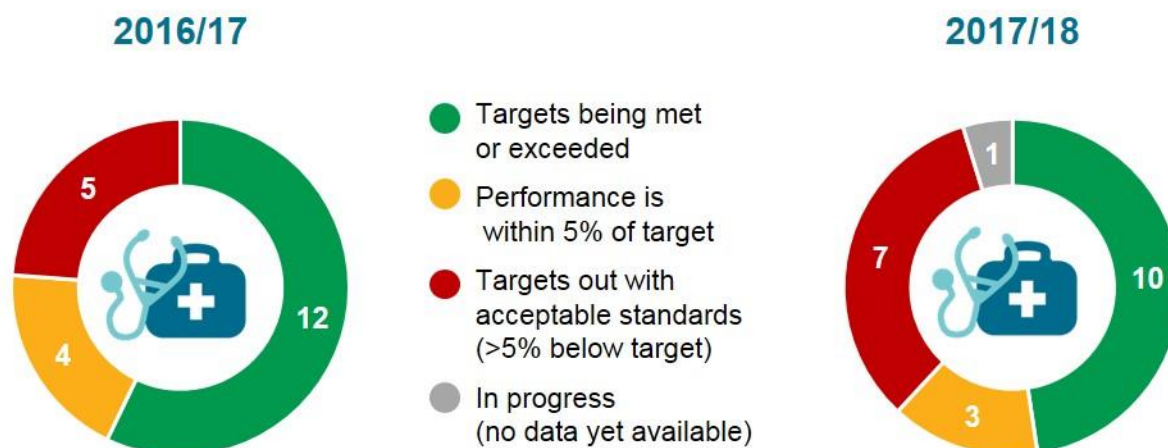
**110.** We concluded that NHS Lanarkshire has an effective performance management framework in place. This helps the board to continually challenge and improve how it delivers services.

## Overview of service performance

**111.** The board's performance against its 21 LDP Standards as reported in the 2017/18 annual report and accounts, and based on the most up-to-date position at the end of March 2018 (where data available) is summarised in [Exhibit 8](#).

## Exhibit 8

### Overall performance against LDP standards






Source: NHS Lanarkshire Annual Report & Accounts 2017/18



**112.** Overall, NHS Lanarkshire performs well with the majority of targets categorised as green or amber. However, there are 7 targets that are outwith acceptable standards (categorised as red) in 2017/18 and more details on these are provided in [Exhibit 9](#). The number of targets categorised as red has increased from 5 in 2016/17 which indicates slippage in performance.

## Exhibit 9

### Performance against key LDP standards

Target/standard	Performance at March 2018 <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% ● 62.6%	A major review of the totality of ophthalmology services took place in 2017 resulting in a service redesign with significant investment in the nurse injectors and optometrists resource. This was further supplemented by additional consultant capacity agreed later in 2017. The service delivered an increased number of elective procedures in 2017/18 but the increase is not yet enough to keep pace with the increased demand and focus on getting the maximum benefit from the service redesign needs to continue.
<b>Primary Care – Advance Booking</b> Proportion of patients able to book an appointment with a GP three or more working days in advance.	90% ● 59%	Boards across Scotland are in the process of implementing a new GMS contract. Due to gaps in GP provision, many GPs have introduced same day triage.  As a result of this, these practices have very little access to advance

Target/standard	Performance at March 2018 <sup>1</sup>	Action being taken by Board
		<p>booking. Although the board is working alongside practices to provide a range of supporting services, the board cannot stop GP practices operating in this way.</p>
<p><b>18 weeks Referral to Treatment (RTT) –CAMHS</b></p>	<p>85%  73.6%</p>	<p>Management plans are being implemented to bring performance levels for the RTT CAMHS target to 90% by November 2018. Remedial actions include proactive vacancy management and recruitment to all vacancies within the service, introduction of Psychology of Positive Parenting Programme (PoPP) which will reduce referrals to the CAMHS waiting list and continued delivery of waiting list initiatives.</p>
<p><b>18 weeks Referral to Treatment (RTT) – Psychological Therapies</b></p> <p>Percentage of patients seen and treated within 18 weeks from initial referral.</p>	<p>85%  79.7%</p>	
		<p>Management plans are in place to bring performance levels for the RTT Psychological Therapies target back to 90% by September 2018. Remedial actions include rolling out improvement initiatives focusing on first appointment attendance, through the use of guided self-referrals and text-based appointment reminders and ensuring group-based interventions are in place in every locality, including, stress control anxiety management, mindfulness, and other more focused groups to ensure patients receive the most appropriate intervention.</p>
<p><b>Staphylococcus Aureus Bacteraemia (SABs)</b></p> <p>Rate of SABs per 1,000 total occupied bed days.</p>	<p>&lt;0.24  0.38</p>	<p>Despite not achieving the target, there was an 11% reduction in the number of SAB cases (both community and hospital acquisitions) in NHS Lanarkshire. Since August 2017, the Infection Prevention &amp; Control Team (IPCT) has completed SAB multi-disciplinary reviews for patients with a SAB noted on the death certificate. Clinical teams are involved and the outcomes/lessons learned/actions from each review. A 10% reduction in Healthcare Associated Infections (HCAI) was achieved between April 2017 to March 2018.</p>

Target/standard	Performance at March 2018 <sup>1</sup>	Action being taken by Board
<p><b>Unscheduled Care – 4 Hour Compliance (A&amp;E)</b></p> <p>Percentage of patients attending A&amp;E departments to wait less than 4 hours from arrival to admission, discharge or transfer for accident and emergency treatment.</p>	<p>95%  90%</p>	<p>A number of specific actions have been progressed to improve performance including workforce redesign solutions and improvements in flow across the acute care delivery system to health and social care. Each acute site has a detailed plan against the 6 essential actions for unscheduled care which has resulted in sustained improvement over the last 3 years. There have been some specific challenges over winter 2017/18 in relation to influenza and bad weather.</p>
<p><b>Early Detection of Cancer</b></p> <p>Achieve a 25% increase in the percentage of breast, colorectal and lung cancer cases that were diagnosed at stage 1 between 2010/11 and 2014/15.</p>	<p>29.9% by Dec 2015  25.5% at Dec 2016</p>	<p>At December 2016 the board was achieving 25.5%, a reduction on the previous year's 25.7%. The board's priority is to maximise informed participation in all of the cancer screening programmes with a particular focus on addressing inequalities in participation. A Screening Plan has been developed with a health improvement lead identified for each of the tumour groups which details a raft of actions to be carried out within IJB areas with specified outcomes. Best practice standards for each of the cancer screening programmes are in the process of being prepared. The board has received funding from the SG for 4 projects aimed at tackling inequalities in early detection.</p>

Note 1: Figures still to be validated by NHS Information Services Division. Where March 2018 data is not yet available, the most recent data is used.

Source: NHS Lanarkshire Quarterly LDP Progress Report – Quarter 4 2017/18 and NHS Lanarkshire Annual Report & Accounts 2017/18

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

## Local performance studies

### Review of temporary staffing

**114.** As noted earlier, the board is continuing to look at ways of reducing its reliance on temporary staff. As part of our audit we reviewed the board's arrangements for using temporary staff and identified a number of areas where improvements could be made. Our draft report was issued to the board in May 2018. The board is considering the recommendations in the report, prior to providing a management response to the points raised.

**115.** Although our review identified areas of good practice in the use of temporary staff, we identified a number of areas where improvements could be made. Overall the board has appropriate mechanisms in place to monitor and challenge the use of temporary staff at ward level, site level and senior management level. However, our review found that there is limited evidence that good practice in the management of temporary staff is being identified at a high level and shared across the three acute sites.



### Recommendation 6

**The board should ensure action is taken to address the recommendations made in the Review of Temporary Staffing report.**

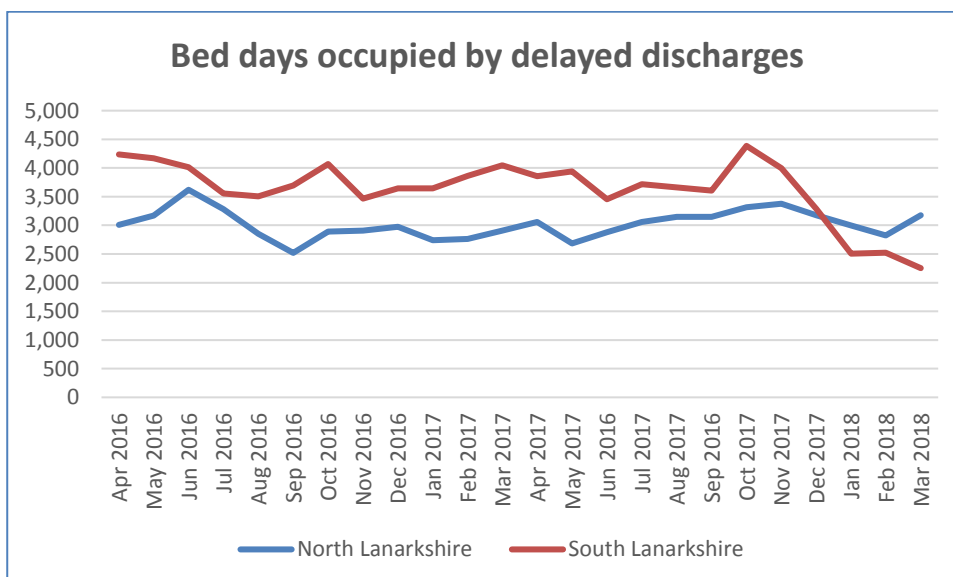
### Overview of delayed discharges

**116.** As part of our 2016/17 audit we reported on 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 final report was issued to the board in September 2017 with an action plan that had been agreed by the board and its' IJB partners.

**117.** During 2017/18 we followed up our delayed discharges report to assess the progress being made by the board and IJBs in taking forward our recommendations. Overall, we are of the view that the recommendations in our report are being taken forward proactively by the board and its IJB partners. Where these have not yet been fully implemented there are definite steps in place to advance the recommendations and this is being done on an IJB wide basis. In particular, we noted that South Lanarkshire IJB are showing signs of improved performance which is reflected in [Exhibit 10](#) and [Exhibit 11](#). In addition, we acknowledge that North Lanarkshire IJB has taken decisions to address the recommendations in our report but it is too early to assess the impact of these as they are not yet fully embedded.

## Exhibit 10

### Delayed discharges – bed days occupied

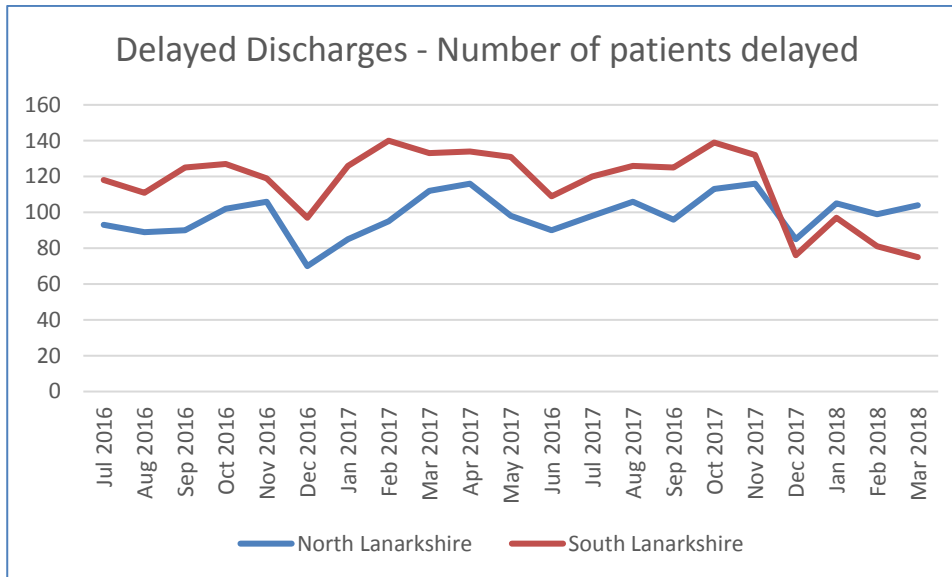


Source: ISD



## Exhibit 11

### Delayed discharges – number of patients delayed



Source: ISD

**118.** The board and its' IJB partners should continue to take forward the recommendations in our report and monitor the impact in this area. We will report a further update in 2018/19.

### National performance audit reports

**119.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 a number of reports were published which are of direct interest to the board and are highlighted in [Appendix 4](#).

**120.** 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 2017/18

### 2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Submission of annual report and accounts for audit</b></p> <p>The delays in receiving key sections of the 2017/18 annual report and accounts impacted on the flow of the audit and resulted in a bottleneck of audit work at the completion stage.</p> <p><b>Risk</b></p> <p>The 2018/19 annual report and accounts are not audited by the statutory deadline of 30 June 2019.</p>	<p>The board should review its process for the submission of the 2018/19 annual report and accounts for audit.</p> <p><a href="#">Paragraph 15</a></p>	<p>The board will identify any areas where it can pull back the timetable for producing the information and where the delay is linked to external data becoming available, the board will agree how this delay will be handled at the interim stage of the audit.</p> <p>Director of Finance</p> <p>March 2019</p>
2	<p><b>RTA debtor</b></p> <p>The board does not currently calculate its RTA income accrual in line with guidance issued by the Department of Health in relation to the NHS Injury Cost Recovery Scheme.</p> <p><b>Risk</b></p> <p>The debtor position and bad debt provision within the financial statements is misstated.</p>	<p>The board should ensure that the RTA income accrual is calculated and disclosed in the 2018/19 financial statements in accordance with the relevant guidance.</p> <p><a href="#">Exhibit 3</a></p>	<p>The RTA income accrual will be calculated in line with the guidance in 2018/19.</p> <p>Head of Finance, Corporate Services</p> <p>March 2019</p>
3	<p><b>Efficiency savings</b></p> <p>For 2018/19 the board is required to deliver 2.2% (£25.821 million) savings. The board has yet to identify £5.385 million of the savings required for next year. Of those savings identified to date, £1.344 million are considered high risk and may not materialise.</p> <p><b>Risk</b></p>	<p>The board should ensure that saving plans are developed identifying how the £5.385 million of savings in 2018/19 will be made.</p> <p><a href="#">Paragraph 48</a></p>	<p>This will continue to be a high priority and progress will be regularly reported to the Board and Audit Committee.</p> <p>Director of Finance</p> <p>Ongoing with target of resolution by October 2018</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	The board may not be able to deliver the targeted savings in 2018/19.		
4	<p><b>Medium to long term financial plans</b></p> <p>The board has yet to develop a medium to long term financial plan which identifies potential risks and ensures spending decisions are affordable. Such a plan should include a range of scenarios to ensure the board is prepared for different levels of funding and income.</p> <p><b>Risk</b></p> <p>The board is not planning adequately over the medium to long term to manage or respond to significant financial risks.</p>	<p>The board should develop a medium to long term financial plan from 2019/20 as soon as the Scottish Government's funding plans are clearer and ensure that this plan includes scenario planning or modelling (e.g. impact of EU withdrawal).</p> <p><a href="#">Paragraph 54</a></p>	<p>Agreed.</p> <p>Director of Finance</p> <p>October 2018</p>
5	<p><b>Openness and transparency</b></p> <p>At present, committee meetings are not held in public.</p> <p><b>Risk</b></p> <p>The board may not be fully transparent in the decisions it takes which may affect public perceptions of the board.</p>	<p>The board should consider holding more committee meetings in public in order to increase openness and transparency</p> <p><a href="#">Paragraph 70</a></p>	<p>The Board remains committed to taking decisions in public and ensuring there is appropriate engagement and consultation in the run up to these decisions. Governance committee minutes will also continue to be reported publicly. With governance committees the Board continues to look for ways of meaningfully expanding input by having internal and external stakeholder representation on its committees, e.g. public representatives at Acute Governance Committee, external stakeholders on the Healthcare Quality Assurance and Improvement Governance Committee, Area Partnership Forum and Area Clinical Forum representation at committees, Internal and External Audit at the Audit Committee. Consideration will be given to whether a wider range of papers should be routinely posted on the web site. Work is also underway to develop a new webpage for the board and its activities.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
			Board Chair November 2018
6	<p><b>Review of temporary staffing</b></p> <p>The Review of Temporary Staffing report made a number of recommendations for improvement for the board to take forward.</p> <p><b>Risk</b></p> <p>Temporary staff costs increase creating further cost pressures on the board's budget.</p>	<p>The board should ensure action is taken to address the recommendations made in the Review of Temporary Staffing report.</p> <p><a href="#">Paragraph 115</a></p>	<p>The report's recommendations will be considered in full and actions agreed where it is felt practical measures can be put in place.</p> <p>Director Of HR/Director of Acute Services</p> <p>October 2018</p>

### Follow up of prior year recommendations

b/f	<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>Fully implemented.</p> <p>The board contacted the Hub company during 2017/18 and obtained all of the information required to ensure accounting treatment in 2017/18 was correct.</p>
b/f	<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>Achieved.</p> <p>£27.764 million (77%) of the total efficiency savings achieved in 2017/18 of £36.050 million were on a recurring basis, with the remainder (£8.286 million) achieved on a non-recurring basis. The board has reported an underspend of £0.381 million against the total RRL in 2017/18.</p> <p>Updated position reflected in action plan point 3 above.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f	<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 upon safe and effective patient care.</p> <p><b>Risk</b></p> <p>The board may be subject to future cyber attacks.</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 and reduce the risk of future cyber attacks taking place.</p>	<p>In progress.</p> <p>The findings of SAER report were published and reported to the Board in October 2017 and included 27 recommendations which were converted in to an action plan which is being managed by the General Manager, e-Health. An update report was presented to the April 2018 meeting of the PPRC which highlighted that 23 actions have been completed with 4 actions in progress.</p> <p>See update at paragraph 84.</p>
b/f	<p><b>4. Review of delayed discharges</b></p> <p>The Review of Delayed Discharges report made a number of recommendations for improvement for the board to take forward with its IJB partners.</p> <p><b>Risk</b></p> <p>Performance in relation to delayed discharges may deteriorate and negatively impact upon patient care.</p>	<p>The board should agree management responses with the IJBs to the recommendations made in the Review of Delayed Discharges report.</p>	<p>Implemented.</p> <p>The board agreed management responses with its IJB partners and reported these back to external audit and the Audit Committee in September 2017 to allow the final version of the report to be issued.</p> <p>See update at paragraph 117.</p>

# 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 consideration of 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>Reviewed significant management estimates and evaluated the impact of any variability in key assumptions.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluated significant transactions that were outside the normal course of business.</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 a significant amount of income from other 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.</p>	<p>Performed analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing 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 coverage.</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 (CFS).</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 the work of CFS in relation to the board and no significant issues have been highlighted.</p>
<p><b>4 Management's assessment of fraud risk</b></p>	<p>Reviewed the following updated fraud risk registers presented to the June 2018</p>	<p>We concluded that the updated Financial Governance fraud risk register provides an adequate</p>

Audit risk	Assurance procedure	Results and conclusions
<p>ISA 240 requires auditors to review management's assessment that there may be material misstatements in the financial statements due to fraud. While we recognise that the board has effective arrangements in place in terms of reporting, recognising and responding to fraud, management should undertake a formal assessment of the risk of fraud to the board's financial statements.</p> <p>There is a risk that management do not have a clear view of where fraud may impact on the financial statements of the board.</p>	<p>meeting of the Audit Committee:</p> <ul style="list-style-type: none"> <li>• Governance, Leadership &amp; Information</li> <li>• Staff Governance &amp; Human Resources</li> <li>• Financial Governance.</li> </ul>	<p>assessment by management that there may be material misstatements in the financial statements due to fraud.</p>
<p><b>5 Estimation and judgements</b></p> <p>There is a significant 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 and non-current asset valuations.</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>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 2017/18 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 2018/19.</p>	<p>Not Applicable – the implementation of the RAM system was delayed until 2018/19.</p>

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

<p><b>7 Cyber security</b></p> <p>In 2017 the board experienced outages due to two cyber attacks which impacted on services. The board took action to learn lessons from the attacks and implement</p>	<p>Reviewed the board's cyber security arrangements and the actions taken by the board in response to the SAER.</p>	<p>We concluded that the board is actively strengthening its cyber resilience arrangements. Following a pre-assessment undertaken in early 2018, the board has taken a decision to seek Cyber Essentials accreditation.</p>
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Audit risk	Assurance procedure	Results and conclusions
<p>measures to mitigate the risk of future attacks.</p> <p>There is a risk that the board does not have adequate arrangements in place to prevent future attacks.</p>		<p>The findings of SAER report were published and reported to the Board in October 2017 and included 27 recommendations which were converted in to an action plan which is being managed by the General Manager, e-Health. An update report was presented to the April 2018 meeting of the PPRC which highlighted that 23 actions have been completed with 4 actions in progress.</p> <p>See report paragraph 84.</p>

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# Appendix 3

## Summary of uncorrected misstatements

**We report all uncorrected misstatements that are individually greater than our reporting threshold of £100,000.**

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Operating Income		(483)		
	Accrued Income			483	
	Other Operating Expenditure	515			
	Bad Debt Provision				(515)
2	Other Operating Expenditure		(104)		
	Holiday Pay Accrual			104	
<b>Net impact</b>		<b>515</b>	<b>(587)</b>	<b>587</b>	<b>(515)</b>











Notes:

- Entry 1 relates to an error in the calculation of the 2017/18 RTA debtor the net effect of which is that other operating expenditure and the bad debt provision are understated by £32,000. See Exhibit 3 for more details.
- Entry 2 relates to errors identified in the calculation of the 2017/18 untaken annual leave accrual the net effect of which is that the untaken annual leave accrual and other operating expenditure are overstated by £104,000.

# Appendix 4

## Summary of national performance reports 2017/18



		2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

### NHS relevant reports

[NHS workforce planning](#) – July 2017

[Self-directed support: 2017 progress report](#) – August 2017

[NHS in Scotland 2017](#) – October 2017

# NHS Lanarkshire

## 2017/18 Annual Audit Report

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