

# NHS Lanarkshire

2019/20 Annual Audit Report



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

26 August 2020

## 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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## 2019/20 annual report and accounts

- 1 The financial statements of NHS Lanarkshire give a true and fair view of the state of affairs of the board as at 31 March 2020 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.
- 2 The board has valued its assets on an appropriate basis and using information provided by professional valuers. The audit opinion includes an emphasis of matter paragraph to draw attention to the board's disclosure of material uncertainty in the valuation of the board's property assets due to the impact of Covid-19 on global markets.
- 3 The global coronavirus pandemic, Covid-19, impacted on the final month of the 2019/20 financial year. Since March 2020, this has had significant implications for the board's services and on the costs of healthcare provision.
- 4 Covid-19 led to delays in the accounting and auditing timetables for the 2019/20 financial statements. Submission of the audited accounts is in accordance with revised Scottish Government timescales.

## Financial management

- 5 NHS Lanarkshire has appropriate and effective financial management arrangements in place. NHS Lanarkshire met all its financial targets for 2019/20 and achieved breakeven against its Revenue Resource Limit (RRL).
- 6 The board did well to exceed its savings target, realising £21.511 million of efficiency savings. However, non-recurrent savings made up a significant part of the savings, which is not sustainable in the long term.
- 7 As a result of Covid-19, the board incurred additional revenue costs of £4.5 million. Additional Scottish Government funding of £2.8 million was received towards these costs. The board met the balance of these costs from its efficiency savings. Additional capital costs of £0.4 million were met by additional funding.
- 8 Effective internal control systems operated throughout the year.

## Financial sustainability

- 9 NHS Lanarkshire has effective financial planning arrangements in place but its financial plans show increasing pressures on services.
- 10 The medium-term financial plan identifies funding gaps and will need to be updated to reflect the impact of Covid-19. Before Covid-19, to achieve breakeven in 2020/21 savings are required of £29.996 million (2% of RRL). Some of these savings have yet to be identified. The board's reliance on non-recurring savings is not sustainable.
- 11 NHS Lanarkshire is finding it difficult to recruit staff and relies on agency staff to fill gaps, at a high cost to the board. Expenditure on agency staff is £17.2 million. While some actions have been taken

forward at an operational level to address this there is no evidence that the acute sites have consistently achieved a reduction in the use of temporary staffing.

- 12** An independent review into the board's public consultation on the University Hospital Monklands replacement project (MRP) concluded that overall, the board had used the correct guidance on conducting the process and it was very well conducted. However, the review noted that there was a lack of high-quality evidence for the potential new sites for the Monklands hospital replacement. A further evaluation of potential sites is being carried out during July and August 2020 through consultation with members of staff and the public.

## Governance and transparency

- 13** NHS Lanarkshire has effective governance arrangements in place that support good governance and accountability. Changes to the arrangements in response to the Covid-19 outbreak in March 2020 are set out in the Governance Statement in the accounts.
- 14** The board's executive and non-executive members demonstrate effective leadership, challenge and scrutiny of the board's activity and performance.
- 15** The board has appropriate arrangements in place to prevent fraud and corruption. Cyber security has improved in the board.

## Value for money

- 16** The board has consistently achieved three national performance standards since 2016/17, relating to cancer treatment within 31 days of the decision to treat, cancer treatment within 62 days from referral and financial breakeven.
- 17** In 2019/20 NHS Lanarkshire met 4 of its 13 AOP targets and 5 of its 10 Locally Agreed Standards. It continues to seek ways to balance the achievement of its financial targets with other national performance targets.
- 18** In March 2020, the board implemented emergency arrangements for services in response to the Covid-19 pandemic. Following direction from the Scottish Government, non-emergency treatment was stopped.
- 19** The board has an effective performance management framework in place which supports continuous improvement. Officers report to the board on the arrangements in place to secure Best Value.
- 20** Despite the board's focus on trying to reduce delayed discharge bed days, there has been a significant increase in delayed discharges this year.

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# Introduction

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1. This report summarises the findings from our 2019/20 audit of Lanarkshire Health Board, commonly known as NHS Lanarkshire (the board). The scope of our audit was set out in our Annual Audit Plan presented to the March 2020 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 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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2. The main elements of our audit work in 2019/20 have been:

- an audit of the board's 2019/20 annual report and accounts including the issue of an independent auditor's report setting out my opinions
- a review of the board's key financial systems
- consideration of the four audit dimensions above
- following up our recommendations from our previous local performance reports on the use of temporary staff and delayed discharges.

3. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, NHS Lanarkshire has had to respond to the global coronavirus pandemic. This impacted on the final month of the year and will continue to have a

significant impact into financial year 2020/21. This has had significant implications on the services it delivers, the costs of healthcare provision, sickness absence levels, and the suspension of non-essential projects and activities. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the accounts and the wider dimensions of audit. Our audit approach was adapted to working in a 'lockdown' environment, with the audit of the accounts conducted remotely.

## Adding value through the audit

4. We aim to add value to NHS Lanarkshire through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides.

5. In so doing, we aim to help NHS Lanarkshire promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

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 the Scottish Ministers.

7. The board is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our 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.

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

## Auditor Independence

11. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards

issued by the Financial Reporting Council and those of the professional accountancy bodies.

**12.** We can confirm that 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 2019/20 audit fee of £194,670, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**13.** 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. 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 2019/20 annual report and accounts



### Main judgements

The financial statements give a true and fair view of the state of affairs of the body as at 31 March 2020 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.

The board has valued its assets on an appropriate basis and using information provided by professional valuers. The audit opinion includes an emphasis of matter paragraph to draw attention to the board's disclosure of material uncertainty in the valuation of the board's property assets due to the impact of Covid-19 on global markets.

The global coronavirus pandemic, Covid-19, impacted on the final month of the 2019/20 financial year. Since March 2020, this has had significant implications for the board's services and on the costs of healthcare provision.

Covid-19 led to delays in the accounting and auditing timetable for the 2019/20 financial statements. Submission of the audited financial statements is in line with revised government timescales.

The annual report and accounts are the principal means of accounting for the stewardship of resources and performance.

### Our audit opinions on the annual report and accounts are unmodified

**14.** The board approved the annual report and accounts for the year ended 31 March 2020 on 26 August 2020. We reported, within our independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework. The audit opinion includes an emphasis of matter paragraph to draw attention to the board's disclosure of material uncertainty in the valuation of the board's property assets due to the impact of Covid-19 on global markets
- expenditure and income were regular and in accordance with applicable enactments 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
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

**15.** The working papers provided to support the accounts were of a good standard and the audit team received great support and from finance staff which helped ensure the final accounts audit process ran smoothly. We are particularly grateful

to finance staff in light of the fact that remote working arrangements were in place for both them and us.

### The sign-off of the annual report and accounts was delayed but is in accordance with revised government timescales

**16.** As a result of the impact of Covid-19 the Scottish Government extended the deadline for submission of health boards' audited annual report and accounts from 30 June 2020 to 30 September 2020.

**17.** NHS Lanarkshire was unable to deliver unaudited financial statements in accordance with the original audit timetable due to the absence of key finance staff directly affected by Covid-19 or indirectly due to other priorities. The physical limitations on access to records and systems also contributed to this, although the board took action to support staff and allow home-working during the period of the outbreak. This was also a factor for the audit team. In consultation with finance staff we agreed to commence the audit on a revised date of 8 June 2020 and we received the unaudited annual report and accounts on that date. This has facilitated completion of the audit for submission of the accounts within the Scottish Government's revised deadline.

### Overall materiality for the accounts is £15.7 million

**18.** Misstatements in the accounts are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the accounts. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**19.** 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, when forming our audit opinions, we assess the materiality of uncorrected misstatements both individually and collectively.

**20.** On receipt of the unaudited annual report and accounts we reviewed our materiality and concluded that slight changes were required to our planned levels. However, these changes were not significantly different from our planned levels and did not impact on our audit approach.

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## Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£15.741 million
Performance materiality	£9.444 million
Reporting threshold for misstatements in the accounts	£145 thousand

Source: Audit Scotland

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**21.** [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks identified as part of our planning work. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were

directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

**22.** We have no issues to report from the work done on the main risks of material misstatement.

## Significant findings to report on the audit of the accounts

**23.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have no significant findings to report around the qualitative aspects of the annual report covering accounting policies, accounting estimates and financial statements disclosures. The significant findings 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.

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## Exhibit 3

### Significant findings from the audit of the financial statements (the accounts)

Issue	Resolution
<p><b>1. Health and Social Care Integration</b></p> <p>The integration joint boards (IJBs) activities have been reflected in the board's accounts. £823.071 million has been included in the board's clinical services expenditure relating to the board's payments to the two IJBs. Income of £825.530 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, £2.209 million has been shown in reserves, representing the board's share of the IJBs' financial outturns in 2019/20.</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 November 2020. We do not anticipate any material changes to the draft figures used in consolidation.</p>	<p>For information only.</p>
<p><b>2. Endowment Funds</b></p> <p>The Endowment Funds figures included in the 2019/20 group accounts were based on the unaudited financial statements. The Endowment Funds financial statements were approved by the trustees and external auditor of the Endowment Funds on 27 July 2020. There were no 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>For information only.</p>

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Issue	Resolution
<p><b>3. Deferred Income – Research and Development Contracts</b></p> <p>In our 2018/19 Annual Audit Report we highlighted that, included within the board's deferred income was an amount for £1.865 million which related to income from almost 90 research and development contracts. Through discussion with finance officers we identified that this amount did not appear to meet the accounting definition of deferred income and, as a result, should have been disclosed in the board's 2018/19 accounts as operating income. This was reported as an unadjusted error in the 2018/19 accounts.</p> <p>The board advised that a detailed review of all research and development contracts would be carried out in 2019/20 to ensure that all income received from these contracts is correctly accounted for in line with each contract.</p> <p>The board commenced its review of all research and development contracts during 2019/20 which resulted in the closure of a number of completed contracts. However, the second stage of this review, to review the accounting treatment of all remaining projects, was affected by the Covid-19 pandemic and therefore a number of contracts have yet to be reviewed.</p> <p>As a result, included within the board's 2019/20 deferred income balance is an amount for £0.970 million which relates to income from just over 60 research and development contracts. Through discussion with finance officers we identified that this amount may not meet the accounting definition of deferred income and, as a result, unless there is evidence to support the inclusion as deferred income, should be disclosed in the board's 2019/20 accounts as operating income.</p>	<p>The board have advised that the detailed review of all research and development contracts which commenced in 2019/20 will be completed in 2020/21. The board has decided not to adjust the 2019/20 accounts and to await the completion of this detailed review of research and development contracts in 2020/21.</p> <p>The net impact of adjusting the 2019/20 accounts to remove the £0.970 million of research and development income from deferred income and disclose this as income would be to decrease the board's 2019/20 reported net expenditure by £0.970 million. We have included this as an unadjusted error in the accounts, at paragraph 24.</p>
<p><b>4. Provisions</b></p> <p>NHS Lanarkshire participates in the Clinical Negligence and Other Risks Scheme (CNORIS) which is mandatory for all NHS boards in Scotland. The scheme allows for risk pooling of legal claims in relation to clinical negligence and other risks and works in a similar manner to an insurance scheme. Boards are required to create provisions where appropriate and the creation of these provisions is funded by the Scottish Government within the board's Non-Core Revenue Resource Limit. Due to an error in the spreadsheet used to calculate the cost of provisions and the resulting Non-Core Revenue funding required in 2019/20 to fund these, both the Non-Core Revenue Expenditure and provisions balances are understated by £0.480 million in the 2019/20 accounts.</p>	<p>The board has decided not to adjust the 2019/20 accounts as there would be no impact upon the board's reported outturn as it is likely that additional Non-Core Revenue funding would be provided by the Scottish Government to cover the additional costs of provisions. The net impact of adjusting the 2019/20 accounts would be nil as, although provisions and Non-Core Revenue Expenditure would increase by £0.480 million, the Non-Core Revenue Resource Limit would be increased by the same amount. We have included this as an unadjusted error in the accounts, at paragraph 24.</p>

Issue	Resolution
<p><b>5. Large hospital services and set aside budgets</b></p> <p>In March 2019, the Scottish Government wrote to NHS Scotland Chief Executives advising of its expectations for the annual accounts that Health Boards and IJBs agree a figure for the sum set aside to be included in their respective annual accounts. In the absence of bespoke local arrangements, data from NSS ISD may be used to enable the preparation of accounting estimates for this sum.</p> <p>The agreement in place for 2019/20 between NHS Lanarkshire and North Lanarkshire and South Lanarkshire IJBs is similar to a block contract Service Level Agreement (SLA). This means that board provides services covered within the set aside arrangements for an agreed sum which can be varied to reflect planned service changes agreed by the IJBs. The board and the IJBs worked through all agreed changes by the end of May 2020 to ensure final agreed values for inclusion within respective annual accounts, being £61.229 million for North Lanarkshire IJB and £57.768 million for South Lanarkshire IJB.</p> <p>The risk of the cost of the directed services exceeding the agreed sum is borne by the board in year. As data becomes available (currently 17 months in arrears) the IJBs will be provided with an assessment of the actual costs (based on cost allocation methodology) to inform their understanding of how its use of resources will change and aid future planning.</p>	<p>For information only.</p>

Source: Audit Scotland

## Identified misstatements in the accounts were less than our materiality levels and did not affect our audit opinion

**24.** There were no adjustments to the unaudited financial statements arising from our audit which were above our reporting threshold. Two misstatements, as detailed in [Exhibit 3](#), were identified which were not processed through the financial statements and these have been classified as unadjusted errors. If corrected, these would have decreased net expenditure by £0.970 million and increased the net assets in the consolidated statement of financial position by £0.490 million.

**25.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering 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.

## The performance report was of a good standard

**26.** In addition to the opinion on the performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of the body's performance report. The performance report should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

**27.** There are a number of characteristics of financial reporting which make for a high quality performance report. We reviewed the draft performance report provided to us as part of the unaudited 2019/20 annual report and accounts taking into account good practice notes issued by Audit Scotland in recent years in

relation to the content of performance reports in the NHS and Central Government. We made a number of suggestions for improvement to the board's draft performance report which were accepted by officers and incorporated into the updated performance report. As a result, we have concluded that the board's 2019/20 performance report complies with good practice.

### **Progress on prior year audit recommendations**

**28.** The board has implemented in full two of our four prior year audit recommendations. Two actions are ongoing relating to the development of a medium-term financial plan and accounting for income received from research and development contracts. Revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

# Part 2

## Financial management



### Main judgements

**NHS Lanarkshire has effective financial management arrangements in place. The board met all its financial targets for 2019/20 and achieved breakeven against its Revenue Resource Limit (RRL).**

**The board did well to exceed its savings target, realising £21.511 million of efficiency savings. However, non-recurrent savings made up a significant part of the savings, which is not sustainable in the long term.**

**As a result of Covid-19 the board incurred additional revenue costs of £4.5 million and capital costs of £0.4 million. The board received additional Covid-19 revenue funding of £2.8 million and capital funding of £0.4 million. The board met the balance of Covid-19 costs from its efficiency savings.**

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

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

### NHS Lanarkshire operated within its Revenue Resource Limit (RRL) and within its one percent flexibility

**29.** Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. A new Scottish budget process has been introduced. The Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

**30.** In October 2018, the Cabinet Secretary for Health and Sport announced that from 2019/20, all territorial boards will be able to exercise flexibility up to 1% of the board's core revenue resource funding, with a requirement to break even every three years. Three-year health service budgets represent a significant step forward, to enable the board to think beyond a single year towards its longer-term challenges. The Scottish Government issued guidance on three-year financial planning and performance for 2019/20 onwards to health boards in February 2019. As illustrated in [Exhibit 4](#) overleaf, the board operated within all limits during 2019/20.

## Exhibit 4

### Performance against resource limits in 2019/20

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Surplus/(Deficit) £m
Core revenue resource limit	1,345.584	1,345.584	0
Non-core revenue resource limit	39.555	39.555	0
<b>Total revenue resource limit</b>	<b>1,385.139</b>	<b>1,385.139</b>	<b>0</b>
Core capital resource limit	17.640	17.640	0
Non-core capital resource limit	0	0	0
<b>Total capital resource limit</b>	<b>17.640</b>	<b>17.640</b>	<b>0</b>
<b>Cash requirement</b>	<b>1,461.182</b>	<b>1,461.182</b>	<b>0</b>

Source: NHS Lanarkshire Annual Report and Accounts 2019/20

**31.** The pressures facing the NHS continue to intensify. NHS Lanarkshire's financial plan for 2019/20 was approved at a meeting of the Board in March 2019. The financial plan estimated that the board would start 2019/20 with an estimated £7.389 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 2019/20 allocation reduced this gap to £5.189 million. NHS Lanarkshire's financial plan for 2019/20, approved in March 2019, showed an uplift in funding for the year of £29.750 million. Despite this, due to recurring pay, price and drug increases the board recognised it needed to make substantial efficiencies in the year to meet its budget. The board's agreed 2019/20 Annual Operational Plan (AOP) target against its RRL was to breakeven at the year end.

**32.** At the end of February 2020 NHS Lanarkshire had a small surplus and was forecasting a breakeven position. On 2 March 2020 the board invoked its emergency response protocol in light of the growing Covid-19 threat and rapidly mobilised to create additional bed and intensive care space, community assessment centres and large scale remote working. Less annual leave was taken in March 2020 as staff responded to the situation and additional staffing was also needed to cover increased absence due to Covid-19. Prescribing volumes rose as the public sought to make sure they would not run out of medication. The additional costs for this were logged and submitted to SGHSCD.

**33.** In 2019/20 Covid-19 related additional revenue costs were £4.543 million and capital costs were £0.374 million. The board received additional Covid-19 revenue funding of £2.789 million and capital funding of £0.372 million respectively from the Scottish Government. The board covered the additional costs from its in-year efficiency savings.

### Efficiency savings were achieved but relied on significant non-recurrent savings of £12.887 million

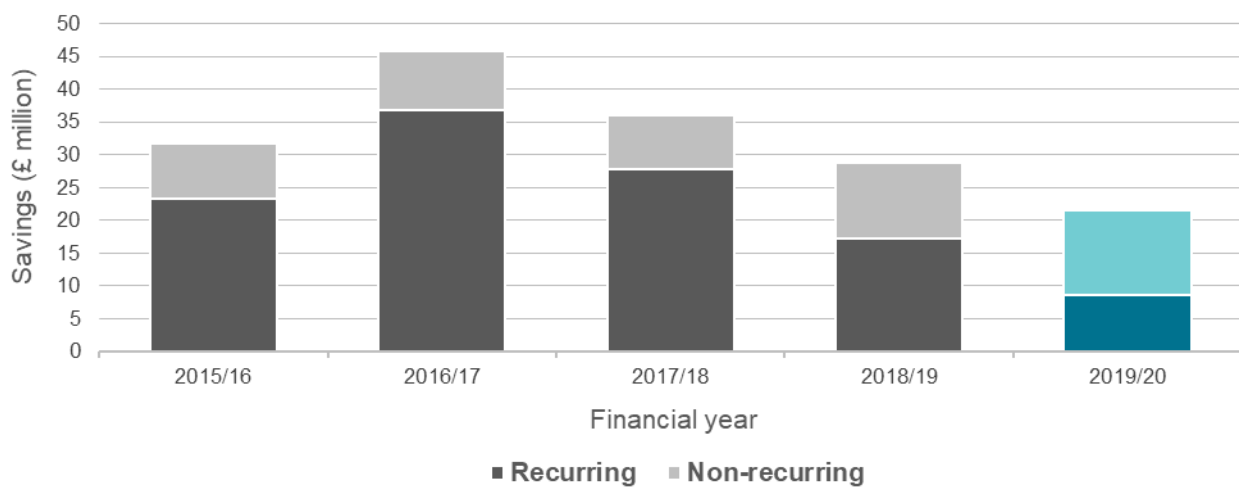
**34.** NHS Lanarkshire's target for total efficiency savings in 2019/20, was £17.754 million (1.5% of baseline RRL). These savings are significant and the board did well to exceed its target, making £21.511 million of efficiency savings which was achieved largely through identifying national opportunities for cost reduction and allowed the board to deliver breakeven.



**35.** In 2019/20, £8.624 million (40%) of the total efficiency savings achieved were on a recurring basis, with the remainder £12.887 million (60%) achieved on a non-recurring (one off) basis. The board met its recurring efficiency savings target for 2019/20 but the reliance on non-recurring savings increased from 40% in 2018/19 to 60% in 2019/20.

**36.** As illustrated in [Exhibit 5](#), NHS Lanarkshire has been increasingly reliant on non-recurrent savings in recent years. In our opinion, this situation is not sustainable for the board in the longer term. The board's financial plan for the three years commencing 2020/21, approved by the Board in May 2020, shows a recurring funding gap at the start of 2020/21 of £8.853 million.

## Exhibit 5 Savings – recurring and non-recurring



Source: NHS Lanarkshire Annual Report & Accounts 2015/16 to 2019/20

## Capital Resource Limit (CRL)

**37.** The board delivered a £19.770 million capital programme covering general business continuity at University Hospital Monklands, acute property works, PSSD equipment and medical equipment. The final spending on the capital programme was reported to the Board in May 2020.

**38.** NHS Lanarkshire's initial 2019/20 capital formula allocation of £12.392 million, was the same as 2018/19. The board was allowed to retain property receipts to support capital plans and also received £2.2 million towards the Monklands replacement business case. The initial plan relied on £4.075 million of property receipts, £2.113 million of which were secured during 2019/20. However, two property sales which were scheduled to complete in 2019/20 will now not be concluded until 2020/21. In line with an underwritten agreement negotiated earlier in the year, £1.4 million of additional capital funding was approved by the Scottish Government to cover existing capital commitments.

**39.** There was however slippage on the Monklands programme and works to support expansion to cancer facilities due to access issues and resources being diverted elsewhere, due to Covid-19. This meant the initial requirement for £1.4 million of additional capital was reduced to £0.426 million. This will be repaid from the sale proceeds when they are realised with the balance of receipts going to support the 2020/21 capital programme.

## Budget processes were effective

**40.** 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.

**41.** The finance report presented to each meeting of the NHS Lanarkshire Board also includes an analysis of the movements in the board's RRL since the previous finance report. 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.

**42.** The 2019/20 Internal Audit Annual Report presented to the Audit Committee meeting on 16 June 2020, highlights that the board's financial governance arrangements were assessed as 'Good/Broadly Satisfactory' 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.

**43.** 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.

## Financial systems of internal control are operating effectively

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

**45.** Our findings were included in a management report presented to the Audit Committee on 16 June 2020. We identified no significant control weaknesses from our 2019/20 interim audit work. We reported that a small number of control weakness reported by us in previous years 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.

**46.** 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 had an impact on the financial statements.

## Shared systems can be relied on for recording board costs

**47.** The NHS in Scotland procures a number of service audits covering shared systems. NHS Ayrshire & Arran procured a service audit of the National Single Instance (NSI) eFinancials service. The service auditor assurance report in relation to the NSI eFinancials was unqualified.

**48.** NHS National Services Scotland (NSS) procured service audits covering primary care payments (Practitioner Services) and the national IT contract. Both of these service auditor assurance reports were qualified. This was because of areas where there was insufficient documentary evidence of the checks performed in relation to verification and reconciliation, rather than controls being absent or not operating. The board received assurances from NSS that each point raised within

the reports will be addressed as part of its continuous improvement programme of work.

**49.** In June 2020 the Audit Committee considered the issues identified in the service auditor assurance reports and concluded that they do not represent significant governance issues that would materially impact on NHS Lanarkshire's 2019/20 Annual Accounts. A statement to that effect has been included in the Governance Statement which is included within the board's 2019/20 Annual Accounts. Additional assurance was also received by the Audit Committee through reports on the local review process for payments to family health services. No significant issues were reported in 2019/20.

**50.** The auditor of NHS NSS has reviewed the work of the service auditor of Practitioner Services and reported to us that, *'The service auditor has provided a qualified opinion on the system of controls in place in Practitioner and Counter Fraud Services in terms of the requirements of ISAE 3402 and has identified a number of matters where controls could be enhanced. I conclude from my review of KPMG's service audit work on Practitioner and Counter Fraud Services that this has been performed satisfactorily and that assurance can be placed thereon to support user auditors' own assessments under ISA (UK) 402.'*

# Part 3

## Financial sustainability



### Main judgements

NHS Lanarkshire has effective financial planning arrangements in place but its financial plans show increasing pressures on services.

To achieve breakeven in 2020/21 savings are required of £29.996 million (2% of RRL). Some of these savings have yet to be identified and they do not yet reflect Covid-19 pressures for this year.

The medium-term financial plan identifies funding gaps and will need to be updated to reflect the impact of Covid-19. The board's reliance on non-recurring savings is not sustainable.

NHS Lanarkshire is finding it difficult to recruit staff and relies on agency staff to fill gaps, at a high cost to the board. Expenditure on agency staff is £17.2 million. While some actions have been taken forward at an operational level to address this there is no evidence that the acute sites have consistently achieved a reduction in the use of temporary staffing.

An independent review into the board's public consultation on the University Hospital Monklands replacement project (MRP) concluded that overall, the board had used the correct guidance on conducting the process and it was very well conducted. However, the review noted that there was a lack of high-quality evidence for the potential new sites for the Monklands hospital replacement. A further evaluation of potential sites is being carried out during July and August 2020 through consultation with members of staff and the public.

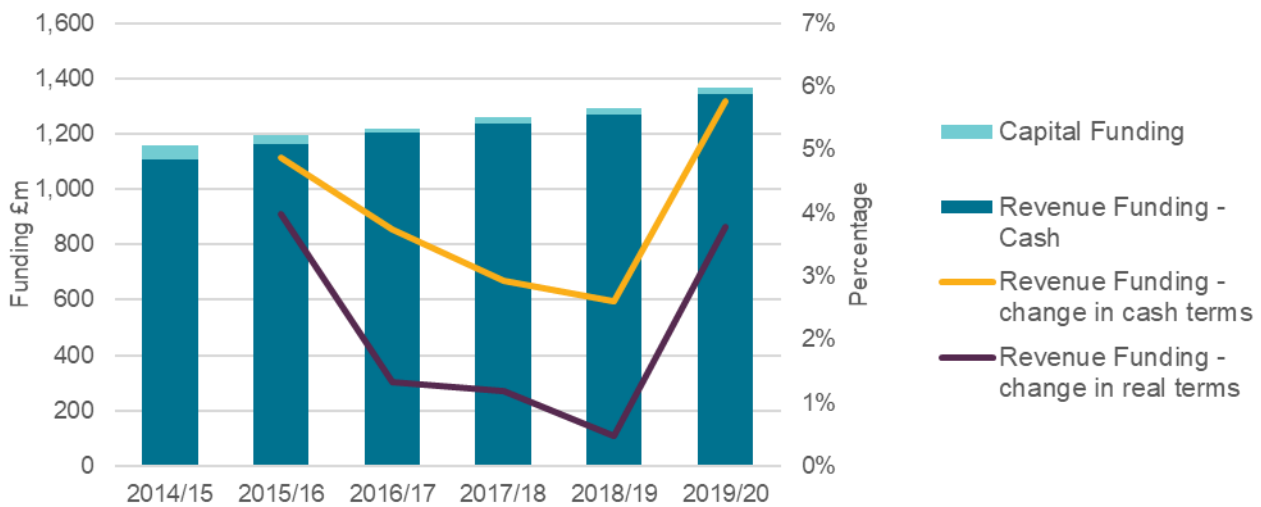
Financial sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Financial plans reflect increasing pressures on services.

**51.** The pressures facing the NHS continue to intensify. Revenue funding to NHS Lanarkshire for 2019/20 from the Scottish Government has grown by 5.8% in cash terms and 3.8% in real terms compared to 2018/19 ([Exhibit 6](#)) overleaf. However, this increased funding was needed to cover new developments in services, increasing demands for care services, increasing staff costs and those costs arising from the Covid-19 pandemic.

## Exhibit 6

### Cash and real term core funding changes



Source: NHS Lanarkshire annual report and accounts/ Audit Scotland

**52.** NHS Lanarkshire's financial plan for 2020/21 and forecasts for the next two years was approved by the Board in March 2020. The financial plan estimated that the board would start 2020/21 with an estimated £8.853 million recurring funding gap. The Board agreed that the plan will need to be revised once the impact of the board's response to Covid-19 is better known.

**53.** Efficiency savings play a crucial part in filling funding gaps. The board needs to achieve efficiency savings of 2% of baseline RRL in 2020/21. This is equivalent to a saving of £29.996 million, of which £24.822 million of savings need to be found from non-IJB budgets. Savings required from the North Lanarkshire IJB budget are £2.639 million and from the South Lanarkshire IJB budget are £2.535 million.

**54.** The 2020/21 financial plan shows that savings schemes totalling £14.792 million have been identified with £5.559 million (38%) planned to be on a recurring basis and £9.233 million being achieved on a non-recurring basis. The remaining £10.030 million of the total efficiency savings required have yet to be identified.

**55.** The financial plan shows that the recurring funding gap moving from 2020/21 to 2021/22 is estimated at £22.452 million. The Covid-19 response means many of the more complex efficiency schemes will not be advanced as staff have been diverted to immediate emergency care. Therefore, delivering a further £22.452 million of savings on a recurring basis from the start of 2021/22 is an extremely challenging financial position.

**56.** The finance report for the period ended 31 May 2020 was presented to the meeting of the Board on 24 June 2020. The report highlights that an estimated £10.030 million of efficiency savings had still to be identified at the time of submitting the 2020/21 financial plan and a number of agreed savings plans would not take effect until partway through the year. This meant that the trajectory for the year started off with costs exceeding income, starting to turn around in September 2020 to end the year at break-even. However, the savings gap has increased to £13.076 million as it is expected the Acute Division will be unable to achieve the target savings identified in the 2020/21 AOP.

**57.** The finance report also highlights that, at the beginning of March 2020, NHS Lanarkshire moved on to an emergency footing to prepare for the anticipated surge

of Covid-19 cases and mechanisms were put in place to capture the additional costs of this. To the end of May 2020, the Acute and Corporate Divisions recorded a total of £6.825 million of costs as being attributable to Covid-19 and the Health and Social Care Partnerships £2.873 million. At the same time, the financial sustainability programme was suspended so that all service focus would be on the impact of the pandemic. If the £6.825 million of board costs attributable directly to the Covid-19 response are excluded, the position to the end of May 2020 is a £1.889 million overspend which is £0.367 million worse than the financial plan year to date trajectory. This includes a reported overspend within the Acute Division of £0.685 million. The finance report also notes that, given the disruption to plans caused by the Covid-19 pandemic and the very high health and social care costs of responding to it, the Scottish Government is having to review its previous budget plans which introduces a layer of uncertainty in relations to the board's revenue funding in 2020/21.

**58.** Following the issue of Scottish Government guidance in November 2019, the board's first draft of its 2020/21 AOP was submitted to the Scottish Government in December 2019. Discussions took place between officers and representatives at the Scottish Government in the period January to March 2020 to review the AOP content and agree where further action was required. Three updated draft AOPs were submitted to the Scottish Government during this period. Covid-19 has impacted upon this process and on 31 March 2020 the Scottish Government issued a letter to the board confirming that the development of the board's 2020/21 AOP would be set aside for the foreseeable future. The letter also highlighted that the Scottish Government considered the board's latest draft AOP as a 'baseline', which will form the basis of a Recovery Plan when the board and the Scottish Government are in a position to begin to reconsider that process.

### **NHS Lanarkshire has a medium-term financial plan, but is yet to develop a longer-term plan**

**59.** The board's financial plan for 2020/21 and forecasts for 2021/22 and 2022/23 reflects a breakeven position over a three-year period. Forecasts in the financial plan are based on a number of assumptions including allocation uplifts, inflationary costs and pay growth.

**60.** Based on an estimated uplift of 3% in funding, the budget gaps for 2021/22 and 2022/23 are £29.271 million and £37.505 million respectively. The savings required in 2021/22 and beyond have yet to be identified by the board to demonstrate how the three-year breakeven target is to be achieved.

**61.** While the board has had a good track record in achieving its savings targets, the achievement of future savings targets will involve difficult decisions and a fundamental reassessment of the organisation's operating model. In responding to Covid-19, the board is doing some things differently and this will present an opportunity to learn from what has worked well and what hasn't for re-shaping services going forward.

**62.** The board's is waiting for national and regional financial frameworks to be published, before developing a detailed medium to long term financial plan. When the Scottish Government's funding plans are clearer, it will progress a plan which will include scenario planning and modelling. This will reflect the impact of EU withdrawal and the Covid-19 pandemic.



#### **Recommendation 1**

**The board should review its medium-term financial plan following the Covid-19 pandemic to reflect its impact on the board's finances going forward, including scenario planning of key financial assumptions.**

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## The site for the University Hospital Monklands Replacement Project (MRP) is under review

**63.** Our 2018/19 Annual Audit Report highlighted that, in November 2018, the Cabinet Secretary for Health and Sport announced an independent review of the public consultation process on the MRP. This review has now been completed and was published on 27 June 2019. The review concluded that overall, the board had used the correct guidance on conducting the process and it was very well conducted. The Cabinet Secretary, in welcoming the MRP Independent Review Panel report, asked the board to take the option to rebuild the new hospital at the current University Hospital Monklands site off the shortlist as this was no longer a viable option. In addition, the board was asked to conduct a further land search, with colleagues in North Lanarkshire Council, to establish if there were any other sites that met the original criteria, which could be added to the two sites already identified, i.e. Gartcosh and Glenmavis. Following a period of public engagement this further work identified one additional potential site at Wester Moffat Farm, which was not available when the first round of engagement to identify a potential site for the new hospital was conducted.

**64.** The three sites have now been evaluated and information is available on the Monklands Replacement Project section of the board's website. A non-financial benefits scoring event on which site to select was due to take place on 10 March 2020. This was an opportunity for 100 individuals, both NHS Lanarkshire employees and from the community (split 49:51 respectively), to vote for their preferred site. The results from this exercise were subsequently withdrawn as the electronic scoring process failed on the day and the agreed proportions of public representatives from geographical localities were not achieved.

**65.** The board now has plans in place to run another scoring process to evaluate the non-financial aspects of the site options for the new hospital in July / August 2020. The exercise was designed and will be run by the Consultation Institute (tCI), an independent not for profit organisation which specialises in public engagement and consultation. The consultation will be undertaken using a combination of postal, telephone and online scoring to ensure it can be undertaken during the COVID19 pandemic and the results will be combined with the financial benefits for each site to identify a preferred option. The preferred option will form a recommendation to the Cabinet Secretary for Health and Sport, who will make the final decision on the location of the new hospital. This approach and the associated timeline was shared with the SGHSCD and has been subject to scrutiny by Healthcare Improvement Scotland – Community Engagement (HIS-CE), and their input has been reflected in the exercise. The planned approach was also shared with local MSPs and MPs and following a detailed explanation of the process by a senior member of tCI, there was broad support from MSPs and MPs to take the process forward.

**66.** It is noted that delays to the project are now estimated to cost between £1.5 million and £3 million per month to the overall project cost. Given that the re-valuation of the three sites was initially planned for completion in Nov 2019, this delay is likely to have significant impact upon the board's future capital project plans. We will continue to monitor progress of the MRP as part of our 2020/21 audit.

## Workforce planning

**67.** The board depends on having the appropriate number of staff, in the right place, with the appropriate skills. The three-year Workforce Plan 2017-2020 (approved in August 2017) recognises that the board's future workforce must be based on a robust availability, adaptability and affordability model. To support this the board has an annual Everyone Matters: 2020 Workforce Vision Implementation Plan and an annual workforce plan. NHS Lanarkshire's 2019/20 workforce plan was approved by the Board in August 2019. New national guidance was launched in December 2019 which introduced three-year integrated workforce planning and the board's first plan under this arrangement is due in March 2021.

**68.** The Workforce Update Report presented to the Staff Governance Committee in May 2020 shows that at 31 March 2020, the board had 11,579.1 WTE staff in post, with a vacancy rate of 2.8%, which is within the board's vacancy tolerance rate of 6%. However medical and support services families staff vacancy rates, of 7.9% and 10.8% respectively, are above the board's vacancy tolerance rate.

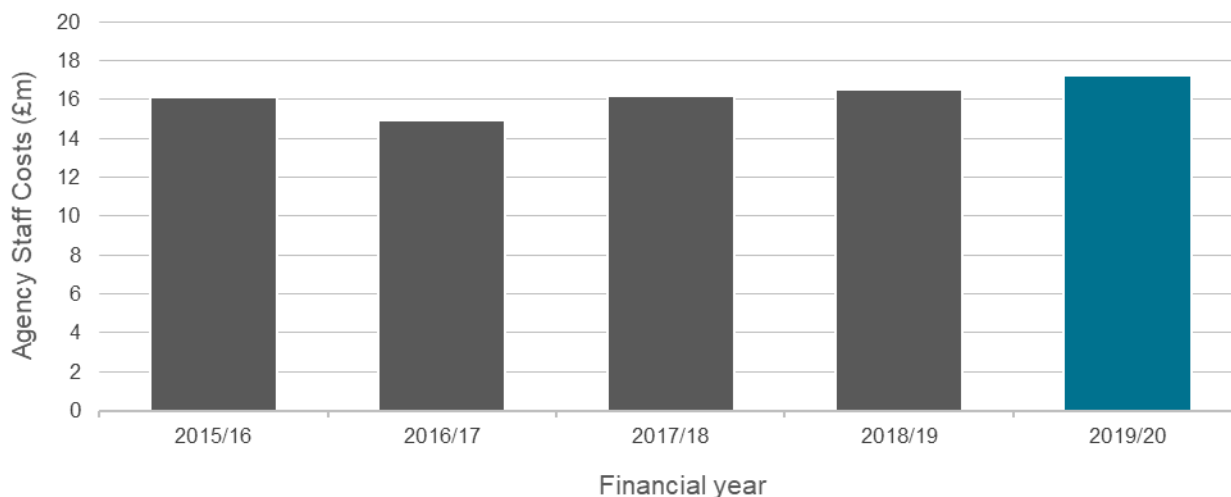
**69.** In 2019/20 most staff group numbers increased, particularly in nursing and midwifery and other therapeutic job families. In addition, by 2 June 2020, 1,022 additional staff were recruited by the board to deal with the increased demand on services due to Covid-19.

**70.** Despite staff numbers increasing, significant challenges in recruiting and retaining staff remain with turnover rates increasing (6.3% at March 2013 to 9.6% at March 2019). An ageing workforce is also a challenge with almost 40% of the workforce being aged 50 or over. This is set to increase requiring succession planning for the future.

**71.** As a result of increased demand for services and the board striving to meet waiting time targets, total staff costs have increased from £535.746 million in 2018/19 to £595.085 million in 2019/20 (11% increase). In 2019/20 employers superannuation costs increased by 6% and the board allocated around £23.4 million of its additional employers superannuation allocation to local pay budgets to cover this. However, actual superannuation increased by more as it was impacted by the increase in the underlying rise in staff costs as well as the increase in employers superannuation costs. Although the board has taken measures to reduce its reliance on agency staff, [Exhibit 7](#) shows that agency staff costs increased slightly from £16.530 million in 2018/19 to £17.228 million in 2019/20. The board is continuing to look at ways of reducing its reliance on agency staff.

## Exhibit 7

### Agency staff costs



Source: NHS Lanarkshire Annual Report & Accounts 2015/16 to 2019/20

**72.** 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 2020 the sickness absence rate was 5.5% compared to 5.87% at March 2019. The highest levels are in nursing (6.8%) and support services (7.0%). The sickness absence rate across NHS Scotland at March 2020 was 5.2%. Action is being taken by the board to try and reduce sickness levels, 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.



## Review of Temporary Staffing

**73.** In common with other boards, NHS Lanarkshire relies on the use of temporary staff, i.e. bank and agency staff, to provide its services. Overtime and excess hours, staffing banks and agency staff are used to address staff shortages. In July 2018 we reported our findings on a review of the board's use of temporary staffing in its three acute hospitals. The board had identified this as an area of high spend and one in which they were keen to improve working practices and realise efficiencies.

**74.** An action plan in response to our report was approved by the Audit Committee in March 2019. The action plan set out six areas which would be taken forward by the board, with a further ten areas where audit's comments were noted but where no specific action was being taken.

**75.** In March 2020 we undertook some follow up work to establish what progress had been made in taking forward the agreed recommendations. The scope of this follow up was limited due to the Covid-19 outbreak and competing pressures on the staff available to support us in this work. We were however able to obtain sufficient information to give us an understanding of progress made to date.

**76.** Our follow up found that there is no evidence that the action plan is being formally followed up at committee level. While there is evidence that some individual actions have been taken forward at an operational level, there is no evidence that the acute sites have consistently achieved a reduction in the use of temporary staffing. [Exhibit 7](#) earlier shows that agency staff costs have increased in recent years from £16.219 million in 2017/18, to £16.530 million in 2018/19 and to £17.228 million in 2019/20.

**77.** A focus on managing the use of temporary staff will be essential going forward to realise efficiencies and to ensure delivery of quality services. In recent months, service delivery and staff skills have undergone significant development and redesign in response to Covid-19. There is a unique opportunity to harness any positive changes made to redesign services, enhance staff roles and ensure more rewarding and co-operative working practices. These have the potential to reduce the board's demand for temporary staffing going forward. We will continue to monitor progress in this regard.

## The uncertainty from EU Withdrawal is being monitored and managed by the board

**78.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their workforce, funding and regulatory framework.

**79.** The board has carried out the following work to prepare for and address the potential impact of EU withdrawal:

- Risk register - the risk of impact of EU withdrawal on the delivery of healthcare services, is included in the board's corporate risk register. The risk register is reviewed by the Corporate Management Team (CMT) on a monthly basis, approved at each PPRC meeting and then discussed at each Audit Committee meeting, most recently the June 2020 Audit Committee meeting. The risk level is currently set at "Medium" and the board has a number of mitigating controls in place. These mitigating controls range from implementation of Scottish Government guidance and completion of checklists, communication and implementation of the "settled scheme" for staff who are EU citizens, communication plan through Human Resources on supporting and communicating with EU staff, establishing a short life working group and taking a collaborative approach with other West of Scotland NHS Boards to address the impact of EU withdrawal.

- Board awareness – the most recent EU withdrawal preparations update was presented to the Board in January 2020, covering work being undertaken at both an operational level and a corporate level. In the context of the transition agreement negotiated between the EU and the UK government, ongoing management of the risks is in place. The Board needs to ensure it keeps focus on EU withdrawal despite its current focus on the challenges of Covid-19.

**80.** The board is currently meeting the requirements of the Equalities Act (2010) in terms of reporting. The board's Equality Strategy 2017-2021 was published in April 2017, in line with the 2010 Act requirements, with a further Progress Update 2017-2019 published in April 2019. Both reports are of a good standard, providing detailed information on work that has been performed as well as work planned in order to meet the general and specific duties as set out in the 2010 Act, and subsequent 2012 Regulations.

**81.** The Equality & Diversity section of the website is easily accessible, and provides all necessary information for service users, including a key contact for comments and queries. Furthermore, the Progress Update 2017-2019 update provides details of community feedback exercise which took place in acute hospitals, which led to recommendations such as reviewing hospital signage as well as appointment letters. This demonstrates that the board is committed to engaging the wider community in achieving their duties under the 2010 Act.

**82.** The board is taking positive steps to ensure that equalities are embedded within its service delivery. Any policy that is reviewed, updated or written will be subject to an Equality & Diversity Impact Assessment, with every paper presented to the Board being considered in terms of equality impact also, demonstrating that equalities have been standardised as part of policy setting. Overall, we are satisfied that the board can demonstrate a commitment to embedding its equality duties within service delivery.

# Part 4

## Governance and transparency



### Main judgements

**NHS Lanarkshire has effective governance arrangements in place that support good governance and accountability. Changes to the arrangements in response to the Covid-19 outbreak in March 2020 are set out in the Governance Statement in the accounts.**

**The board's executive and non-executive members demonstrate effective leadership, challenge and scrutiny of the board's activity and performance.**

**The board has appropriate arrangements in place to prevent fraud and corruption. Cyber security has improved in the board.**

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.

### Overall governance and transparency arrangements were effective

**83.** The Board of NHS Lanarkshire is supported by a number of committees and the Remuneration sub-committee. The minutes of committee and sub-committee meetings are presented to the Board. In addition, minutes from meetings of North Lanarkshire IJB and South Lanarkshire IJB are presented to Board meetings as appropriate. Non-executive Board members are also members of selected committees and are represented at both IJBs.

**84.** Board members provide adequate scrutiny and challenge at regular bi-monthly meetings to ensure the Board's performance is effectively reviewed. There has been no significant change to the board's governance arrangements during 2019/20, with the exception of specific comments below on the response to the Covid-19 outbreak in March 2020.

**85.** Through our attendance at Audit Committee meetings we concluded that committee papers were well prepared (and in sufficient time of advance of meeting for review), adequate time was allowed to discuss the issues on the agenda and committee members were well-prepared and asked appropriate questions. This enables the Audit Committee to exercise effective scrutiny.

**86.** The NHS Scotland Corporate Governance Blueprint says that NHS boards should annually assess the effectiveness of the corporate governance system, conducting a self-assessment to review progress, and develop an action plan, identifying any new and emerging issues or concerns.

**87.** NHS Lanarkshire piloted a self-assessment survey, which was completed by executive and non-executive Board members in January 2019 and the responses were collated and discussed at the Board Development Day in March 2019. Non-executive Board members were also invited to complete the checklist for NHS non-executive members, contained within Audit Scotland's [NHS in Scotland 2018](#) report, to inform this process.

**88.** A Corporate Governance Improvement Plan was developed and presented to the Board on 27 March 2019 and the Scottish Government in April 2019. The areas for improvement include streamlining the overall mission, purpose and objectives of the board onto a strategy map and reviewing the key strategic planning processes of the board and the IJBs. The latest regular update report was considered by the Board in May 2020 and highlighted that, due to Covid-19, a number of actions have been paused until the board has ceased operating on an emergency basis.

### **The governance arrangements were changed in March 2020, to respond to the challenges from the Covid-19 pandemic**

**89.** The impact of Covid-19 from March 2020 has been set out in the Governance Statement in the board's annual report and accounts. These were significant and allowed the board to respond to the unprecedented nature and scale of the threat to its communities and staff.

**90.** We noted that NHS Lanarkshire already had well established resilience arrangements and a pandemic flu plan established under national guidance. In June 2019 the Audit Committee considered the findings of an Internal Audit review of the board's resilience arrangements. The audit provided adequate assurance over these arrangements but recommended a number of improvements. A paper from Internal Audit was presented to the Audit Committee in May 2020 which highlights that good progress had been made on implementing actions before the board moved in to its Covid-19 response phase. The paper also confirms that Internal Audit will, as part of their 2019/20 controls evaluation work, reflect on the governance arrangements for the Covid-19 response and provide comment on this within the Internal Audit Annual Report for 2019/20. The Internal Audit Annual Report for 2019/20 was presented to the Audit Committee on 16 June 2020 and highlights that in relation to Covid-19 governance arrangements, the board "*... has responded positively and pro-actively to the pandemic and in addition to the necessary short-term measures has been actively considering the process for recovery and reconfiguration.*" In addition, the report also shows that the board's corporate governance arrangements were assessed as 'Good/Broadly Satisfactory' which is the highest assurance rating given by internal audit.

**91.** The following steps were taken by NHS Lanarkshire in response to the outbreak:

- On 2 March 2020, the board implemented a command and control structure under its pandemic flu arrangements to manage the immediate response to the Covid-19 pandemic. The gold–silver–bronze command structure used is a command hierarchy used for major operations by the emergency services. Gold is Strategic, Silver is Tactical and Bronze is Operational.
- To allow a redirection of resources, non-urgent procedures were stopped in March 2020.
- In recognition of the Public Health emergency, formal approval to revise governance arrangements across NHS Boards was issued by the Scottish Government Director of Health Finance, Corporate Governance and Value in a letter to Board Chairs dated 25 March 2020. In April 2020 the Board endorsed a paper on proposals for revised governance arrangements. This included a full description of the command and resilience arrangements, updates from each of the Covid-19 tactical command groups, the terms of reference of the ethical advisory group to be set up, information on the recovery programme, risk assessments on services plus papers on the corporate and Covid-19 risk register.
- In April 2020 the retiring Nurse Director presented a review of services that has been stood down or altered to the Board. This is to help build a process for future recovery.

- In April 2020 the Board endorsed suspending the Performance, Planning and Resource Committee replaced it with a focussed monthly Board meeting. The three governance committees covering staff, audit and clinical governance continued to meet as necessary with a focus on Covid-19 as one of their key issues. It was proposed that a further assessment of risks should be undertaken by the Audit Committee at its meeting on 16 June 2020, at which the assessment was undertaken.
- Board meetings held virtually so will not be available to the public and the Board Chair will invite questions or comments in advance of the meeting.
- The Scheme of Delegation (SOD) and Standing Financial Instructions (SFIs) will continue to apply as far as possible. Any decision to override SFIs or SOD will be reported to Gold Command and then to the next Board meeting.
- Every week there was an e-mail round up for Board members including key Gold Command Issues, key Scottish Government guidance, data and trends and any other pertinent information.
- On 25 March 2020 the Board received and endorsed a suite of papers that covered NHS Lanarkshire's "response to date, preparedness going forward and key risks, and also attempts to describe what is a variation from normal practice that (a) the Board needs to be sighted on and (b) the Board should endorse/approve to provide governance and assurance".
- On 22 May 2020 the Gold Command held a structured debrief intended to expand upon the lessons learned from the first 2 months of the emergency response.

**92.** We concluded that the board's arrangements, both before and after the impact of Covid-19, are appropriate and they support good governance and accountability. Board members provide adequate scrutiny and challenge at regular meetings to ensure the Board's performance is effectively reviewed.

### **Executive and non-executive members demonstrate effective leadership, challenge and scrutiny of the board's activity and performance**

**93.** NHS board chief executives and senior teams are responsible for the delivery of critical day-to-day services as well as leading the changes to how services are accessed and delivered in their boards. This places significant demands on senior leadership teams.

**94.** The board has had a stable senior officer structure in place in recent years and although some senior officers retired at the end of March 2020, these posts were all filled promptly. In January 2020, the Chief Executive was appointed as Turnaround Director at NHS Greater Glasgow and Clyde (NHSGGC). The Director of Acute Services was appointed Depute Chief Executive to cover for this short-term appointment. The Chief Executive then started a 6 month secondment to NHS Lothian in June 2020 but was appointed permanently to the role in July 2020 and the Interim Chief Executive role will be covered by the Director of Acute Services until a permanent appointment is made. There have been no significant changes to non-executive Board membership in the year. We have reviewed the skills and capacity in the board's finance function and we have no concerns to highlight.

**95.** Feedback from NHS Education for Scotland to the Sharing Intelligence for Health and Care Group in December 2019 highlighted that NHS Lanarkshire's senior leadership team has established a culture that prioritises patient safety and that values postgraduate medical education and training as an integral component of clinical governance.

**96.** We have concluded that the board's executive and non-executive members demonstrate effective leadership and scrutiny of the board's activity and performance.

### **The board conducts its business in an open and transparent manner**

**97.** There continues to be an increasing focus on demonstrating the best use of public money. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources.

**98.** NHS Lanarkshire's commitment to transparency is demonstrated by:

- public availability of board papers and minutes of committee meetings
- the annual accountability review (where members of the public can attend)
- the form and content of annual reports.

**99.** We highlighted in our 2019/20 Management Report (presented to the Audit Committee meeting in June 2020) that we previously encouraged the board to consider improving transparency by holding committee meetings in public. The board has responded that it would prefer to focus on improving public attendance at Board meetings. We acknowledge the board's position on this. As an alternative to public access to committee meetings, minutes of all meetings are available through the Board papers. To improve transparency, the papers and minutes of committee meetings should be available independently of Board papers to ensure they are visible to and searchable by the users of the board's website. Despite this one area for consideration, we concluded that the board conducts its business in an open and transparent manner.

### **Internal audit operates in accordance with Public Sector Internal Audit Standards**

**100.** 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 use 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.

**101.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2019/20 we considered internal audit's review of key controls through their work on financial process compliance and financial planning. We also considered internal audit report findings as part of our wider dimension work.

**102.** The 2019/20 Internal Audit Plan was approved by the Audit Committee in June 2019. We highlighted in our 2019/20 Annual Audit Plan (January 2020) that the resource available to the Internal Audit section had been significantly depleted from that available at the planning stage due to staff absence and vacancies in the team. During the year Internal Audit revisited their 2019/20 Audit Plan in consultation with the Audit Committee to ensure the priority areas were reviewed in year and deferred the remaining areas to 2020/21. The Internal Audit Progress Report for 2019/20 presented to the Audit Committee in June 2020, highlights that the revised Internal Audit Plan for 2019/20 was complete at the year end. As a result, Internal Audit were able to provide the necessary assurances to the Audit Committee for the Governance Statement and these assurances were provided in the Annual Internal Audit Report 2019/20 presented to the Audit Committee in June 2020.

## The board has appropriate arrangements in place for prevention and detection of fraud and error

**103.** Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

**104.** 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.

**105.** Instances of fraud and corruption can be particularly prevalent in the procurement function. We carried out an assessment of the arrangements in place at NHS Lanarkshire to prevent fraud and corruption in the procurement function.

**106.** The risk of fraud, bribery and corruption within its procurement function is a risk featuring in the board's risk register. The assigned senior risk owner for this risk is the Director of Finance, with the Audit Committee being the assigned assurance committee. The Audit Committee review this risk at each meeting and receive detailed fraud and procurement reports which feature as a standing agenda item.

**107.** Mitigating controls to manage the risk of fraud in procurement include the: SFI's, Code of Conduct, Scheme of Delegation, Internal Audit, on-going fraud campaign, a gifts and hospitality policy, a gifts and hospitality register and enhanced checks which exist for procurement waivers. Clear guidelines are in place on the acceptance of gifts and hospitality. The register of commercial interests requires a declaration of interest for each member of staff prior to each individual tender or selection process. The policy requires that any relationship, friendship, associate, close relatives and current/former employees, to be disclosed at this stage.

**108.** We have concluded that the board has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

## Cyber security has been strengthened

**109.** In response to two high profile cyber-attacks which caused disruption in 2017, NHS Lanarkshire strengthened IT and cyber security arrangements. In September 2018 the board achieved Cyber Essentials accreditation.

**110.** The board categorises cyber security as a critical function and reports on cyber security issues to the Information Guidance Committee. A dedicated Cyber Security Group has been established and a programme is in place to oversee the board's involvement in the NIS Directive (EU-wide legislation on cybersecurity) and accreditation for Cyber Essential Plus. NHS Lanarkshire is connected for real-time advanced threat protection, to the National Cyber Security Operations Centre (NSOC). Whilst cyber security remains on the corporate risk register extensive mitigation is in place with appropriate oversight and scrutiny.

## The health and social care partnerships are working with the board to improve the impact of services

**111.** 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.

**112.** The IJBs face financial challenges. Health boards and IJBs are required to agree a figure for the sum set aside in respect of large hospital services to be included in their respective annual accounts. Data from National Services Scotland (NSS) is available to all partnerships and in the absence of a bespoke local arrangement, this information can be used to enable the preparation of accounting estimates.

**113.** The agreement in place between NHS Lanarkshire and North Lanarkshire and South Lanarkshire IJBs is similar to a block contract Service Level Agreement (SLA). This means that board provides services covered within the set aside arrangements for an agreed sum which can be varied to reflect planned service changes agreed by the IJBs. The board and the IJBs worked through all agreed changes by the end of May 2020 to ensure final agreed values for inclusion within respective annual accounts. The risk of the cost of the directed services exceeding the agreed sum is borne by the board in year. With the maturity of the IJBs, there is now more information on the actual costs for earlier years, where agreed activity levels have been published. The 2019/20 unaudited accounts of North Lanarkshire IJB show that based on actual activity levels, the IJB incurred overspends of £0.194m in 2016/17 and £1.654m in 2017/18 against budget. For South Lanarkshire IJB the overspends are shown as £0.752m in 2016/17 and £2.510m in 2019/20. Under current arrangements, this means that NHS Lanarkshire are absorbing the IJB overspends on acute services.

**114.** In October 2019 Audit Scotland published [NHS in Scotland 2019](#), which identified that Scotland's NHS needs to refocus its priorities to speed up health and social care integration and system wide reform. The report was discussed at the Audit Committee meeting on 3 December 2019. In addition, the authors of the Audit Scotland report attended the meeting of the Board on 29 January 2020 to give a presentation on the content of the report and take questions from members of the Board.

**115.** A report was presented to the Board meeting in March 2019 which provided an update on both the Audit Scotland Health and Social Care Integration report and the Scottish Government's Ministerial Strategic Group (MSG) for Health and Community Care review of integration of health and social care to highlight the local process that will be undertaken to address the findings from these reviews.

**116.** In response to the MSG direction both North Lanarkshire and South Lanarkshire IJBs completed national self-evaluation submissions and sent them to the Scottish Government by the required deadline of 15 May 2019. Both submissions were presented to the Board meeting in May 2019 for approval and the Board were requested to note that detailed action plans would be completed and overseen by the Population Health & Primary and Community Services Governance Committee.

**117.** In line with the national integration review process, progress against the identified actions was due to be reviewed in May 2020. However, this was not possible due to the impact of Covid-19.

## Clinical governance

**118.** Clinical governance is the system through which the NHS works to monitor and improve the quality of the care and services they deliver. Health Improvement Scotland works to ensure that NHS boards have a clear and consistent approach to clinical governance in healthcare across Scotland. Audit Scotland's audit role is



restricted to reporting on whether the board has governance arrangements that are appropriate and operating effectively, which includes the clinical governance arrangements.

**119.** The Sharing Intelligence for Health & Care Group is a partnership involving Healthcare Improvement Scotland, NHS Education for Scotland, the Care Inspectorate, the Scottish Public Services Ombudsman, the Mental Welfare Commission for Scotland, Public Health and Intelligence and Audit Scotland. This group discussed NHS Lanarkshire's performance in December 2019. No significant concerns were identified in relation to the board's performance.

# Part 5

## Value for money



### Main judgements

The board has consistently achieved three national performance standards since 2016/17, relating to cancer treatment within 31 days of the decision to treat, cancer treatment within 62 days from referral and financial breakeven.

In 2019/20 NHS Lanarkshire met 4 of its 13 AOP targets and 5 of its 10 Locally Agreed Standards. It continues to seek ways to balance the achievement of its financial targets with other national performance targets.

In March 2020, the board implemented emergency arrangements in response to the Covid-19 pandemic. Following direction from the Scottish Government, non-emergency treatment was stopped.

The board has an effective performance management framework in place which supports continuous improvement. Officers report to the board on the arrangements in place to secure Best Value.

Despite the board's focus on trying to reduce delayed discharge bed days, there has been a significant increase in delayed discharges this year.

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

### An effective performance management is in place which supports continuous improvement

**120.** From 2018/19 boards were required to produce Annual Operational Plans (AOPs) which replaced Local Delivery Plans (LDPs). The board's 2019/20 AOP contains 13 key performance targets agreed with the Scottish Government, whereas LDPs contained 21 standards. The AOP targets 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. NHS Lanarkshire has adopted 10 of the former LDP standards, not included in the AOP, as Locally Agreed Standards and continues to report performance against these to Board members throughout the year.

**121.** 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.

**122.** 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 around 100 key performance indicators (including the 13 AOP performance targets for 2019/20 and 10 Locally Agreed Standards) 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.

**123.** 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.

**124.** The Director of Planning, Property & Performance worked with the Board Secretary and the Strategy & Performance Manager to review the Integrated Corporate Performance Framework (ICPF) in late 2018/19. A paper was considered at the Board meeting in May 2019 to revise the respective responsibilities, accountability and reporting arrangements at the board from April 2019 onwards for performance management.

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

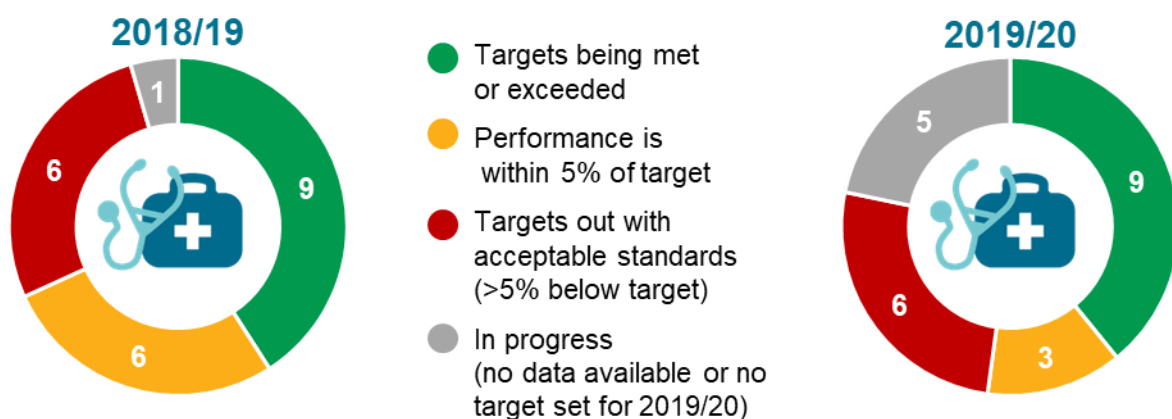
### 9 of the 23 AOP targets and Locally Agreed Standards (former LDP standards) are being met

**126.** The Audit Scotland report, *NHS in Scotland 2019*, highlights that the NHS in Scotland met two of the eight key national waiting times standards in 2018/19. This is a small improvement from 2017/18, when the NHS met only the drug and alcohol waiting times standard. In addition, national performance declined for six out of the eight standards in 2018/19. NHS Lanarkshire has consistently met three national performance standards since 2016/17, relating to cancer treatment within 31 days of the decision to treat, cancer treatment within 62 days from referral and financial breakeven.

**127.** The board's own reporting of performance in 2019/20 against its 13 AOP targets and the 10 Locally Agreed Standards as reported in the annual report and accounts (where data available) is summarised in [Exhibit 8](#).

## Exhibit 8

### Overall performance against AOP targets and Locally Agreed Standards



The 5 AOP Targets and Locally Agreed Standards rated as "In Progress" in 2019/20 are Dementia Post Diagnosis Support, Mental Health Waiting Times in A&E, C diff, SAB and E. coli bacteraemia (ECB) (no targets were set for 2019/20).

Source: NHS Lanarkshire Quarterly Performance Report – Quarter 4 2019/20 and NHS Lanarkshire Annual Report & Accounts 2019/20



**128.** This shows that 9 of the 23 targets and standards are being met categorised as green. In 2018/19, 9 of the 22 targets and standards were met. There are six targets that are outwith its acceptable standards and more details on these are provided in [Exhibit 9](#) overleaf. The number of targets and standards categorised as red has fluctuated over time from five indicators in 2016/17 it increased to seven in

2017/18 but improving performance in 2018/19 saw it fall to six indicators. We have noted that the board has consistently achieved a number of targets and standards in the past few years including, relating to cancer treatment within 31 days of the decision to treatment, cancer treatment within 62 days from referral and financial breakeven, eligible patients commencing IVF treatment within 12 months, drug & alcohol treatment within 3 weeks from referral and sustain and embed alcohol brief interventions in 3 priority settings.

## Exhibit 9 AOP targets and Locally Agreed Standards not being met

Target/standard		Performance at March 2020 <sup>1</sup>	Action being taken by Board
<p><b>Treatment Time Guarantee (TTG) (AOP Target)</b></p> <p>Proportion of patients that were seen within 12 weeks TTG</p>	75%  (by October 2019)	<p>● 66.5%</p> <p>(increase from 64.3% at 31 March 2019)</p>	<p>This is an area where NHS Lanarkshire had previously recognised it had an ongoing gap between demand and capacity and worked hard in 2019/20 to improve performance. The first 3 quarters of the year showed an improvement, with performance ranging between 72.4% and 73.7%. At December 2019 there was an absolute reduction in the waiting list of 418 compared to the previous December. In March 2020 however over 700 procedures were cancelled with the elective programme being stood down nationally due to Covid-19 and the progress made in the earlier part of the year slid back.</p>
<p><b>Primary Care – Advance Booking (Locally Agreed Standard)</b></p> <p>Proportion of patients able to book an appointment with a GP three or more working days in advance.</p>	90%	<p>● 59% at March 2018</p> <p>Data is only provided biennially by national survey.</p>	<p>The biennial survey for 2017/18 was published in May 2018. While previous performance was 69.3% in 2016, demand for services has been steadily increasing at the same time as GP numbers have been falling. In seeking to manage demand, more practices have introduced same day triage requiring patients to phone up on the day they want an appointment. While this approach offers same day appointments for patients, there is limited scope for advance booking and the and the board's ability to change the practices model is limited.</p>

Target/standard	Performance at March 2020 <sup>1</sup>	Action being taken by Board
<p><b>Unscheduled Care – 4 Hour Compliance (A&amp;E) (AOP Target)</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%</p> <p>● 86.3% (decrease from 91.7% at 31 March 2019)</p>	<p>The combination of more people arriving in A&amp;E, and more beds being blocked each day meant waits in A&amp;E department grew longer with 15.1% of patients having to wait more than 4 hours compared to 8.3% in 2018/19. The board already had in place an unscheduled care group which pulled together the 2 IJBs and the Acute Division. An enhanced plan looking at various ways to improve support in the community and speed the flow through hospital was agreed but progress was not fast enough as the December 2019 A&amp;E performance of 77.2% was lowest seen in the board. The need for urgent action to reduce the pressure on hospitals led to a five-partner summit meeting in early December 2019, bringing in the local authority Chief Executives as well as the Chief Officers of the IJB to agree a rapid escalation protocol. Performance improved through January into mid-March 2020, though the system remained under intense pressure.</p>
<p><b>Early Detection of Cancer (Locally Agreed Standard)</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</p> <p>● 24.8% at Dec 2018 (decrease from 24.9% at Dec 2017)</p>	<p>At December 2018 the board was achieving 24.8%, a reduction on the previous year's 24.9%. The performance data relates to combined calendar years 2017 and 2018 and performance for Scotland sits at 25.5%. To increase the percentage of cancers detected at Stage 1 the board is trying to increase the number of people taking advantage of all cancer screening programmes (including the cervical screening programme which is not included in the national target). The national cancer screening programmes were temporarily suspended as a result of the Covid-19 pandemic and had not yet</p>

Target/standard	Performance at March 2020 <sup>1</sup>		Action being taken by Board
<p><b>18 weeks Referral to Treatment (RTT) –CAMHS (AOP Target)</b></p> <p>Percentage of patients seen and treated within 18 weeks from initial referral.</p>	90%	 65.2%	<p>been restarted by mid-June 2020.</p> <p>NHS Lanarkshire achieved at 65.2% at March 2020, a decrease from 80.9% at March 2019. The overall Scottish performance was 63.8%. This is an area where rising referrals combined with continued difficulties with staff turnover are causing a national challenge. NHS Lanarkshire last achieved 90% in January 2017. A deep dive into the service was reported to the PPRC in April 2019 and a series of improvement actions along with additional investment are underway.</p>
<p><b>6 Weeks Diagnostics (AOP Target)</b></p> <p>Proportion of patients waiting for one of the eight key diagnostic tests and investigations would be waiting no longer than six weeks.</p>	95%	 78.3% (decrease from 98.9% at March 2019)	<p>In NHS Lanarkshire 98.9% of patients waiting at the end of March 2019 had been waiting less than six weeks. At the end of February 2020 this had dropped to 91.4% as a rising demand for MRI scans and ultrasounds for urgent suspicion of cancer and inpatient activity was combined with workforce shortages. The shorter waiting time guarantee for this standard meant it was impacted more rapidly by the suspension of elective activity due to Covid-19 and it had dropped to 78.3% by the end of March 2020. The Scottish average at that point sat at 75.8%. During the year plans were worked through to recruit and upskill staff to help fill the gap between capacity and demand.</p>

Note: 1. Figures still to be validated by NHS Information Services Division. Where March 2020 data is not yet available, the most recent data is used.

Source: NHS Lanarkshire Quarterly Performance Report – Quarter 4 2019/20 and NHS Lanarkshire Annual Report & Accounts 2019/20.

**129.** Based on available evidence, we concluded that the board's plans for addressing the underlying causes of poor performance are reasonable. However, the board should continue to seek ways to balance the achievement of its financial targets with other national performance targets.

## Officers report to the board on the arrangements in place to secure Best Value

**130.** *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. 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.

**131.** On 1 April 2016 the IJBs became operational and this has been reflected in the board's review of its Best Value arrangements presented to the Audit Committee in June 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 (where required) to reflect any changes to board arrangements in the interim. There were no significant changes to these arrangements that required an annual update review by officers in 2020. The Director of Finance gave a verbal update to the June 2020 Audit Committee where she confirmed that there were no significant changes to the 2018 review and that a full review would be undertaken in 2021 in line with agreed practice.

## Local performance studies

### Despite the board's focus on trying to reduce delayed discharge bed days, there has been a significant increase in delayed discharges this year

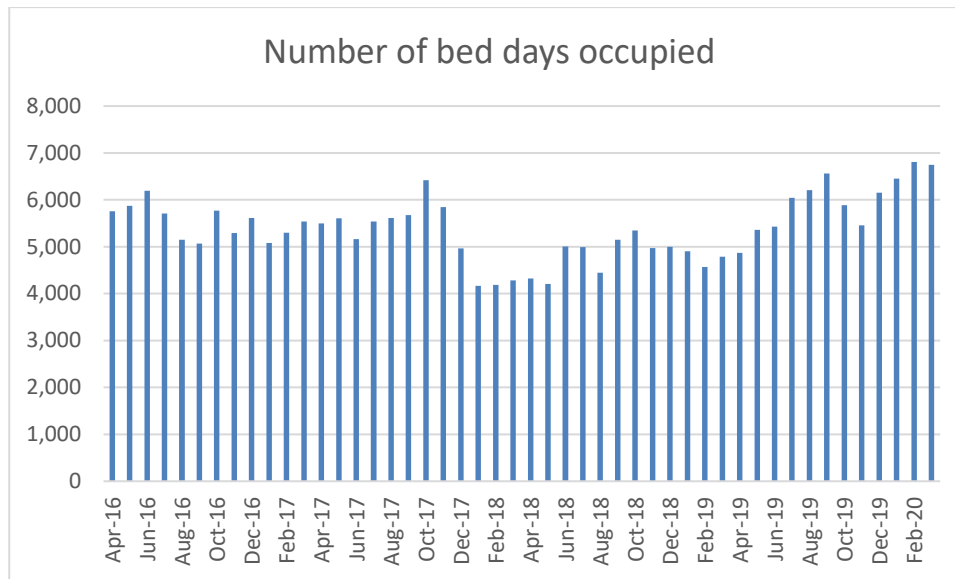
**132.** In 2016/17 we undertook a review of the board's arrangements in place for managing delayed discharges and identified a number of areas where improvements could be made. We highlighted that the board could only reduce delayed discharges by working closely with North and South Lanarkshire IJBs. 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.

**133.** We reported progress last year and again this year. We found that there is a clear focus on trying to reduce delayed discharges across the three partners. Officers are acutely aware of the detrimental impact delayed discharges can have on patients both in terms of their wellbeing and future service needs.

**134.** All recommendations have been taken forward with some being completed and some revised to reflect emerging issues. The action plan is monitored by the Unscheduled Care and Delayed Discharges Programme Board. In addition, delayed discharge performance is routinely reported to the North and South IJBs and respective performance committees. Examples of actions taken to reduce delayed discharges include the introduction of discharge lounges in the 3 acute hospital sites which allows patients to vacate their beds while waiting on transport, medication, etc. required for discharge that day, dynamic daily discharge which allows patients to be discharged without needing to see a consultant, the introduction of Acute Care of the Elderly nurses (ACE) in accident and emergency departments to provide tailored solutions for elderly patients when they present at hospital and the introduction of the frailty unit in University Hospital Monklands to manage the needs of patients considered to be frail. Generally, these initiatives are in their infancy however we are advised that early indications are that they seem to be working well.

**135.** Despite all of the action taken to reduce delayed discharges, there has actually been a significant increase in the level of delayed discharges in 2019/20 as shown in [Exhibit 10](#) overleaf.

## Exhibit 10 Delayed Discharges



Source: Audit Scotland using data from NHS National Services Scotland's Information Services Division

**136.** Overall, the board and its partners have taken positive steps to address delayed discharges however further work is required to realise sustainable reductions going forward. Both IJBs advised that the discharge of adults with incapacity continues to present challenges and there are plans for a renewed focus in this area.

**137.** Since completing our follow up work, the board and its IJB partners had to take steps to address the expected challenges of capacity in the acute hospitals to manage the Covid19 pandemic. There was a focus on discharging patients from hospital who did not have a clinical need to be there. The steps taken to reduce delayed discharges in April 2020 have not been subject to review as part of our follow-up work.

### National performance audit reports

**138.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2019/20 a number of reports were published which are of direct interest to the board and are highlighted in [Appendix 3](#).

**139.** The NHS Overview Report on the 2019/20 audits will include a review of the response to the Covid-19 pandemic by the NHS in Scotland along with a report on financial and operational performance. This is due to be published early 2021.

**140.** Audit Scotland is at the early stages of reviewing its future work programme in light of the Covid-19 pandemic but key topics under consideration include the economic and fiscal consequences of Covid-19 and public service adaptation in response to Covid-19.



# Appendix 1

## Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Financial plan 2020/21</b></p> <p>The board's financial plan was developed before the Covid-19 pandemic occurred in March 2020.</p> <p><b>Risk</b></p> <p>The assumptions made in the board's financial plan are out of date and don't take into account the financial impact of Covid-19.</p>	<p>The board should review its medium-term financial plan following the Covid-19 pandemic to reflect its impact on the board's finances going forward, including scenario planning of key financial assumptions.</p> <p><a href="#">Paragraph 62</a></p>	<p>Agreed. Significant work is underway to assess the additional costs of the initial response to Covid-19 with a view to securing additional funding and to model the recovery of services. It is expected there will be significant changes to how services operate for the foreseeable future and there will be multiple iterations before the final plan is agreed. Finance will work alongside this process. On award of initial funding a revised 2020/21 financial plan will be presented to the Board. The Board will be kept apprised of longer-term financial modelling and a revised medium-term plan will be presented through the December 2020 to March 2021 period.</p> <p>Director of Finance</p> <p>December 2020-March 2021</p>

### Follow up of prior year recommendations

2	<p><b>Clinical Medical Claims and CNORIS provision</b></p> <p>The board does not currently apply adjustments for inflation and discounting when calculating the structured settlement element of the provision for inclusion in the Scottish Government's national CNORIS liability.</p> <p><b>Risk</b></p> <p>The debtor position and the CNORIS provision within the financial statements is misstated.</p>	<p>The board should ensure that its 2019/20 structured settlement element of the provision is adjusted for inflation and discounting before sending to the Scottish Government for inclusion in the national CNORIS liability.</p>	<p><b>Complete</b></p> <p>The board has applied the correct inflation and discounting in 2019/20.</p>
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No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p><b>Deferred Income – Research and Development Contracts</b></p> <p>Income received from research and development contracts has been incorrectly disclosed as deferred income in the financial statements instead of being disclosed as operating income.</p> <p><b>Risk</b></p> <p>The creditor position and the underspend against RRL provision within the financial statements is misstated.</p>	<p>The board should ensure that research and development contract income is correctly disclosed in the 2019/20 financial statements.</p>	<p><b>In Progress</b></p> <p>Although a number of completed research and development contracts were closed in 2019/20, the board is continuing to review the mechanisms for recording research and development income to ensure that it is recorded in the correct financial year.</p> <p>Head of Finance - Acute</p> <p>31 October 2020</p>
4	<p><b>Efficiency savings</b></p> <p>For 2019/20 the board is required to deliver 1.5% (£17.974 million) savings. The board has yet to identify £2.382 million of the savings required for next year.</p> <p><b>Risk</b></p> <p>The board may not be able to deliver the targeted savings in 2019/20.</p>	<p>The board should ensure that saving plans are developed identifying how the £2.382 million of savings in 2019/20 will be made.</p>	<p><b>Complete</b></p> <p>£8.624 million (40%) of the total efficiency savings achieved in 2019/20 of £21.511 million were on a recurring basis, with the remainder (£12.887 million) achieved on a non-recurring basis. The board has reported breakeven against the total RRL in 2019/20.</p>
5	<p><b>Medium to long-term financial plans</b></p> <p>The board has yet to develop a detailed 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 more detailed medium to long term financial plan from 2021/21 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><b>In Progress</b></p> <p>The board's 2019/20 financial plan includes a forecast of the financial position for a further 2 years, i.e. 2020/21 and 2021/22. This shows a "reasoned estimate" of uplifts to existing budgets in future years based on 2019/20 RRL allocations of 2.5% but also includes scenario planning for the budget gap if the uplift differs to that used in the modelling. The board will therefore develop a detailed medium to long term financial plan from 2020/21 as soon as the Scottish Government's funding plans are clearer.</p> <p>See updated position reflected in action plan point 1 above.</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 to 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 material misstatement caused by management override of controls</b></p> <p>Auditing standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent 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>Audit testing of journal entries, accruals and prepayments was completed. 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 material misstatement caused by fraud in income recognition.</b></p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. NHS Lanarkshire receives a significant amount of income from sources other than the Scottish Government. There is therefore a risk that income may be misstated, resulting in a material misstatement in the financial statements.</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 material misstatement caused by fraud in expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. NHS Lanarkshire incurs significant expenditure</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>Obtained assurances from auditor of NHS National Services Scotland over the</p>	<p>No 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</p>

on family health services which require audit coverage.

work of the Service Auditor in respect of Practitioner Services.

board and no significant issues have been highlighted.

No significant issues have been raised by the auditor of NHS National Services Scotland over the work of the Service Auditor in respect of Practitioner Services.

#### 4 Estimation and judgements

There is a significant degree of subjectivity in the measurement and valuation of the material account area, provisions. In 2018/19 we identified some errors in provisions calculations. This subjectivity and the prior year errors represent an increased risk of misstatement in the financial statements.

Reviewed information provided by the Central Legal Office (CLO).

Focused substantive testing of provisions and non-current asset valuations.

We reviewed the CLO information and performed testing of provisions.

No issues were identified with the competency of the expert advisers and no material misstatements were identified.

#### 5 Authorisation of overtime payments

In 2018/19, the board spend in excess of £4.5 million on overtime payments to employees. In 2019 a suspected fraud was identified in respect of overtime payments. The board undertook a review of internal controls which resulted in a revised approach being developed for authorising overtime payments. The revised arrangements are being piloted in one department with a view to rolling them out across all sites before the end of 2019.

Given that the revised, enhanced arrangements will not be in place throughout 2019/20 there is a risk that payroll costs are overstated.

Performed substantive testing of overtime payments.

No significant issues were identified that have a material impact on the 2019/20 accounts.

#### 6 eESS – HR/Payroll System

Regular checks to confirm the existence of employees are fundamental for ensuring that only valid employees are being paid. Although checks are now in place, employing departments do not provide positive confirmation that the listings provided are correct which means that errors may not be identified.

We have previously reported that there have been some delays in updating eESS when

Performed substantive testing on the existence of employees included on the payroll.

No significant issues were identified that have a material impact on the 2019/20 accounts.

an employee has left the organisation resulting in overpayment of salary. This delay, coupled with the absence of positive confirmation of payroll listings means there is a risk that invalid employees are being paid through the payroll, thereby overstating payroll costs.

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

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### 7 Governance and transparency

Internal audit is currently working with a reduced staffing complement compared to the resources needed to deliver the 2019/20 Internal Audit plan. The Internal Audit plan will be revised to ensure that resources are targeted to deliver the highest priority audits.

There is a risk that the revised Internal Audit plan will not provide sufficient coverage to provide the necessary assurances, to the Board's Audit Committee, for the Annual Governance Statement.

Reviewed the revised Internal Audit plan to assess the Internal Audit Coverage.

Reviewed the arrangements in place to ensure that the Board has the necessary assurances to sign-off the Annual Governance Statement.

During the year Internal Audit revisited their 2019/20 Audit Plan in consultation with the Audit Committee to ensure the priority areas were reviewed in year and deferred the remaining areas to 2020/21. The revised plan was completed. Internal Audit provided the necessary assurances to the Audit Committee for the 2019/20 Governance Statement.

### 8 Impact of EU withdrawal

The board faces uncertainty around its funding and capacity for service delivery beyond the 31 January 2020 when the United Kingdom leaves the European Union. Work is ongoing with the Scottish Government to ensure that the board is adequately prepared but there is still significant uncertainty around the impact of EU withdrawal.

There is a risk that the board is unable to deliver services efficiently following EU withdrawal.

Reviewed the board's assessment of impact of EU withdrawal on its operations and the mitigating controls in relation to this risk as set out in the board's corporate risk register.

We concluded that the board has appropriately considered the possible impact of the EU withdrawal on its ability to deliver healthcare services. Board members are also updated regularly on the preparatory work being undertaken by officers.

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# Appendix 3

## Summary of national performance reports 2019/20

		 <b>2019/20 Reports</b>	
		Apr	
Social security: Implementing the devolved powers		<b>May</b>	
Scotland's colleges 2019		<b>Jun</b>	 Enabling digital government
		Jul	
NHS workforce planning - part 2		<b>Aug</b>	
Finances of Scottish universities		<b>Sept</b>	
NHS in Scotland 2019		<b>Oct</b>	
		Nov	
Local government in Scotland: Financial overview 2018/19		<b>Dec</b>	
Scotland's City Region and Growth Deals		<b>Jan</b>	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		<b>Mar</b>	 Early learning and childcare: follow-up

### NHS relevant reports

[NHS workforce planning – part 2](#) – August 2019

[NHS in Scotland 2019](#) – October 2019

# NHS Lanarkshire

## 2019/20 Annual Audit Report

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