

Government and Public Sector

July 2007

NHS Lanarkshire

Annual Report to Members



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NHS Lanarkshire
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The Auditor General for Scotland
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27 June 2007

Our ref: LP/MW

Ladies and Gentlemen

Annual Report to Board Members 2006/07

We have completed our audit of NHS Lanarkshire and its financial statements for the year ended 31 March 2007.

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2006/07 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

PricewaterhouseCoopers LLP

1. Executive Summary



Our Audit Opinion

- 1.01 Our audit opinion concerns both the true and fair statement of NHS Lanarkshire' ("the Board's") financial results for the year ended 31 March 2007 (2006/07) and the regularity of its income and expenditure in the year.
- 1.02 We are pleased to report that our opinion on the true and fair view on the financial statements is unqualified.
- 1.03 Our regularity opinion on income and expenditure is also unqualified.
- 1.04 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report 2006/07 is unqualified. Our audit opinion does not extend to any other part of the Directors' Report.

Financial Performance

- 1.05 The Board's performance against its three financial targets was as follows:

| Financial Targets | Achievement |
|---|---|
| Net resource limit should not exceed the Revenue Resource Limit ("RRL") | The Board spent £757.789 million against its RRL of £765.750 million, resulting in a surplus of £7.961 million. |
| Capital Resource Limit ("CRL") | Total capital spend was £3.231 million against a CRL of £9.373 million. |
| Cash Requirement Target | The Board spent £796.751 million thus complying with the cash requirement target of £796.751 million. |

- 1.06 NHS Lanarkshire has been operating with an underlying recurring deficit for a number of years, with this over commitment of annual operating expenditure against core funding from the SEHD being £21.659 million as at 1 April 2006, with a plan to reduce this to £8.919 million by 31 March 2007. The accumulated, or historic, deficit carried forward into 2006/07 was £8.393 million.

- 1.07 With this in mind, the Board planned for 2006/07 with two clear financial objectives:
- To clear the accumulated brought forward deficit; and
 - To achieve in-year operating balance
- 1.08 The Board has been successful in achieving these targets.
- 1.09 The Board has achieved this against a backdrop of major financial pressures such as pay modernisation initiatives and a major modernisation programme.
- 1.10 Whilst the Board has improved its financial position, approximately £12 million of the £16.354 million surplus achieved in 2006/07 is attributable to the gain from the sale of land at the former Law Hospital and Stonehouse Hospital sites. This was planned and was included within the five year financial plan.
- 1.11 The Board is predicting an in-year surplus of £4 million for 2007/08. However, significant financial challenges remain, particularly around the uncertainty and rising costs of the Picture of Health programme, continued Agenda for Change costs, reducing (in real terms) core funding and underachievement of recurring savings targets.

The Audit Process and Accounting Issues

- 1.12 The financial statements and the majority of the supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by management were largely of a reasonable standard. However, there was one area where we believe that the quality of the supporting working papers and extent of critical review by senior management within finance requires significant improvement.
- 1.13 This issue applied to accruals within the financial statements where we experienced significant delays in obtaining supporting documentation and where the supporting documentation was not in all instances adequate for our purposes. This led to delays in the audit process and hampered our overall progress with the audit.
- 1.14 We are required to report any unadjusted differences to those charged with governance. As a result of our work, we proposed a number of audit adjustments and a number have been processed by management in the final 2006/07 Annual Accounts. However, a number remain unadjusted.
- 1.15 The more significant of these unadjusted differences are set out in the table below.

| Description | Proposed Adjustment (£'m) |
|--|---------------------------|
| Accrual of unspent allocations | 2.928 |
| Inappropriate accruals (including FHS) | 2.357 |
| Discounting Sales Proceeds of Law | (1.900) |
| Unadjusted Amount | 3.385 |

1.16 We would normally expect management to process adjustments of this nature. However, in this instance, management has decided not to do so. Processing the adjustments would have had the effect of increasing the annual surplus. We do not believe that the failure to process these adjustments materially impacts upon the true and fair view of the financial statements.

1.17 Management has provided explanations in the Letter of Representation as to the reasons why these adjustments were not processed.

Systems of Internal Control

1.18 The Code of Audit Practice requires us to review and report on the Statement of Internal Control given in the accounts. Based on our normal audit procedures, we do not disagree with the disclosures contained within the Statement of Internal Control.

1.19 Details of control matters noted during the course of our audit are set out in **Section 7**.

Governance Arrangements

1.20 A summary of the work we have performed in the year in relation to the Board's Governance arrangements is set out in **Section 8**. There were no significant areas for improvement arising from our work.

Prevention and detection of fraud and irregularities

1.21 Our work on the prevention and detection of fraud and irregularities included:

- review of the Board's overall arrangements for the prevention and detection of fraud and corruption;
- consideration of the Board's arrangements in respect of the National Fraud Initiative (NFI);
- review of fraud guidance issued by Audit Scotland and the Scottish Executive Health Department (SEHD); and
- submission of an annual fraud return to Audit Scotland.

1.22 Further details of all these matters are set out in **Section 9**, along with one recommendation to formalise NFI arrangements within the Board.

Performance – Waiting Times

- 1.23 The Board has allocated significant resources to meeting the current targets set by the SEHD. Trajectories are contained within the NHS Lanarkshire Local Delivery Plan 2006/07, and regular reports on all aspects of Waiting Times achievements are made to the Board.
- 1.24 In terms of achievement for 2006/07, the six month guarantee for inpatients and day cases has been maintained with no patients waiting over 18 weeks at the end of March 2007. However, at end of March 2007, there were 2695 outpatients waiting over 18 weeks.
- 1.25 In addition, compliance with the 62 day guarantee cancer targets has varied across tumour types for 2006/07. Whilst there is evidence of improvement for the same period the previous year, it is still below the required guarantee. The new Cabinet Secretary for Health and Wellbeing has provided NHS Lanarkshire with the Support Team which has previously assisted other NHS Boards across Scotland in achieving cancer waiting times.
- 1.26 Details of the performance against the key indicators are contained in **Section 10** of this report.
- 1.27 Further detail about financial results 2006/07, forecast financial results for 2007/08 and performance is given in **Sections 4 and 5** of this report.

Service Sustainability and Modernisation

- 1.28 In response to *“Delivering for Health*, NHS Lanarkshire published *“A Picture of Health” (PoH)* strategy in December 2005, which set out a framework for improving health services in Lanarkshire.
- 1.29 The development of the strategic plan was undertaken with an integrated approach ensuring clinical modelling and involvement of the Board and other relevant stakeholders. In addition, a full public consultation process on the strategy took place from January 2006 to June 2006 and the strategy received Ministerial approval on the 21 August 2006.
- 1.30 One of the key proposals of the strategy is to separate emergency from planned inpatient care. This will involve developing Wishaw General Hospital and Hairmyres Hospital as emergency inpatient hospitals (level 3 facilities), with Monklands Hospital used for planned elective care (level 2 facility).
- 1.31 However, on the 6th June 2007, this decision was overturned by the new Cabinet Secretary for Health and Wellbeing. NHS Lanarkshire is currently in discussions with the Cabinet Secretary and the SEHD regarding the resultant review process arising from this decision and the wider impact on the PoH programme.

Other Business Matters

- 1.32 As part of our audit, we have obtained and documented certain information relating to the Board in a number of areas including business risks, the Quality and Outcomes Framework (QOF); and NHS Tariffs.
- 1.33 A summary of this work is set out in **Section 10**, along with a number of recommendations for further action.
- 1.34 In addition, as appointed external auditors to NHS Lanarkshire, we were instructed by Audit Scotland to review issues outlined in a letter from Elaine Smith MSP dated 22 August 2006, regarding the proposed re-classification of Monklands Hospital.
- 1.35 A summary of this work and the conclusions reached are set out in **Section 11**.

Audit Scotland Performance Work

- 1.36 Audit Scotland delivers the independent audit of governance, financial stewardship and performance on behalf of the Auditor General and Accounts Commission. Audit Scotland operates under the Public Finance and Accountability (Scotland) Act 2000.
- 1.37 Details of the programme of local performance work for the 2006/07 are outlined in **Section 12**.

2. Introduction



- 2.01 Our overall responsibility as external auditor of NHS Lanarkshire is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007.
- 2.02 In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources.
- 2.03 It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving not only the “appointed auditor”, but importantly the Auditor General for Scotland and other auditors such as Audit Scotland’s Health Performance and Public Reporting Group.
- 2.04 Our audit has been planned and conducted to take account of these wider perspectives.
- 2.05 NHS Lanarkshire and the Chief Executive are, together with other matters, responsible for:
- Ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
 - Maintaining proper accounting records; and
 - Preparing financial statements which give a true and fair view of the financial position and expenditure and income, in accordance with the Financial Reporting Manual.
- 2.06 In this regard, we are responsible for issuing an audit report (opinion) on:
- Whether the financial statements give a true and fair view of the financial position and expenditure and income
 - Whether the financial statements have been properly prepared in accordance with relevant legislation, accounting standards and other reporting requirements
 - The regularity of expenditure and income

- 2.07 Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "*Communication of audit matters to those charged with governance*", we are required to communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity.
- 2.08 This Annual Report to Members summarises key aspects of our work throughout the audit year, highlighting any matters which we believe should be brought to your attention. Therefore this Report, together with previous reports to the Audit Committee throughout the year discharging the requirements of ISA 260.

Acknowledgements

- 2.09 We would like to thank all NHS Lanarkshire managers and staff involved for their assistance throughout the audit process.

3. Independent Auditors' Report and Key Financial Targets

Our Audit Opinion

- 3.01 Our audit opinion concerns both the true and fair statement of NHS Lanarkshire' ("the Board's") financial results for the year ended 31 March 2007 (2006/07) and the regularity of its income and expenditure in the year.
- 3.02 In the course of our audit work, we have identified a number of mis-statements which management have not adjusted. We do not believe that they materially impact upon the true and fair view and as a result, our opinion on the true and fair view on the financial statements is unqualified.
- 3.03 Our regularity opinion on income and expenditure is also unqualified.
- 3.04 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report 2006/07 is unqualified. Our audit opinion does not extend to any other part of the Directors' Report.

Financial Targets

3.05 The Board's performance against its three financial targets was as follows:

| Financial Targets | Achievement |
|---|---|
| Net resource limit should not exceed the Revenue Resource Limit ("RRL") | The Board spent £757.789 million against its RRL of £765.750 million, resulting in a surplus of £7.961 million. |
| Capital Resource Limit ("CRL") | Total capital spend was £3.231 million against a CRL of £9.373 million. |
| Cash Requirement Target | The Board spent £796.751 million thus complying with the cash requirement target of £796.751 million. |

3.06 The Board was successful in both clearing the accumulated deficit brought forward of £8.393 million and recording an in-year surplus of £16.354 million.

- 3.07 The Board spent £15.785 million against the Capital Resource Limit (CRL) of £21.927 million – an underspend of £6.142 million due to slippage across a range of projects.
- 3.08 However, the reported CRL numbers have been correctly adjusted for the receipts of excess land during the year as follows:-
- 3.09 The table below provides a summary of expenditure for 2006/07.

| Capital Expenditure 2006/07 | £'m | Capital Resource Limit 2006/07 | £'m |
|--|---------------|--|---------------|
| Expenditure in year | 15.785 | Capital Resource Limit | 21.927 |
| | | | |
| Capital Receipts | (12.554) | Capital Receipts | (12.554) |
| | | | |
| Capital Resource Limit out-turn | 3.231 | Adjusted Capital Resource Limit | 9.373 |

4. Financial Performance 2006/07



- 4.01 NHS Lanarkshire is responsible for conducting its affairs and for putting in place proper arrangements to ensure that its financial position is soundly based.

Financial Performance in the Year

- 4.02 It is emphasised that we do not express a specific audit opinion on the figures on the following pages – these have been extracted in agreement with management from various reports, supporting papers and detailed discussions with management.
- 4.03 The table below identifies the difference between recurring expenditure and income, the difference between non recurring expenditure and income, and corporate savings achieved in 2006/07.

NHS Lanarkshire - Actual Financial Position 2006-07

| | £m | £m |
|--|------------|--------------|
| Recurring Income | 729.7 | |
| Recurring Savings | 2.6 | |
| Recurring Expenditure | (739.5) | |
| Underlying recurring surplus/(deficit) | | (7.2) |
| Non-Recurring income | 152.6 | |
| Non Recurring savings | <u>4.5</u> | |
| Non-recurring expenditure | (145.5) | |
| Balance of non-recurring | | 11.6 |
| Gap | | 4.4 |
| Other income sources | 0 | |
| Non-recurring SEHD income/year-end support | 12.0 | |
| Total other income | | 12.0 |
| Financial surplus/(deficit) for 2006-07 | | 16.4 |

- 4.04 The above table highlights the Board's achievement of a £16.354 million surplus for the year.

- 4.05 This surplus enabled the Board to clear the deficit of £8.393 million brought forward from 2005/06, and left a cumulative surplus of £7.961 million to be carried forward to 2007/08.
- 4.06 Whilst the Board has improved its financial position, £12 million of the £16.354 million surplus achieved in 2006/07 is attributable to the gain from the sale of land at the former Law Hospital and Stonehouse Hospital sites (refer to paragraphs 6.10 to 6.18). This was planned and was included within the five year financial plan.
- 4.07 Savings/underspends of £8 million were also achieved, although these were partly offset by additional cost pressures.

Sale of Surplus Land – Former Law Hospital Site

- 4.08 The Law Hospital site was carried in the Board's financial statements at £4.95 million, the revalued amount as at 31 March 2005 in line with the SEHD Capital Accounting Manual. The Board agreed a gross price of £15 million in 2006/07, with the estimated "gain on sale" credited to the Operating Cost Statement of £11.8 million.

Sale of Surplus Land – Stonehouse Hospital Site

- 4.09 During 2006/07, NHS Lanarkshire sold a part of the Stonehouse Hospital site. Having previously been identified as surplus to requirements, the net sale proceeds of £7.5 million generated a "gain on sale" credited to the Operating Cost Statement of £0.237 million (net book value was £7.2 million). The deposit was agreed as £0.850 million. This has now been received and will be followed by two equal instalments, the first in 2007/08 and the second 12 months later.

Actual out-turn Against the Plan

- 4.10 The Board approved its five year financial plan at its meeting in March 2006. This forecast a surplus of £0.121 million for the 2006/07 financial year.
- 4.11 Included within that plan was the assumption of £15 million proceeds from the sale of land at the former Law Hospital site.
- 4.12 It was intended that this would cancel the accumulated deficit (as projected at March 2006 to be £10.042 million), contributing £4.958 million to the in-year position. However, due to the uncertainty around the sale, this assumption was removed from the plan at the mid-year review stage, as reflected in the table below.

- 4.13 The following table shows the significant movements between the Board's original plan and the actual in-year surplus:

**NHS Lanarkshire - Projected versus Actual Financial Position
2006/07 - Key Variances**

| | £'m | £'m |
|---|---------|----------------------|
| Initial projected financial position for 2006/07 | | 0.121 |
| Removal of gain for sale of Law Hospital land assumed in initial plan (£15 million proceeds less payback of accumulated deficit of £10.042 million) (refer to paragraph 4.12) | | (4.958) |
| 1. Additional Cost Pressures: | | |
| Corporate Savings Plan - shortfall against target (refer to paragraph number 4.15) | 1.582 | |
| Agenda for Change – appeals (refer to paragraph number 4.17) | 2.000 | |
| Clinical Negligence (refer to paragraph number 4.18) | 0.857 | |
| Car Parking – Wishaw (refer to paragraph number 4.19) | 0.700 | (5.139) |
| 2. In-year Cost Savings: | | |
| High cost low volume drugs (refer to paragraph number 4.22) | 4.372 | |
| Prescribing (refer to paragraph number 4.23) | 3.499 | |
| Regional Issues – SLAs with other Boards (refer to paragraph number 4.24) | 1.162 | 9.033 |
| 3. Technical Accounting Adjustments: | | |
| Release of Budget Reserves (refer to paragraph number 4.25) | 4.564 | |
| In –year amendments to calculations (refer to paragraph number 4.26) | (1.016) | 3.548 |
| 3. Additional Income: | | |
| Resource Transfer (refer to paragraph number 4.27) | 1.662 | |
| Gain on Sale of Land – Law and Stonehouse (refer to paragraph number 4.08 - 4.09) | 12.017 | 13.679 |
| Aggregate of remaining amounts | | <u>0.070</u> |
| Actual financial position for 2006/07 (per Annual Accounts) - surplus | | <u>16.354</u> |

- 4.14 The following paragraphs explain the in-year financial performance and the key reasons why the predicted £0.121 million surplus position became a £16.354 million surplus at the year-end.

Additional Cost Pressures - Corporate Savings Plan – unachieved target (£1.582 million)

- 4.15 A target saving of £8 million was set for 2006/07 (£5 million recurrently and £3 million non-recurrently). However, only £2.738 million of recurrent and £3.68 million of non-recurrent savings could be identified and were subsequently withdrawn from budgets at the start of the 2006/07 financial year.

- 4.16 This resulted in a shortfall against the target of £1.582 million, as outlined in the table below.

ACTION POINT 1

| Corporate Recovery Programme 2006/07 | Recurring £M | Non- Recurring £M | Total £M |
|---|-----------------|-------------------------|----------------|
| Estate Rationalisation | 1.000 | 0.000 | 1.000 |
| Non Clinical Support Services | 0.613 | 0.070 | 0.683 |
| Ward Rationalisation | 0.200 | 0.000 | 0.200 |
| Headquarters Departments | 0.250 | 0.250 | 0.500 |
| Workforce Cost Reductions | 0.329 | 0.000 | 0.329 |
| CRES | 0.346 | 3.360 | 3.706 |
| Total Savings Achieved | 2.738 | 3.680 | 6.418 |
| Target Total Savings | 5.000 | 3.000 | 8.000 |
| (Shortfall) / Excess Over Target | (2.262) | 0.680 | (1.582) |

Additional Cost Pressures - Agenda for Change – potential appeals (£2 million)

- 4.17 In common with other NHS bodies in Scotland, the Board is currently facing a number of appeals with regards to gradings. An amount of £2 million has been provided for within the 2006/07 accounts to cover these appeals.

Additional Cost Pressures - Clinical Negligence – additional claims (£0.857 million)

- 4.18 In the last quarter of 2006/07, the Board was notified of a small number of claims which were deemed 'residual'. These are outwith the scope of the Clinical Negligence and Other Risks (CNORIS) scheme and thus have had a greater financial impact for the Board.

Additional Cost Pressures – Car parking – (£0.700 million)

- 4.19 Following a visit by the Health and Safety Executive to the Wishaw Hospital site in the year, the Board was issued with a formal recommendation to improve the provision of car-parking at the site.
- 4.20 The Board is therefore obliged to act, and subsequently reviewed the options for expansion. These options consist of purchasing adjacent land and building several hundred spaces, as well as development on the existing Wishaw site.
- 4.21 Initial costings of the options have been performed and reported to the Capital Investment Group, resulting in a £0.700million provision in the 2006/07 Annual Accounts, in respect of the existing site, as any investment through the PFI contract has a revenue impact. Capital investment will be required in 2007/08 in respect of the additional land purchase required.

In-year Cost Savings - High cost low volume drugs – (£4.372 million)

- 4.22 The initial financial plan approved by the Board included budgeted amounts for certain high cost low volume drugs such as child immunisation vaccines and chemotherapy drugs. However, favourable price movements and ongoing budget management resulted in savings.

In-year Cost Savings - Prescribing - (£2.610 million)

- 4.23 The prescribing budget returned an underspend in the year due to improved prescribing management and the revised cost of the new Pharmacy contract. In addition, an underspend of £0.8 million was also recorded through the Quality and Outcomes Framework.

In-year Cost Savings - Regional Issues – SLAs with Other Boards - (£1.162 million)

- 4.24 The Board benefited from reduced activity levels with certain other Boards, resulting in underspends against budgets. The main saving was with NHS Greater Glasgow and Clyde - £0.77 million. The Board also did not require the full funding set aside in the approved Financial Plan in relation to NHS Greater Glasgow and Clyde waiting times investment. This resulted in a favourable movement of £0.589 million.

Accounting Adjustments - Release of Budget Reserves – (£4.564 million)

- 4.25 As part of the 2006/07 Budget Planning Process £4.564 million was top-sliced from budgets and held in reserve to cover the potential risk that the sale of the former Law Hospital site was not concluded and the gain not recognised in the 2006/07 financial year. A decision was taken at the mid-year review exercise (October 2006) that this amount was to be released into the overall position to support the achievement of financial balance at the year end.

Accounting Adjustments - In -year amendments to calculations – (£1.016 million)

4.26 This adjustments follows the recommendations made in our Interim Management Letter regarding pension and injury benefits provisions. More detail is provided at paragraph 6.06 below.

Additional Income – Resource Transfer – (£1.662 million)

4.27 Slippages occurred in-year with regards to the Learning Disability (£1.197 million) and Mental Health (£0.0465 million) resource transfer programmes, resulting in additional resource to NHS Lanarkshire.

Capital

4.28 Capital expenditure has been recorded in the 2006/07 Annual Accounts at £15.523 million and a Capital Grant of £0.262 million. This is against the net allocation of £21.927 million, after also adjusting for £11.5 million brokerage repaid to the SEHD in the year. This was attributable to general slippage across all projects.

4.29 However, the capital receipts for the land at the former Law and Stonehouse Hospitals of £12.554 million have been offset against these amounts to reflect the adjusted CRL figure recorded in the 2006/07 Annual Accounts.

4.30 The table below provides a summary of expenditure for 2006/07.

| Capital Expenditure 2006/07 | £'m | Capital Resource Limit 2006/07 | £'m |
|--|---------------|--|---------------|
| Expenditure in year | 15.523 | Capital Resource Limit | 21.927 |
| Capital Grants | <u>0.262</u> | | |
| Total Spend | 15.785 | | |
| | | | |
| Capital Receipts | (12.554) | Capital Receipts | (12.554) |
| | | | |
| Capital Resource Limit out-turn | 3.231 | Adjusted Capital Resource Limit | 9.373 |

4.31 Carry forward authorisation of the revised underspend is currently being sought from the SEHD.

4.32 In view of the extensive capital investment programme over the coming years, it is essential that the full carry forward is agreed by the SEHD.

ACTION POINT 2

Summary of Financial Performance

- 4.33 NHS Lanarkshire has been operating with an underlying recurring deficit for a number of years, with this over commitment of annual operating expenditure against core funding from the SEHD being £21.659 million as at 1 April 2006, with a plan to reduce this to £8.919 million by 31 March 2007. The accumulated, or historic, deficit carried forward into 2006/07 was £8.393 million.
- 4.34 With this in mind, the Board planned for 2006/07 with two clear objectives:
- To clear the accumulated brought forward deficit; and
 - To achieve recurring in-year operating balance.
- 4.35 It is evident from the analysis above that the Board has been successful in achieving these targets.
- 4.36 This has been achieved against a backdrop of major financial pressures such as pay modernisation initiatives and a major modernisation programme.
- 4.37 It should also be highlighted that of this surplus, £12 million was attributable to non-recurring income from the gain on sale of excess land, albeit it had always been planned that the cumulative deficit would be cleared in this manner and had been included within the five year financial plan.
- 4.38 Significant financial challenges remain for the Board, particularly around the uncertainty and rising costs of the Picture of Health programme, continued Agenda for Change costs, reducing (in real terms) core funding and underachievement of recurring savings targets.

ACTION POINT 3

5. Forecast Financial Position for 2007/08



- 5.01 For the purposes of this report, the projected position of the Board for 2007/08 has been summarised in the table below.

NHS Lanarkshire – Projected Financial Position 2007/08

| | £M | £M |
|--|---------|--------------|
| Recurring Income | 774.3 | |
| Recurring Savings | 3.0 | |
| Recurring Expenditure | (772.4) | |
| Underlying Recurring Surplus/(Deficit) | | 5.0 |
| Non-recurring Income | 139.9 | |
| Non recurring Savings | 2.0 | |
| Non-recurring Expenditure | (142.9) | |
| Non-recurring | | (1.0) |
| | | 4.0 |
| Other Income Sources | | |
| Non-recurring SEHD Income/year-end Support | 0.0 | |
| Total Other Income | 0.0 | |
| Projected Financial Surplus/(Deficit) for 2007/08 | | 4.0 |

- 5.02 The table above highlights the projected out-turn for 2007/08 – a surplus of £4 million. Also shown is the fact the Board plans to have an underlying recurring surplus position of £5 million, off-set partially by a deficit on non-recurring income of £1 million.
- 5.03 The Revenue Resource Limit for 2007/08 was issued by the Scottish Executive Health Department on 1 February 2007. An uplift of 6.00% has been received, with a further 0.71% in recognition of the move towards Arbutnott parity. These uplifts equate to £46.2 million in total.

- 5.04 Also included within the 2007/08 financial plan is a CRES target of £3 million recurring and £2 million non recurring. Further work is underway to consider options for the achievement of these targets, including a review of externally procured services.
- 5.05 At the time of this report, cost reduction schemes had been identified to achieve £2 million of the £3 million recurring target. Clearly the achievement of these savings targets is integral to the Board achieving its financial targets for 2007/08 and the absence of a detailed savings plan, for the full amount, creates a potential risk for the Board.

ACTION POINT 1

2007/08 - Cost Pressures and Risks

- 5.06 Management has identified a number of cost pressures and risks which could threaten the achievement of the projected £4 million surplus.
- 5.07 A high level risk assessment for these issues has been performed and reported to the Board. Many of these are common across the NHS in Scotland and it is essential that NHS Lanarkshire work closely at a local, regional and national level to mitigate these where possible.

ACTION POINT 4

- 5.08 These risks and pressures can be summarised below.

Picture of Health (PoH)

- 5.09 The financial plan for the PoH programme was based on a number of financial assumptions. The risks to these assumptions have been identified as construction indexation, currently running at between 6% - 8%, the level of optimism bias to be applied to capital investments and the lack of cost certainty for many of the capital projects. These factors have revenue, and thus affordability impact, predominantly through depreciation and capital charges.
- 5.10 This uncertainty, and potential delays and/or alterations to the programme as a result of the current Ministerial review, increase even further the affordability risk surrounding the whole Picture of Health programme.

Pay issues – Agenda for Change and MMC

- 5.11 Basic pay increases of 3.225% have been identified and built into the plan to cover both pay awards (2.5%) and the ongoing impact of Agenda for Change (0.725%).
- 5.12 However, the full-year effect of Agenda for Change, together with the current appeals process still represents a real pressure throughout 2007/08. A full 'zero based budgeting' approach is underway in light of the changes in staffing costs arising from this major change to the pay structure.

- 5.13 A key area of uncertainty is the Modernising Medical Careers Programme. £0.5 million has been set aside in the 2007/08 Financial Plan, and work continues nationally to assess the likely impact and the financial exposure which may need to be addressed locally. (refer to Section 10). However, this remains a key risk for 2007/08.

Prescribing and New Drugs

- 5.14 Based on current spending trends and the anticipated costs of new drugs across both primary and secondary care, a total of £10 million has been set aside for further investment in hospital and GP prescribing. This investment represents a 7% uplift on GP prescribing and a 10% uplift on hospital drug usage.
- 5.15 However, this is an area which is notoriously difficult to predict and price changes and unpredictable demand present an in year pressure which will require to be managed.

Local Investment

- 5.16 The planned investment in Primary Care continues with funding of £1 million in the 2007/08 financial plan to support the further development of the Community nursing and care team services.
- 5.17 However, real pressures exist around the £2.7 million set aside in both the Acute Division and North and South CHPs to support investment in community nursing, care teams, cardiac catheterisation laboratory, renal and vascular services and recognising a funding shortfall in the out of hours service following a change in allocation from the SEHD. Any increases in demand will add to the pressures, together with the requirement to cover a funding shortfall in the out of hours service following a change in allocation from the SEHD.

National & Regional Priorities

- 5.18 Considerable resources are required to meet national priorities and regional developments across the West of Scotland. These include the forensic services (medium secure) development at Stobhill Hospital, interventional neuroradiology, Beatson Oncology Centre and the impact of the West of Scotland regional prioritisation process.
- 5.19 Further investment is also required to deliver Waiting Times targets both locally and in Glasgow and £4 million has been included in the 2007/08 plan. This will support the requirement to deliver and sustain waiting times across the range of published guarantees.
- 5.20 However, increased winter demand or changes to national targets would represent a major challenge to the Board.

Efficient Government

- 5.21 In addition to the need to make recurring savings to support the overall affordability of the financial plan, the SEHD set an Efficient Government target of £45 million by 2007/08. Of this target, cash releasing savings of £20.4 million require to be achieved by the end of 2007/08.
- 5.22 This target has been in place over a three year period and by the end of 2006/07 it was anticipated that a total of £13.4 million would have been achieved, leaving £7 million to be achieved in 2007/08.
- 5.23 A large proportion of this is to be achieved through delivery of the CRES targets. However as outlined above, performance in 2005/06 and 2006/07 resulted in shortfalls against CRES targets and the achievement of the Efficient Government target now presents a significant challenge to NHS Lanarkshire.
- 5.24 In addition, due to recent financial pressures, the Board has concentrated on the identification and achievement of cash-releasing savings. No time-releasing savings have been identified to date.

ACTION POINT 5

Summary of Financial Projections

- 5.25 The above analysis has highlighted the projected surplus for 2007/08 of £4 million, and the potential risks and pressure to the achievement of this position.
- 5.26 This will require NHS Lanarkshire management to continue to manage the above pressures, together with early identification and robust control over the projected savings targets.

6. The Audit Process and Accounting Issues



Audit Process

- 6.01 The financial statements and the majority of the supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by management were largely of a reasonable standard. However, there was one area where we believe that the quality of the supporting working papers and extent of critical review by senior management within finance requires significant improvement.
- 6.02 This issue applied to accruals within the financial statements where we experienced significant delays in obtaining supporting documentation and where the supporting documentation was not in all instances adequate for our purposes. This led to delays in the audit process and hampered our overall progress with the audit.

ACTION POINT 6

Preparation of Financial Statements

- 6.03 The Financial Statements were prepared in accordance with the accounting requirements contained in the NHS Accounts Manual for Annual Report and Accounts of Unified NHS Boards, and supplementary guidance, as issued by the Scottish Executive Health Department (SEHD) and approved by the Scottish Ministers.
- 6.04 These financial statements have been prepared under the accounting policies set out within them.

Financial Statements Approval

- 6.05 The Financial Statements were submitted to the Board's Audit Committee on the 27 June 2007 and approved and adopted at the Board meeting on the same day.

Accounting Issues

6.06 We noted several accounting issues during the course of our audit of the financial statements and the following are brought to your attention.

Accruals

6.07 As highlighted earlier, we experienced significant difficulties in obtaining the audit evidence to support the value of accruals contained in the financial statements. Once supporting schedules were received, these did not in all instances support the inclusion of the accrual within the financial statements.

6.08 On the basis of the work we have undertaken we have identified circa £5 million of accruals and late or unspent allocations which we do not consider to be appropriately classified within the 2006/07 Annual Accounts. Specific examples included within this balance include:

- Over-accrual of pharmacy expenditure of £1.9 million albeit this only came to light upon receipt of form 12 from the PSD in mid-June; and
- Accruals of expenditure to match unutilised income of £2.9 million.

6.09 The expenditure associated with these accruals does not relate to 2006/07 and we therefore believe an adjustment should be made. However, management has decided not to process these adjustments and they have therefore been included in the Schedule of Unadjusted Differences contained at Appendix 5.

Sale of Surplus Land – Former Law Hospital Site

6.10 For a number of years, NHS Lanarkshire had anticipated clearing its brought forward deficit through gains from the sale of surplus land.

6.11 Law Hospital was closed and declared surplus to requirements in May 2001. South Lanarkshire Council identified the Law area for development in its 2004/05 Local Plan stimulating interest in the former Law Hospital site. The Board invited tender bids and approved acceptance of the successful tender in December 2004. Subsequent negotiations with the prospective developer were completed and missives were signed on 31 March 2005.

6.12 Completion of the sale was subject to a number of clauses within the missives, most notably receipt of planning permission. After a protracted and challenging process, planning consent was given by South Lanarkshire Council following the withdrawal of objections by Scottish Water.

6.13 This receipt of planning permission confirms the sale and ensures that the transaction can be booked and reflected in the 2006/07 Annual Accounts.

- 6.14 The Law Hospital site was carried in the Board's financial statements at £4.95 million, which reflects the value at 31 March 2005 in line with the SEHD Capital Accounting Manual. The Board agreed a gross price of £15 million in 2006/07, with the estimated "gain on sale" credited to the Operating Cost Statement of £11.8 million.
- 6.15 The payment schedule has been set up to reflect the house building schedule of the project, which will be undertaken in 4 stages. The payment schedule involves an upfront payment of £1 million on the date of entry, with equal payments of the balance over the subsequent four years.
- 6.16 These proceeds are included within the short and long-term debtors figures in the 2006/07 Annual Accounts according to the payment schedule.
- 6.17 However, NHS Lanarkshire has not discounted the value of the proceeds to the present value as at 31st March 2007 in line with Financial Reporting Standard 5 – "*Reporting the Substance of Transactions - Application note G - Revenue Recognition*". If the correct discounting rate has been applied, the gain on sale would be reduced by £1.900 million.
- 6.18 Management has decided not to process this adjustment and it has therefore been included within our Schedule of Unadjusted Differences at Appendix 5.

Sale of Surplus Land – Stonehouse Hospital Site

- 6.19 During 2006/07, NHS Lanarkshire sold a part of the Stonehouse Hospital site. Having previously been identified as surplus to requirements, the net sale proceeds of £7.5 million, generated a "gain on sale" credited to the Operating Cost Statement of £0.237 million (net book value was £7.25 million). The deposit was agreed as £0.850 million and this has now been received and this will be followed by two equal instalments, the first in 2007/08 and the second 12 months later.

Pension and Injury Benefit provisions

- 6.20 The pension and injury benefits provisions were previously calculated using an expected life of 80 years for all individuals, with no discount factor. This was not in line with guidance from the Scottish Executive Health Department, which stipulated that expected lives should be calculated using actuarial tables and discounted at a rate of 2.2%.
- 6.21 This issue was raised in our Interim Management Letter (and reported to the May 2007 Audit Committee). Following discussions, NHS Lanarkshire management has responded to this recommendation and used actuarial tables and the prescribed discount factor in the preparation of the 2006/07 Annual Accounts.

Capital Grants

- 6.22 Each year, Audit Scotland reviews the annual accounts process to identify key issues emerging across the NHS sector. In 2005/06, one of these issues related to the implementation of new guidance on the treatment of capital grants. It was noted that there was some inconsistency in the interpretation of the guidance across NHS Boards in Scotland.
- 6.23 During the current financial year, NHS Lanarkshire included capital grants of £262,000 in the financial statements. No issues were noted on review of the accounting treatment of these grants. We understand there may be greater use of capital grants by the Board in future years, and we will work with the Board to ensure agreement is reached as to the appropriate treatment of these grants in the financial statements.

Agenda for Change Appeals Accrual

- 6.24 As noted at paragraph 4.17, NHS Lanarkshire provided £2 million in the financial statements to cover the costs of any successful appeals with regards to staff gradings. This is an estimate of potential costs, and the Board has yet to start processing appeals received.
- 6.25 This cost was initially accounted for as an accrual in the draft 2006/07 Annual Accounts. The uncertainty surrounding the actual predicted cost meant that it was more appropriate to account for this as a provision. After discussion with management, it was agreed to change the accounting treatment and recognise the amount as a provision rather than an accrual.

Inward and Outward Secondees

- 6.26 The 2006/07 Annual Accounts include a disclosure note on staff costs within the organisation (Note 2a). As part of this note, disclosures are required in relation to external staff working for the Board known as inward secondees, and Board staff working externally, known as outward secondees.
- 6.27 The first draft of financial statements received contained no information in relation to staff costs and numbers in relation to inward and outward secondees, as the financial ledger does not separately record this information. In addition, our testing revealed the method of accounting for outward secondees was inconsistent across the organisation

ACTION POINT 7

PFI/PPP contracts

- 6.28 The Board operates three hospitals under PFI agreements. The charges for 2006/07 are highlighted below:

| Hospital | Start Date | End Date | 2006/07 Charge £m |
|-----------------|-------------------|------------------|------------------------------|
| Hairmyres | 26 March 2001 | 30 June 2031 | 17.367 |
| Wishaw | 28 May 2001 | 30 November 2028 | 23.482 |
| Stonehouse | 1 May 2004 | 30 April 2034 | 0.402 |

- 6.29 There have been no changes to the financing or the operation or management of the Wishaw or Stonehouse PFI arrangements in 2006/07.
- 6.30 The Hairmyres PFI contract contains a clause that requires the contract be subject to market testing should the PFI provider's costs increase by 10%, above RPI.
- 6.31 The Board was approached by the PFI provider towards the end of 2005/06 as costs had breached this level. The provider exercised its contractual right but rather than perform market testing offered a negotiated settlement. After testing for Value for Money an agreement has been reached in principle which covers a nine year period, effective from 2006/07.

Misstatements and Significant Audit Adjustments

- 6.32 Misstatements represent audit findings for which we do not agree with the amount, classification, presentation or disclosure of items in the financial statements. A misstatement may arise from an error or fraud and other irregularity. An error refers to an unintentional misstatement in financial statements, including an omission of amount or error.
- 6.33 In conducting our procedures, we may identify misstatements that require adjustments to the recorded amounts. These audit adjustments are discussed with management who, in consultation with us, determine if an adjustment should be recorded. Our expectation is that all non trivial differences are adjusted.
- 6.34 As a result of our work, we proposed a number of audit adjustments and a number have been processed by management in the final 2006/07 Annual Accounts. However, a number remain unadjusted.

- 6.35 The significant unadjusted amounts relate to over accruals and late or unspent allocations, as detailed at paragraph 6.07, and the discounting of the proceeds of the sale of the former Law Hospital site. The more significant unadjusted differences are set out in the table below.

| Description | Proposed Adjustment (£'m) |
|--|---------------------------|
| Accrual of unspent allocations | 2.928 |
| Inappropriate accruals (including FHS) | 2.357 |
| Discounting Sales Proceeds of Law | (1.900) |
| Unadjusted Amount | 3.385 |

- 6.36 A full breakdown of total unadjusted amounts is included at Appendix 5. We have also referred to this unadjusted error in the NHS Lanarkshire Letter of Representation, asking for specific confirmation from the Members that these amounts should not be adjusted and the reasons for not doing so.
- 6.37 We would normally expect management to process adjustments of this nature. However, in this instance, management has decided not to do so. Processing the adjustments would have had the effect of increasing the annual surplus. We do not believe that the failure to process these adjustments materially impacts upon the true and fair view of the financial statements.
- 6.38 Management has provided explanations in the Letter of Representation as to the reasons why these adjustments were not processed.

7. Systems of Internal Control



Statement on Internal Control

- 7.01 The Code of Audit Practice requires us to review and report on the Statement of Internal Control given under the relevant code before its publication.
- 7.02 The Board has used the correct format for its statement as prescribed in the Manual of Accounts and has outlined the processes designed to identify and evaluate risks. In addition, key elements of the Board's control framework have been highlighted including the work of the Risk Management Board, internal audit, the various governance committees, and performance and financial reporting to the Board.
- 7.03 The Statement also outlines areas where the Board plans to improve internal control. These include the continued implementation of the IM&T action plan and updating departmental and corporate risk registers as the eHealth environment develops.
- 7.04 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Follow Up Report on previous control matters raised for action

- 7.05 We followed up the Board's progress in implementing recommendations made by the previous external auditors. Our Follow Up report was considered at the Audit Committee meeting in March 2007.
- 7.06 Of the 33 agreed recommendations made in the reports issued in 2005/06 progress was reported as follows:

| Status | Annual Report to Members 2005/06 | Interim & Final Management Reports 2005/06 | Total |
|---------------------------------|----------------------------------|--|-----------|
| Action Implemented | 5 | 2 | 7 |
| Action in Progress | 12 | 12 | 24 |
| Limited/Little Progress to Date | 2 | - | 2 |
| Total | 19 | 14 | 33 |

- 7.07 The two follow up points where little or no progress has been made to implement the recommendation are:

- FHS income should be recorded in the Board's ledger and accrued up to 31 March in line with expenditure; and
- NHS Lanarkshire should review the calculation of its permanent injury benefit provision to ensure it is appropriate.

7.08 We have reviewed the position of these two issues as part of our final audit work. Management has taken action in both areas and the appropriate accounting treatment has been used in preparing the 2006/07 Annual Accounts.

Financial Systems and our 2006/07 Internal Controls Report

7.09 Our Internal Controls Report was presented to the Audit Committee in May 2007. The report contained a number of recommendations to improve controls, two of which were graded as high risk:

- NHS Lanarkshire should identify an individual within the Corporate Services Function who will be charged with monitoring progress on the achievement of all 2007/08 Corporate Division savings targets which includes capturing and reporting time releasing savings to the Scottish Executive.
- The Board should establish a systematic, prioritised approach to the investigation of National Fraud Initiative matches and put in place a mechanism for monitoring and reporting progress.

7.10 The Board has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. We will follow up the action plan during our 2007/08 audit.

ACTION POINT 8

Control Weaknesses identified

7.11 A number of other control weaknesses were identified during the course of the final audit. The majority were of a minor nature and will be reported in a Final Management letter to the Director of Finance. However, two control weaknesses have been highlighted for inclusion within this report

ACTION POINT 9

Processing of Accruals

7.12 As outlined above, our audit work revealed issues with the accruals figure in the 2006/07 Annual Accounts.

7.13 The structure of the Management Accounts function appeared to contribute to this issue, with a large number of staff creating accruals for their individual areas of responsibility without consideration of the NHS Lanarkshire wide position. This was compounded by the absence of challenge by the central finance function to ensure the validity of these accruals for inclusion in the annual accounts.

- 7.14 It appears the challenge of fully embedding single system working within the finance team remains and it is imperative that the issue is addressed as a matter of urgency.

ACTION POINT 6

Payroll

- 7.15 Controls testing performed at interim and final highlighted control weaknesses in relation to payroll records management. We were unable to locate the appropriate supporting documentation to evidence a number of transactions processed through the system (i.e. a leaver, or amendment) in all cases. We understand that this was primarily due to the pressure on the payroll department caused by Agenda for Change.
- 7.16 As a result of these issues, we were required to undertake further detailed testing in respect of the payroll figure contained in the accounts.

ACTION POINT 10

Internal Audit's Report on the Board's Internal Controls

- 7.17 The extract of the Internal Auditor's opinion for 2006/07 is reproduced below:

"On the basis of the internal audit work carried out during the year ended 31 March 2007, we conclude that NHS Lanarkshire's established internal control procedures were adequate to meet the control objectives agreed with management for each system reviewed"

8. Governance Arrangements



8.01 Through good governance, NHS boards are able to improve services for patients and the working lives of staff that care for them. Governance means setting the strategic direction within the parameters laid down by the Scottish Executive Health Department's policies, providing leadership, setting the tone for the whole organisation, overseeing the control of the Board's work and reporting activities and progress to stakeholders. NHS board members are, therefore, collectively responsible for the success of their organisation.

8.02 Governance within the NHS can be considered under four main headings:

| | |
|--------------------------------------|--|
| Financial and Performance Governance | The proper management of resources and a sound financial standing will enable the organisation to achieve its aims and objectives to meet its obligations as and when they fall due. |
| Clinical Governance | The Board should have an established clinical governance framework which supports and monitors standards for care, creates an environment for the continuous improvement of services, supports strategic planning and facilitates service delivery. |
| Risk Management | Responsibility is placed on the Board and primarily the Accountable Officer in the Statement of Internal Control to maintain a sound system of internal control and comply with all applicable laws and regulations. |
| Staff Governance | NHS employers are expected to have systems in place to identify areas that require improvement and to develop action plans that describe how improvements will be made. The underlying principal is that NHS Boards should recognise that investing in staff will allow them to deliver services to the best of their ability in modern healthcare settings. |

8.03 NHS Lanarkshire's Board and Committee structures have been developed over time. The Board discharges its governance role through the following committees:

- Audit;
- Staff Governance (and Remuneration sub-committee);
- Ethics;

- Equality, Diversity and Spirituality; and
- Health and Clinical Governance.

Financial and Performance Governance

- 8.04 The NHS Board, which previously met bimonthly, now meets on a monthly basis and receives a one hour briefing from the Board Secretary prior to each meeting.
- 8.05 The Board has established three Operating Management Committees (two CHP and one Acute) to monitor performance throughout the three divisions. The committees meet bi-monthly. The minutes for each of the Operating Management Committees are presented to the Board.
- 8.06 Performance is a standing agenda section of each NHS Board meeting, with the Director of Modernisation and Performance and Planning having been formally allocated the responsibility for performance management for the Board. The Board has also established a Performance Management Group chaired by the Chief Executive. The Group monitors all aspects of performance and prepares reports for the Board. It met for the first time in November 2006.
- 8.07 To oversee implementation of the Picture of Health programme, seven Programme Boards have been established operating under a Modernisation Board – each has a different lead and covers a key strand of the strategy. Progress reports to the Board are a standing agenda item (refer to **Section 10**).

Clinical Governance

- 8.08 The Health and Clinical Governance Committee meets at least four times each year. The reports provided to it cover a core agenda that includes:
- Systems updates – clinical risk, clinical audit, clinical guidelines and complaints;
 - External review/audit programme; and
 - Progress reports on specific issues/projects – Food, Fluid & Nutritional Care, Insulin Audit, A Picture of Health.
- 8.09 NHS Lanarkshire has also established a Health and Clinical Governance Steering Group to manage the day to day aspects of clinical governance.
- 8.10 The NHS QIS Peer Review was carried out in September 2006 with the report published in January 2007. The overall score achieved for the full set of Clinical Governance and Risk Management Standards was 6. Trajectory scoring for 2008 is set for 7.

8.11 The outcomes of the QIS review were as follows:

- There is a clear commitment within the Board to implementing risk management and to ensure policies, strategies, systems and processes are fully implemented throughout the organisation;
- Emergency planning systems are still in the development stage, with the lack of an organisational wide business continuity plan;
- A partnership approach has been implemented throughout the organisation in relation to access, referral, treatment and discharge;
- Roll-out of single shared assessment has commenced within key areas of primary care, with a lesser emphasis on secondary care;
- The performance management agenda is in the developmental stage, with arrangements being reassessed at the time of the visit in respect of reporting against delivery plans and taking account of strategic and service redesign ; and
- The Board is currently developing a framework for information governance to be implemented across the Board area.

8.12 NHS Lanarkshire plans to use the outcome of this Peer Review to help inform a tailored workplan that will be implemented by the Health and Clinical Governance Steering group. In March 2007 NHS Lanarkshire appointed a new Medical Director who will be assigned the responsibility of developing a new Clinical Governance Strategy.

Risk Management

8.13 Risk management is often defined as a systematic process for identifying, assessing, controlling, monitoring, reviewing and auditing risk. Effective risk management is of critical importance to the health service as adverse consequences of risk could place limitations on the quality of health care delivery, and put a strain on staff and financial resources.

8.14 Health Boards are required to implement a robust and effective framework for the management and understanding of risk. The framework should be developed by building on existing good practice and should be used to facilitate planning and decision making processes.

- 8.15 The Corporate Management Team has established a Risk Management Steering Group, on behalf of the Board, which meets quarterly. The Steering Group has compiled a high level corporate risk register which enables the Board to focus on key prioritised risks and corresponding controls and to identify subsequent actions where required. The risk register has been developed around the core areas of governance of:
- Corporate Governance
 - Staff Governance
 - Financial Governance
 - Health & Clinical Governance
- 8.16 The register has been presented to the Board, Audit Committee, Staff Governance Committee and the Health & Clinical Governance Committee.
- 8.17 In March 2007 NHS Lanarkshire commissioned work to support the development of a specific risk register for the Picture of Health Strategy. This work was completed in June 2007 and has now been updated into the web-based risk register.
- 8.18 Three separate operational risk registers have recently been developed for the Acute Division and the two CHPs. Sites have clinical risk registers also.
- 8.19 In order to promote a standard approach to risk management, the Board has purchased a new risk register software package. The intention is to make the package web-based to allow for a wide level of access and participation across the organisation to facilitate regular updating and monitoring of perceived risk.

Staff Governance

- 8.20 The NHS Reform (Scotland) Act amended the National Health Service (Scotland) Act 1978, making it a legal requirement for Health Boards to have in place arrangements for good governance of staff. It is the duty of every Health Body to put and keep in place arrangements for the purposes of:
- improving the management of the officers employed by it;
 - monitoring such management; and
 - workforce planning.
- 8.21 The Staff Governance Committee established by the Board reports quarterly and has an important role in ensuring consistency of policy and equality of treatment of staff across the Board.
- 8.22 The remit of the Committee includes the requirement to advise the Board on its responsibility, accountability and performance against the NHS Scotland Staff Governance Standard, addressing the issues of policy, targets and organisational effectiveness.

8.23 Key projects that are being driven by the Committee include:

- Monitoring progress on Agenda for Change;
- KSF implementation;
- Managing sickness absence;
- Monitoring the progress of the Equal Opportunities questionnaire; and
- Monitoring the submission of the Staff Governance Self Assessment to the SEHD.

8.24 A Staff and Organisational Development Group has recently been established with draft Terms of Reference presented to the Staff Governance Committee in March 2007. Key components of its work streams include KSF, the implementation of Picture of Health, Joint Futures and linkage to workforce planning. This group will also plan and provide for activity with NHS Lanarkshire Staff Governance Standard, and continue to report this aspect to the Human Resources Forum and the Staff Governance Committee.

9. Prevention and Detection of Fraud and Irregularities



Responsibility with respect to Fraudulent and/or Illegal acts

- 9.01 The preparation of the financial statements is the responsibility of management. Our responsibility as auditor is to express an opinion on those financial statements.
- 9.02 Effective internal control reduces the likelihood that errors, fraud or illegal acts will occur and remain undetected. However, it does not eliminate that possibility. Our responsibility regarding fraud is to obtain reasonable assurance that material misstatements resulting from fraud will be detected.
- 9.03 Accordingly, while we cannot guarantee that all errors, fraud or illegal acts, if present, will be detected, we will design our audit to provide reasonable, but not absolute, assurance of detecting errors or fraud that would have a material effect on the financial statements as well as illegal acts having a direct and material effect on the financial statements.

Fraud and Corruption Reviews

- 9.04 As part of our rotational plan to review the key mechanisms for the prevention and detection of fraud and corruption, we have reviewed the Board's fraud and corruption internal policy and regulations for members and staff conduct. No significant weaknesses were identified through these reviews.
- 9.05 As part of our audit, we examine journal entries and accounting estimates for bias and add an element of unpredictability in audit procedures year to year.
- 9.06 Our enquiries of management and our testing of financial records for the purposes of our normal audit responsibility did not reveal any illegal or possible illegal acts. However, improper conduct is usually carefully concealed and consequently, the probability is not high that our regular audit work, however diligently performed, will bring it to light.

National Fraud Initiative

- 9.07 In 2006/07 the Board took part in the National Fraud Initiative (NFI) in Scotland. The Health Department and NHS Counter Fraud Services has strongly supported the involvement of health bodies in the exercise, which is undertaken as part of the audits of the participating bodies.

- 9.08 NFI brings together data from health bodies, councils, police and fire and rescue boards, and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. Health bodies provided payroll data for the exercise.
- 9.09 All Boards were due to submit the relevant NFI 2006/07 data by the 13th October 2006, which matches subsequently made available to health bodies on 29 January 2007 (Run1) via a new secure web-based application.
- 9.10 However, NHS Lanarkshire did not submit its information until the 18th December 2006 and was not therefore processed as part of Run 1. The Board data was processed as part of Run 2 and notice was received that the information had become available in early June, with access to the secure web system granted to the Director of Finance.
- 9.11 The Board's fraud liaison officer, the Head of Internal Audit, is intending to follow up the high risk matches as soon as possible and input the results into the web-based application. The results of the NFI exercise are to be reported to the Audit Committee after the conclusion of the exercise.

ACTION POINT 11

Fraud Guidance

- 9.12 We have reviewed the fraud and irregularities guidance issued by Audit Scotland during 2006/07 and certain HDLs issued by SEHD, and undertaken work accordingly. There were no matters arising from this work.

Fraud Submission

- 9.13 A return has been made to Audit Scotland of any reported frauds that have occurred within the Board during the year. A nil return was submitted.

10. Other Business Matters



Priorities and Risks Framework

10.01 Audit Scotland publishes an annual Priorities and Risks Framework (PRF), a planning tool for auditors that sets out key high level risks facing Health Boards in Scotland. For 2006/07, the identified risk areas were categorised into the following areas:

- Service sustainability
- Financial management
- Governance
- Performance management
- People management
- Partnership working
- Information management

10.02 During the course of our audit, we considered each of the key risk areas highlighted within the PRF, the impact these areas have on the Board and planned our audit work accordingly. Financial management and governance have been detailed previously in separate sections (see sections 3 and 7). The significant points noted from the remaining sections have been detailed below.

Service Sustainability

10.03 From April 2004, “Partnership for Care” removed organisational barriers in local health systems with the dissolution of NHS Trusts. The result in Lanarkshire was the dissolution of the NHS Lanarkshire Primary and Acute Trusts and Lanarkshire Health Board, and the transfer of their functions, staff and assets to the newly created NHS Lanarkshire Board.

10.04 As a result of concerns over NHS Lanarkshire’s clinical sustainability, management began examining the clinical and financial sustainability of the new organisation. The culmination of this work, and in response to “Delivering for Health, NHS Lanarkshire published “A Picture of Health” (PoH) strategy in December 2005, which set out a framework for improving health services in Lanarkshire for the proceeding eight years.

- 10.05 The main proposals covered by PoH concern:
- Health Improvement;
 - Developing Primary Care;
 - Supporting and Enhancing Local Services;
 - Mental Health and Learning Disability Services in the Future;
and
 - Modernising Acute Hospital Services.
- 10.06 A full public consultation process on the strategy took place from January 2006 to May 2006 and the strategy received Board approval on 27 June 2006 followed by Ministerial approval on the 21 August 2006.
- 10.07 To oversee implementation of the programme, seven Programme Boards have been established operating under a Modernisation Board which performs an oversight function. Each of the Programme Boards has a different lead and covers a key strand of the strategy.
- 10.08 The Modernisation Board is also supported by the Picture of Health Action Group, which meets fortnightly under the Chief Executive's chairmanship and has identified 33 priority projects and work streams, all of which are being actioned and are at different stages of completion. Project teams have been established to action all workstreams, reporting through the relevant Programme Board.
- 10.09 The implementation of PoH will involve significant levels of capital investment. The Capital Investment Group, which meets monthly and is chaired by the Director of Finance, is charged with developing and managing relevant business cases. At the time of this report, the different projects were at various stages of the process between planning, outline or full business case and acceptance of tender.
- 10.10 The Board is currently in the process of reviewing the PoH financial plan in terms of the position and progress of current projects and any trends for the forthcoming areas of work. Initial funding assumptions are also being re-examined to ensure they remain valid.
- ACTION POINT 3**
- 10.11 One of the key proposals of PoH is the separation of emergency and planned inpatient care from 2009. This will involve developing Wishaw General Hospital and Hairmyres Hospital as emergency inpatient hospitals (level 3 facilities), with Monklands Hospital to be used for planned elective care (level 2 facility).

- 10.12 However, on the 6th June 2007, this decision was reversed by the new Cabinet Secretary for Health and Wellbeing. NHS Lanarkshire is currently in discussion with the Cabinet Secretary and the SEHD regarding the resultant review arising from this decision and the wider impact on the PoH programme and its aims and objectives.

ACTION POINT 12

Performance Management

- 10.13 Key Performance Indicators (KPIs) are reported to the Board as a standing agenda item at each of its meetings via the Performance Management Group. The majority of the performance report focuses on the targets within the Local Delivery Plan (LDP).
- 10.14 NHS Lanarkshire's first Local Delivery Plan 2006/07 to 2008/09 (which included HEAT targets) was presented in draft to the February Board meeting prior to its submission to the SEHD by the deadline of 28 February 2006. Comments were received from the SEHD during March and April and the plan was agreed and signed off on 24 April. The Board's first update on progress against the plan was reported to the Board meeting in May 2006.
- 10.15 In line with other Boards, NHS Lanarkshire has an obligation to meet current Ministerial waiting times targets. Performance against these targets is regularly reported to the Board.
- 10.16 In terms of achievement for 2006/07, the six month guarantee for inpatients and day cases has been maintained with no patients waiting over 18 weeks at the end of March 2007. This represents continued delivery of a ministerial waiting time guarantee twelve months in advance of the guarantee date (31 December 2007).
- 10.17 A trajectory to deliver a maximum outpatient wait of 18 weeks has been compiled and is subject to monitoring and review. At end of March 2007, there were 2,695 outpatients waiting over 18 weeks. An action plan was developed to address this including additional resources for ophthalmology and dermatology. This appears to be having a positive impact with a reduction in the number of patients to 2,541 waiting over eighteen weeks at the end of May.
- 10.18 The Board achieved the national target set for December 2006 of a 4 hour maximum wait in Accident and Emergency for 95% of attendees. Performance in the early part of 2007 was lower than expected due to the high attendances and a D&V outbreak at Hairmyres Hospital. However performance over recent months has been maintained at 96% in line with the trajectory. A trajectory to deliver the guarantee of 98% by end of calendar year 2007 has been compiled and is subject to daily reporting in the Acute Division and monthly monitoring and review by the NHS Board.
- 10.19 Monthly delayed discharge reports are submitted to the Board detailing performance against agreed targets. The target for delayed discharge for April 2007 was achieved. There should be no delayed discharges in short-stay beds and no delayed discharges over six weeks by 15 April 2008. In May 2007 NHS Lanarkshire reported twelve patients in short term beds and two

delayed discharge cases over six weeks.

- 10.20 Within NHS Lanarkshire compliance with the 62 day guarantee for cancer targets has varied across tumour types. Compliance is routinely achieved for breast, colorectal and ovarian cancers with between 80% and 90% compliance for lung cancer. Whilst this represents an improvement for the same period the previous year, it is still below the required guarantee. The new Cabinet Secretary for Health and Wellbeing has provided NHS Lanarkshire with the Support Team which has previously assisted other NHS Boards across Scotland in achieving cancer waiting times.
- 10.21 The Board has introduced a range of new initiatives to improve waiting times for cancer patients including investment in additional staff dedicated to tracking the clinical individual patient journey times from receipt of referral to first treatment. It has also piloted an IT system to provide “live” patient data.

ACTION PLAN 13

People Management

- 10.22 Agenda for Change is a major change programme in the NHS, designed to modernise pay structures, assist service delivery of patient care, aid recruitment and retention and allow for personal development of staff. The new pay structure consists of nine pay bands and several pay points within each pay band. Individual posts have been mapped to a pay band by either matching the job to the national profile or through a local job evaluation.
- 10.23 The original national timetable for two key elements of Agenda for Changes was for all staff to be transferred to a new pay grade (“assimilated”) and have a validated Knowledge and Skills outline as part of the Knowledge and Skills Framework by October 2006. In common with many other Health Boards in Scotland, NHS Lanarkshire has not met this timetable.
- 10.24 At the end of January 2007 the Project Board agreed that a milestone had been reached in relation to implementation for Agenda for Change. At May 2007 NHS Lanarkshire has assimilated 95% of substantive staff who are expected to be assimilated when the project is complete. This exceeds the agreed target for the Board and compares favourably with the overall national position of 85% assimilated and paid. The arrears process has been applied to 58% of post holders against an overall national position of 48%.
- 10.25 It has been agreed that the current Project Board arrangements have reached the end of their life cycle. Alternative arrangements have been established to drive through the final three elements of the Agenda for Change process as follows.
- The continued implementation of the Knowledge and Skills Framework and the supporting system e-KSF. This project will be progressed by the new Staff and Organisational Development Group. The majority of NHS staff now have KSF outlines; and
 - Mainstreaming Agenda for Change, allowing the transfer of

expertise to the HR Directorate and others to embed the new pay, job evaluation and terms and conditions framework within the day to day work of the Directorate.

- Managing any residual issues from the project including the review process which is expected to last at least until the end of the calendar year. The number of reviews to date is approximately 700 which is a combination of both individual and grouped staff reviews. These are expected to impact approximately 2,100 employees.

10.26 The second and third element will be managed by the Agenda for Change Mainstreaming Group which met for the first time on 22 May 2007.

ACTION POINT 14

10.27 Modernising Medical Careers (MMC) is a UK-wide reform of post-graduate medical training. It will improve medical training by offering more focussed, competency-based training. MMC is a two year foundation programme of holistic training and education.

10.28 The project is being driven by the MMC Project Board and NHS Lanarkshire envisages that they will have completed all interviews by the middle of May 2007.

10.29 The Board approved the 2007 workforce plan in April 2007 recognising that it broadly reflected known organisational changes planned at this date. It was also agreed that the Board would receive a high level summary report later on the year detailing workforce numbers.

Partnership Working

10.30 Community Health Partnerships (CHPs) were set up to facilitate the modernisation of the NHS and joint services. CHPs are intended to improve services by ensuring NHS staff work with local authority counterparts to plan and deliver local services. It is expected that CHPs will play an increasingly central role in the integration of local services as part of an ongoing programme of development and modernisation in public services.

10.31 NHS Lanarkshire received approval in September 2005 to establish two Community Health Partnerships (CHPs) from 1 April 2006 which mirror the boundaries of both North and South Lanarkshire Councils but include elements of NHS Glasgow and Clyde's boundary. To ensure links with NHS Greater Glasgow and Clyde a Non-Executive Director from NHS Greater Glasgow and Clyde sits on the CHP Operating Management Committees for both North and South CHPs. The appointment and establishment process was completed in September 2006.

10.32 Each CHP has an Operating Management Committee that meets 8 weekly and includes executive and non-executive membership. The committee has a standing agenda that covers performance, planning, finance and governance. The minutes from each CHP Operating Management Committee are reported to the Board.

- 10.33 There are ten localities within the two CHPs, nine of which are controlled financially by NHS Lanarkshire. The tenth locality, Cambuslang and Rutherglen, falls within the remit of NHS Greater Glasgow.
- 10.34 At each of the two CHPs, a significant piece of work has been performed recently with regard to risk management. This has led to the creation of separate operational Risk Registers which are owned by each CHPs Divisional Partnership Forum.
- 10.35 CHPs are integral to the success of PoH and are involved in two of the Programme Boards. There is a history of NHSL working with the two Lanarkshire local authorities. There are currently a number of joint schemes, including many of the 19 capital schemes that are part of the £130 million community spend driven by Picture of Health.

Information Management

- 10.36 NHS Lanarkshire established an integrated Information Services and E-Health function in 2004. As at January 2007 a revised IM&T implementation plan has been devised in line with National Directives.
- 10.37 In line with national guidance the Board is in the process of revising its governance structures to create an e-health executive Board supported by an e-health clinical delivery group.
- 10.38 In order to place NHS Lanarkshire in the correct position to take advantage of national eHealth solutions and systems, it has been deemed necessary to have a tactical plan covering the next two years. A number of areas for development have been identified and are proposed for implementation during the planning period.
- 10.39 We included a number of recommendations in relation to planned IM&T improvements in our Internal Controls Report. Commentary on that report is included within Section 7.

Quality and Outcomes Framework (QOF)

- 10.40 One of the main changes within the General Medical Services (GMS) contract introduced in 2004 was to introduce a mechanism for measuring and paying for delivery of high quality services to patients within General Practice.
- 10.41 The mechanism to carry this out was entitled the "Quality and Outcomes Framework" (QOF). The QOF measures achievement against various indicators as well as measures of care.
- 10.42 Practices achieve quality points for attaining the standards defined by the indicators, up to a maximum of 1,000 points. In 2006/07, the Board achieved 97.2% of the total points available, leading to a total payment of £13.861 million.

10.43 The Board currently has 99 GP practices within its area. The principles of the “Winter Working Group” are that all practices should be visited over a two year period. During 2006/07, fifty practices received a review visit from the NHS Lanarkshire team, with 49 planned for 2007/08

10.44 These visits are of a formative and supportive nature, and are not payment verification visits.

Payment Verification

10.45 HDL(2005)49, Family Health Services – Payment Verification, a revision of HDL(2002)20, details that 5% of practices require to be visited each year, in order that the verification of the points that a practice has achieved in respect of the clinical domain may be carried out. In addition to random visits, an NHS Board may request that a target visit be carried out where concerns exist about the level of achievement that a practice has attained.

10.46 This process is undertaken in partnership, with representatives from the NHS Lanarkshire and Practitioner Services Division and also a General Practitioner. During 2006/07, visits were undertaken to five random practices within the Board. Two additional targeted visits were undertaken to practices where high levels of excepted patients were noted at the end of 2005/06.

10.47 The results of these visits are reported to the Audit Committee on a regular basis, with no issues noted in relation to the random practice visits. Concerns were reported to the May 2007 Audit Committee for the two targeted practices, with follow up visits undertaken to complete the process. The result of this has been that their QOF payments were not formally signed off during the pre-payment verification process.

Pre-Payment Verification

10.48 During April of each year, the Board is required to undertake a pre-payment verification (PPV) process, to approve the submissions made by GP practices in relation to the QOF.

10.49 The Board established a PPV group to undertake the process, consisting of representatives from Primary Care Management, Finance, and the General Practitioner IT facilitator.

10.50 Data was extracted from the Quality Management Analysis System (QMAS) to quantify the percentage achievement made by the practices under each clinical indicator.

10.51 Specific clinical indicators were selected for review across the practices, with practices with high exception levels also investigated.

10.52 After the analysis was conducted, clarification was sought from practices on any queries on noted outliers. Information obtained from the 50 supportive visits noted above was used to inform discussion and also able to assist in verifying some of the issues identified.

- 10.53 The outcome of the process resulted in an adjustment to the submissions totalling £29,000. Authorisation was subsequently issued for the payments to be made to the practices at the end of April 2007.

NHS Tariffs

- 10.54 National tariffs are currently being phased into NHS Scotland, replacing the Service Level Agreements (“SLAs”) between Boards. These agreements are negotiated, agreed and signed documents that govern the key elements including charges of flows between Boards. A key purpose behind the tariffs is to create an incentive to increase efficiency by encouraging benchmarking between Boards by setting a single tariff rate across Scotland.
- 10.55 In 2005/06, national tariffs were introduced for two specialties, and this has been extended in 2006/07 to a total of eight specialties. All West of Scotland Boards fully implemented these tariffs during the year through their SLAs.
- 10.56 Further work is now on-going to align the Regional Planning Agenda to the new tariffs, and to further investigate the impact of PFI contracts on tariffs.

National Shared Services Project

- 10.57 During the period to January 2007, NHS Scotland has been developing proposals for shared support services in financial and related services in the form of a “hub- and-spoke” model. The response to the proposals, including that from NHS Lanarkshire, was characterised by reservations over the risks inherent in the proposed scheme, the impact on staff and the proposed savings, relative to the level of investment required.
- 10.58 The project has recently been relaunched as the shared support services programme, involving a two-tier approach which seeks to build confidence in new ways of working using common processes and systems, leading to a single services model based on a common finance system. This approach involves a “foundation” level of involvement around common ledger arrangements, or a “pathfinder” approach which seeks to develop more advanced elements. It is envisaged that a national business case for the revised approach will not be available until mid to late 2008.
- 10.59 NHS Lanarkshire has held provisional discussions with NHS Ayrshire & Arran and NHS Tayside regarding potential Consortium working. NHS Ayrshire & Arran is looking to establish a potential Pathfinder model proposal, within a Consortium of Health Boards, to demonstrate a shared delivery of financial services across a cluster of Boards. NHS Tayside hosts an existing managed technical service Consortium which has been in place for a number of years. It is looking at expanding this into a model capable of developing shared services methodologies.
- 10.60 These discussions remain on-going.

Equal pay claims

- 10.61 Article 141 of the Treaty of Rome requires member states to ensure and maintain "the application of the principle that men and women should receive equal pay for equal work". This was expanded on in the Equal Pay Directive which made it clear that all such discrimination should be eliminated from all aspects of remuneration.
- 10.62 The National Health Sector in Scotland has received a number of claims for backdated pay increases, arising from this required pay parity between these different categories of employees.
- 10.63 As at 31 March 2007 NHS Lanarkshire had received a number of claims and these had been referred for attention to the Central Legal Office, the Board's legal advisers. Even taking account of the work which has been undertaken in relation to Agenda for Change, it is still possible that these claims represent a current liability for NHS Lanarkshire; although it is worth noting that we have not been able to obtain from the Central Legal Office any estimate of the potential liability being faced by the Board.
- 10.64 For 2006/07 we have accepted this position because of its stage of development and as a result of the Board including within its annual accounts, a contingent liability note setting out relevant details on the matter. Nevertheless, we would have expected further details to have been available to management beyond those currently received from the Central Legal Office, including a reasonable estimate of the Board's liabilities determined in accordance with financial reporting standards. We would strongly encourage Board management, working with the Scottish Executive Health Department, to resolve this matter in advance of compilation of next year's financial statements and audit.

ACTION POINT 15

11. Audit Scotland Complaint Work



- 11.01 As outlined above, NHS Lanarkshire published "A Picture of Health" (PoH) strategy in December 2005, which set out a framework for improving health services in Lanarkshire.
- 11.02 A full public consultation process on the strategy took place from January 2006 to May 2006 and the strategy received Board approval on 27 June 2006 and then Ministerial approval on the 21 August 2006.
- 11.03 One of the key proposals of the strategy is to separate emergency from planned inpatient care. This will involve developing Wishaw General Hospital and Hairmyres Hospital as emergency inpatient hospitals (level 3 facilities), with Monklands Hospital used for planned elective care (level 2 facility).
- 11.04 This decision was taken following a major exercise by NHS Lanarkshire to review and assess the provision of Accident and Emergency services at each of the three general hospital sites. This review involved the establishment of working groups (including clinicians) and engaging with other health economists and external financial consultants.
- 11.05 An options appraisal exercises was conducted throughout 2005, with the identification of a preferred option and ratification by the Board (following public consultation on the preferred option) in June 2006.
- 11.06 On the 22 August 2006, Elaine Smith MSP, representing Chryston and Coatbridge, sent a letter to the Auditor General for Scotland outlining three key concerns regarding the decision to reclassify Monklands Hospital as follows:
- the omission of "thro' life costings" for each option;
 - the use of a stated preferred option throughout the exercise; and
 - the financial information used in the decision making process was in breach of "Treasury Green Book" requirements.

- 11.07 As appointed external auditors to NHS Lanarkshire, we were instructed by Audit Scotland to review the issues outlined in Elaine Smith MSP's letter dated 22 August 2006. In doing so it has been necessary to gain a broad understanding of the processes employed by NHS Lanarkshire to develop its "Picture of Health" strategy.
- 11.08 Our agreed scope was to consider NHS Lanarkshire's processes and procedures, and use of the Treasury Green Book, in the decision to reclassify Monklands Hospital from a level 3 to a level 2 facility.
- 11.09 We conducted interviews with key officers involved in the process, including consideration of management representations, and reviewed relevant documentation to enable an understanding of the process to be gained and findings to be determined.
- 11.10 In terms of the three queries raised by Elaine Smith MSP we have found that:
- "thro life costings" , also known as whole life costings, were used by NHS Lanarkshire, although their use could have been introduced to the process at an earlier date to assist with the identification of a preferred option prior to public consultation.
 - no evidence was identified to suggest that a preferred option for inpatient emergency care was identified prior to the Option Appraisal Workshops completed in November 2005.
 - NHS Lanarkshire has largely taken appropriate account of the key principles of the Green Book.
- 11.11 Based on the findings in our report, the Auditor General responded to Elaine Smith MSP's letter. The Auditor General may also choose to report formally to Parliament on these issues, through his powers under the Public Finance and Accountability (Scotland) Act 2000, once he receives this Annual Report to Members on the 2006/07 Annual Accounts for NHS Lanarkshire.

12. Audit Scotland Performance Work



Audit Scotland

- 12.01 Audit Scotland delivers the independent audit of governance, financial stewardship and performance on behalf of the Auditor General and Accounts Commission. Audit Scotland operates under the Public Finance and Accountability (Scotland) Act 2000.
- 12.02 Audit Scotland has particular interest in studies that examine the quality of public services from the user's perspective. The programme of local performance work also takes account of the views expressed by the Scottish Parliament, the Scottish Executive and other main organisations they work with.
- 12.03 For the 2006/07 financial year, the following reports were published:
- Planning ward nursing – legacy or demand? A follow up report;
 - Overview of the financial performance of the NHS in Scotland;
 - Catering for patients: a follow up report;
 - Managing IT to deliver information in the NHS in Scotland;
 - How the NHS works: Governance in Community Health Partnerships – Self Assessment Tool; and
 - Health and community care bulletin.
- 12.04 Copies of Audit Scotland reports are presented to the Audit Committee on their publication for consideration and discussion.
- 12.05 Audit Scotland has recently finalised its programme for 2007/08, and this programme has been detailed below:
- Primary care out of hours services;
 - NHS performance and financial overview;
 - Palliative care;
 - New General Medical Services contract;
 - Diagnostic services;

- NHS asset management; and;
- Using medicines in hospitals follow-up.

12.06 The Audit Committee are being presented with each of these reports on their publication.

Appendix 1: Action Plan

| Ref | Recommendation | Risk Category | Management Response | Responsible Officer | Date of Implementation |
|-----|--|---------------|---|--|------------------------|
| 1 | <p>In achieving the overall 2006/07 year end surplus, savings have been achieved. However, the target was not reached and the level of recurring savings fell below the expected figure of £5 million.</p> <p>At the time of this report, cost reduction schemes had been identified to achieve £2 million of the £3 million recurring target for 2007/08 savings.</p> <p>Management should ensure that recurring savings targets are identified and met for 2007/08 and beyond to ensure the current financial improvement continues.</p> | High | Further work has been progressed on identifying recurring savings for 2007/08. There is confidence that the full £3m will be achieved and ongoing management of this will continue as a matter of priority through the year | Director of Finance | Immediate |
| 2 | <p>In view of the extensive and complex capital investment programme over the coming years, it is essential that the full carry forward of the unspent capital allocation is agreed by the SEHD, and a formal request will be made on this basis as part of the year end process.</p> | High | A formal request will be made to the Private Finance and Capital Unit of SEHD | Deputy Director of Finance (Corporate) | 31 July 2007 |

| Ref | Recommendation | Risk Category | Management Response | Responsible Officer | Date of Implementation |
|-----|--|---------------|---|---------------------|------------------------|
| 3 | <p>The NHS Board should note that the long term affordability of the overall plan, and thus the Picture of Health investment, is critically linked to the level of uplift including Arbutnott, the margin between this and agreed pay awards, and the level of recurring savings which can be released each year.</p> <p>Management should continue to review, monitor, report and action on these issues throughout the coming year to ensure the strategic objectives of the organisation remain achievable.</p> | High | Robust financial planning is recognised as a key function of the finance department. Both the longer term revenue and capital plans will continue to be regularly reviewed in light of known and anticipated changes in the timing of capital developments, information gained through 'horizon scanning', recognised service and cost pressures, the outcome of the Executive's forthcoming Comprehensive Spending Review and other influencing factors. The CMT and NHS Board will be routinely advised of these matters. | Director of Finance | Ongoing |
| 4 | Significant financial challenges remain for the Board and a high level risk assessment for the risks and financial pressures associated with the 2007/08 projections has been performed and reported to the Board. Many of these are common across the NHS in Scotland and it is essential that NHS Lanarkshire work closely at a local, regional and national level to mitigate these risks where possible. | Medium | See comments in action point 3 above | Director of Finance | Ongoing |

| Ref | Recommendation | Risk Category | Management Response | Responsible Officer | Date of Implementation |
|-----|---|---------------|---|---|------------------------|
| 5 | <p>NHS Lanarkshire has an Efficient Government cash releasing savings target of £20.4 million by 2007/08. A large proportion of this is to be achieved through delivery of the CRES targets. However performance in 2005/06 and 2006/07 resulted in shortfalls against CRES targets and the achievement of the Efficient Government target now presents a significant challenge to NHS Lanarkshire.</p> <p>In addition, due to recent financial pressures, the Board has concentrated on the identification and achievement of cash-releasing savings. No time-releasing savings have been identified to date</p> | Medium | <p>See comments in action point 1 above.</p> <p>In addition, further work will be undertaken jointly by the Finance and HR functions to address the issue of time releasing savings</p> | Director of Finance / Director of Human Resources | Ongoing |
| 6 | Senior Management within finance should be allocated formal responsibility for reviewing the quality of the information supporting entries to the financial statements to ensure only appropriate accounting entries are made. | Medium | <p>Measures have been set in place to monitor more closely the level of accruals within the financial statements on a regular basis.</p> <p>In addition, this matter will be addressed by the Joint Management Accounting Group</p> | Deputy Director of Finance (Corporate) Heads of Finance (Acute and CHPs) | Immediate |
| 7 | It is recommended that the method of recording the details of inward and outward secondees is amended in order that the relevant numbers can be identified on the financial ledger. | Low | Agreed | Heads of Finance (Acute and CHPs) | 31 March 2008 |
| 8 | Management should ensure that the agreed action plan to address the control weaknesses raised in our Follow-up Report and Interim Management Letter are implemented in accordance with the specified timescales and that progress is reported to the Audit Committee on a regular basis. | Medium | Agreed | Director of Finance | Ongoing |

| Ref | Recommendation | Risk Category | Management Response | Responsible Officer | Date of Implementation |
|-----|--|---------------|--|--------------------------------|------------------------|
| 9 | Management should ensure that an appropriate action plan is put in place to address the control weaknesses raised in our final management letter and that progress is reported to the Audit Committee on a regular basis. | Medium | Agreed | Director of Finance | Ongoing |
| 10 | Whilst appreciating the resourcing pressures on the payroll department as a result of processing Agenda for Change, it is recommended that appropriate supporting documentation to evidence all transactions processed through the system is produced and retained. | | Agreed | Payroll Manager | Immediate |
| 11 | The Board should adopt a formal policy and procedure in relation to the National Fraud Initiative. This should detail the various stages of the process, including accountabilities, deadlines and reporting mechanisms. | Medium | NFI have published guidance, which is being followed. Investigations have been started and are being reported as they are completed. | Head of Internal Audit | December 2007 |
| 12 | On the 6th June 2007, the decision to reclassify Monklands to a Level 2 facility was reversed by the new Cabinet Secretary for Health and Wellbeing. NHS Lanarkshire should continue discussions with the Cabinet Secretary and the SEHD regarding the resultant review process of this decision and the wider impact on the PoH programme. | High | Discussions are ongoing between NHSL and SEHD, with detailed work being undertaken within NHSL by a range of clinical and managerial staff. The use of external technical advisors to support this work is being progressed and initial work has been started to ensure the appropriate financial modelling is undertaken, to take account of the likely impact on the wider investment programme. | Director of Strategic Planning | 30 Sept 2007 |

| Ref | Recommendation | Risk Category | Management Response | Responsible Officer | Date of Implementation |
|-----|--|---------------|--|---|------------------------|
| 13 | NHS Lanarkshire management should ensure full engagement with the Delivery Unit of the Scottish Executive Health Department across all aspects of waiting times. This should ensure that current action plans to address waiting times (particularly cancer times) continue to drive improvements going forward. | High | <p>Full engagement with the Executive Delivery Unit takes place via both formal and informal channels.</p> <p>Multiple fora are in place to ensure that there are focused discussions relating to the various waiting time targets – more recently cancer.</p> | Director of Acute Services | Ongoing |
| 14 | Management should ensure that there is appropriate resource within the HR Agenda for Change Team to manage the resource intensive process involved in processing the review requests currently being received. | Medium | Work is underway to 'mainstream' the AfC process into the HR function. The level of resource within the Department is currently being discussed between the Deputy Director of HR and the Director of Finance | Director of Finance / Director of Human Resources | 30 Sept 2007 |
| 15 | We would strongly encourage Board management, working with the Scottish Executive Health Department, to resolve the issue of Equal Pay in terms of likelihood and quantification of potential liabilities. | Medium | Until such time as a national directive is given on this matter, we will continue to report this as a Contingent Liability. However, we will indeed work closely with the SEHD and CLO to review this matter | Director of Finance / Director of Human Resources | Ongoing |

Appendix 2: Responsibilities of External Audit and the Board and its Management



The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of NHS Lanarkshire and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility, we evaluate significant financial systems and associated internal controls and, where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist NHS Lanarkshire regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with NHS Lanarkshire and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to NHS Lanarkshire or any other party.

The prime responsibility for the prevention and detection of fraud and irregularities rests with NHS Lanarkshire. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach, we consider these arrangements but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of NHS Lanarkshire and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of NHS Lanarkshire to put in place proper arrangements to ensure the proper conduct of its financial affairs and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct and the prevention and detection of fraud and corruption.

It is the responsibility of NHS Lanarkshire to put in place proper arrangements to manage its performance in order to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that NHS Lanarkshire has put in place to secure economy, efficiency and effectiveness in its use of resources.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to NHS Lanarkshire during the year as listed at [Appendix 4](#).

Materiality

Materiality is defined by the International Accounting Standards Board in the following terms:

“Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends upon the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”

Overall audit risk and materiality are significant concepts used in determining the extent of audit work.

Guidelines for this organisation suggest that preliminary materiality be set at approximately 1% of total expenditure. However, materiality is not simply a quantitative figure. Qualitative aspects also need to be considered in assessing whether something would be significant to a user of the financial statements.

The final assessments as to what comprises a material error in the financial statements is a matter of judgement and has been made in accordance with ISA320 “Audit Materiality”.

Management's Judgments and Accounting Estimates

Management has the responsibility for applying judgment in preparing the accounting estimates and disclosures contained within the financial statements.

Audit independence

As external auditors of NHS Lanarkshire we are required to be independent in accordance with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants and by the Ethical Standards established by the Auditing Practices Board.

These standards require that we disclose to the members all relationships that, in our professional judgment, may reasonably be thought to bear on our independence.

We confirm that no issues have arisen to impair our independence, objectivity and integrity. We further confirm that we are not presently aware of any relationship or non-audit services that would impair our audit independence.

Appendix 3: Audit Opinion



Independent auditor's report to the members of Lanarkshire Health Board, the Auditor General for Scotland and the Scottish Parliament

We have audited the financial statements of Lanarkshire Health Board for the year ended 31 March 2007 under the National Health Service (Scotland) Act 1978. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes, but excluding the Directors' Report. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the board, Chief Executive and auditor

The board and Chief Executive are responsible for preparing the Annual Report and the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. The Chief Executive is also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of the Chief Executive's Responsibilities as the Accountable Officer of the Health Board.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report 2006/07 to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. We also report whether in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. We

also report if, in our opinion, the Directors' Report is not consistent with the financial statements, if the body has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

We review whether the Statement on Internal Control reflects the board's compliance with the Scottish Executive Health Department's guidance. We report if, in our opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements; the financial statements being the only part of the Annual Report which we have audited. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements and the part of the Remuneration Report 2006/07 to be audited. It also includes an assessment of the significant estimates and judgements made by the board and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the body's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report 2006/07 to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report 2006/07 to be audited.

Opinion

Financial statements

In our opinion

- the financial statements give a true and fair view, in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers, of the state of affairs of the board as at 31 March 2007 and of its net operating cost position, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements and the part of the Remuneration Report 2006/07 to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

Regularity

In our opinion in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

PricewaterhouseCoopers LLP
Glasgow

27 June 2007

Appendix 4: Other Formal Reports Submitted During the 2006/07 Process



Reports submitted by PricewaterhouseCoopers LLP during the 2006/07 audit process

Planning Visits

Annual Service Plan

Interim Visit

Follow up of 2005/06 Audit Recommendations

Internal Controls Report 2006/07

Additional Work

Report on Elaine Smith MSP Letter

Final Accounts Visit

Audit Opinions

Annual Report to Board Members

Final Management Letter

Appendix 5: Summary of Unadjusted Differences



| Ref | Description | Income and Expenditure | | Balance Sheet | |
|-----|---|------------------------|----------------------------------|---------------------------------------|-----------------------|
| | | DR | CR | DR | CR |
| 1 | Testing of accruals identified allocations of funding deferred into 2007/08 by accruing the equivalent expenditure when this has not actually been incurred in 2006/07. | | Expenditure £2,928,000 | Accruals £2,928,000 | |
| 2 | Testing of accruals identified balances that were carrying forward unspent budgets from the current financial year. | | Expenditure £176,000 | Accruals £176,000 | |
| 3 | Testing of accruals balances revealed items where the accrual balance had been incorrectly calculated or there was insufficient audit supporting evidence to justify the accrual. | | Expenditure £706,000 | Accruals £706,000 | |
| 4 | An accrual was raised for the replacement of equipment in 2006/07 after a fire in Kilsyth Health Centre. However, the equipment had not been purchased by the year-end. | | Expenditure £10,000 | Accruals £10,000 | |
| 5 | An accrual was raised in respect of planned redundancies. However, no agreement has been reached with 4 members of staff. | | Redundancy Expense £83,000 | Accruals (Redundancies) £83,000 | |
| 6 | Creditors cut-off testing revealed 1 invoice posted in 2006/07 incorrectly posted to prepayments. | Expenditure £1,728 | | | Prepayments £1,728 |

| Ref | Description | Income and Expenditure | | Balance Sheet | |
|-----|--|---|---|-----------------------------|--------------------------|
| | | DR | CR | DR | CR |
| 7 | Creditors cut-off - Testing of April invoices found an invoice that related to 06/07 but was not included as an accrual. 06/07 expenditure is therefore understated by this amount. | Expenditure £6,274 | | | Accruals £6,274 |
| 7a | Extrapolation of the above two misstatements. | Expenditure £464,082 | | | Accruals £464,082 |
| 8 | As part of trade creditors testing, one item was identified as relating to 2007/08 and should therefore not have been accrued into 2006/07. | | Expenditure £20,570 | Trade Creditors £20,570 | |
| 8a | Per PwC audit sampling any errors found in non-statistical sampling must be extrapolated to the entire population. Extrapolation of the manual accruals balance as a result of the exception noted above. | | Expenditure £87,000 | Trade Creditors £87,000 | |
| 9 | Accrual in relation to costs for the additional audit work undertaken in relation to the Elaine Smith Query. | Expenditure £50,000 | | | Accruals £50,000 |
| 10 | The Form 12 for March 2007 costs in relation to Dental and Ophthalmic revealed a required adjustment to the accrued amount. | Ophthalmic Non Discretionary £67,000 Dental Unified Budget expenditure £14,000 | | | FHS creditors £81,000 |
| 10a | The Form 12 received in March 2007 for the two months in relation to pharmaceutical services, also revealed an adjustment to accrued amount. | Pharmaceutical Non-discretionary £44,000 | | | FHS creditors £44,000 |
| 10b | Upon receipt of the Form 12 after the year end, the pharmacy expenditure was noted as being different from that estimated during the year end process. | | Unified Budget Pharmacy expenditure £1,958,000 | FHS Creditors £1,958,000 | |
| 11 | Reflects amount paid to suppliers at the beginning of each month, in advance of invoices being received. | | | Prepayments £267,000 | Creditors £267,000 |

| Ref | Description | Income and Expenditure | | Balance Sheet | |
|-----|--|---|--|---------------------------------------|---|
| | | DR | CR | DR | CR |
| 12 | An inconsistent calculation was performed for one of the medical claims outstanding at the year end, leading to an understatement of the debtor at the year end. | | Contributions in respect of clinical/medical claims £93,000 | Reimbursement of Provision £93,000 | |
| 13 | The proceeds for the sale of the Law site will be received in annual instalments, starting in 2007/08 through to 2011/12. In accordance with FRS 5, the proceeds should therefore be discounted to present values to reflect the time value of money. | Gain on Sale £1,924,328 | | | Long-term debtors £1,924,328 |
| 14 | Depreciation has not been applied to fixed asset additions in 2006/07 in the quarter following purchase. Per the Capital Accounting Manual, assets should be depreciated in the year of acquisition. | Depreciation Expense (Plant & Machinery) £40,000 Depreciation Expense (IT) £57,000 | | | Accumulated Depreciation (Plant & machinery) £40,000 Accumulated Depreciation (IT) £57,000 |
| 15 | An item of capital expenditure was noted as charged to revenue. | | Operating Expenditure £12,000 | Fixed Assets (Equipment) £12,000 | |
| 15a | The error above of £12,000 was therefore extrapolated. | | Operating Expenditure £303,376 | Fixed Assets (Equipment) £303,376 | |
| 16 | A prepayment was incorrectly processed to correct an erroneous accrual. | | | Accruals £3,474 | Prepayments £3,474 |
| 16a | Extrapolation of the misstatement above. | | | Accruals £63,000 | Prepayments £63,000 |

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