



Forth Valley NHS Board

2015/16 Annual Audit
Report for Forth Valley
NHS Board and the
Auditor General for
Scotland

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively (www.audit-scotland.gov.uk/about/).

Fiona Mitchell Knight Assistant Director, Audit Scotland is the appointed external auditor of Forth Valley NHS Board for the period 2011/12 to 2015/16.

This report has been prepared for the use of Forth Valley NHS Board and no responsibility to any member or officer in their individual capacity or any third party is accepted.

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Key messages

Audit of financial statements

- We have issued an unqualified independent auditor's report on the 2015/16 financial statements

Financial management & sustainability

- The board met all of its 2015/16 financial targets
- An underspend of £0.201 million was achieved against total Revenue Resource Limit (RRL)
- The board achieved savings of £13.650 million which exceeded its target of £13.489 million. The majority of these savings (£13.314 million) were achieved on a recurrent basis
- The board has strong financial management arrangements that support the scrutiny of financial performance

Governance & transparency

- The board has effective governance arrangements in place
- Systems of internal control were effective throughout 2015/16
- The board's internal audit service complied with Public Internal Audit Standards in 2015/16
- Robust anti-fraud arrangements are in place

Best Value

- The board has a well developed performance management framework
- The Performance and Resources Committee receives regular updates on all aspects of performance and the actions being taken to improve performance
- The board did not achieve all its waiting times and access targets including the statutory TTG

Outlook

The board will continue to operate in a period of austerity with reduced funding in real terms, increasing cost pressures and a growing demand for services especially from the elderly. Financial year 2016/17 will be particularly challenging. The board is committed to delivering the Scottish Governments 2020 Vision through its Clinical Services Review. Also, new models of care are being developed such as the Stirling Care Village to shift the balance of care to community settings. The board, local councils and IJBs are working together to further develop health and social care integration but this may take several years to have a noticeable impact.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Forth Valley NHS Board. The report is divided into sections which reflect our public sector audit model.
2. The management of Forth Valley NHS Board are responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Forth Valley NHS Board, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements. This does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at [appendix II](#) and [appendix III](#), include recommendations for improvements.
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Forth Valley NHS Board understands its risks and has arrangements in place to manage these risks. The board should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2015/16 financial statements

<p>Audit opinion</p>	<ul style="list-style-type: none"> • We have completed our audit and issued an unqualified opinion that the financial statements of Forth Valley NHS Board for 2015/16 give a true and fair view of the state of its affairs and of its net operating cost for the year.
<p>Regularity of income and expenditure</p>	<ul style="list-style-type: none"> • In our opinion, in all material respects the expenditure and income in the financial statements was incurred or applied in accordance with relevant legislation and guidance.
<p>Other information</p>	<ul style="list-style-type: none"> • The board met its financial targets for the year. • We review and report on other information published with the financial statements notably the Performance Report and Accountability Report which includes the Governance Statement and the Remuneration and Staff Report. We consider whether these reports have been properly prepared, comply with extant guidance and are consistent with the financial statements. • We report any material errors or omissions, any material inconsistencies with the financial statements or any otherwise misleading content. We have nothing to report in respect of the other information published as part of the annual accounts.
<p>Consolidation template</p>	<ul style="list-style-type: none"> • The board's consolidation template has been audited to confirm that the figures are consistent with the audited financial statements. The template and accompanying assurance statement will be submitted to the Scottish Government by 30 June 2016. These templates are used to compile the national NHS financial position.

Submission of financial statements for audit

9. We received the unaudited financial statements for Forth Valley NHS Board on 25 April 2016, in accordance with the agreed timetable. The narrative sections of the financial statements were received later than planned although this did not impact on the timely conclusion of the audit. The working papers were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit by the deadline.
10. The financial statements of the board are prepared in accordance with the Government Financial Reporting Manual (FRoM). Significant restructuring was required to the annual report to include a performance report (which has replaced the management commentary) and accountability report which includes the governance statement and the renamed remuneration and staff report. These changes have been reflected in the board's accounts.
11. In 2015/16, for the first time, health boards' group accounts are required to include the financial results of Integration Joint Boards (IJBs) in their area, where material. Within Forth Valley there are two IJBs – Falkirk and Stirling & Clackmannanshire – both of which were established on 3 October 2015 but neither became operational until 1 April 2016. In each case minimal expenditure was incurred to 31 March 2016 and this was mainly on staff costs.
12. Consequently, the financial transactions of both IJBs were not included in the health board's group accounts, although appropriate disclosures were made within the accounts to explain the position.
13. The accounts reflect good practice as set out in the Audit Scotland

publication 'Improving the Quality of NHS Annual Report and Accounts' (December 2014).

Overview of the scope of the audit of the financial statements

14. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 22 January 2016.
15. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
16. The concept of audit risk is central to our audit approach. We focus on those areas that are most at risk of causing material misstatement in the financial statements. In addition, we consider what risks are present in respect of our wider responsibility, as public sector auditors, under Audit Scotland's Code of Audit Practice.
17. During the planning phase of our audit we identified a number of risks and reported these to you in our Annual Audit Plan along with the work we proposed doing in order to obtain appropriate levels of assurance. [Appendix I](#) sets out the significant audit risks identified and how we addressed each risk.

18. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

19. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
20. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
21. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Forth Valley NHS Board we set our planning materiality for 2015/16 at £5.998 million (or 1% of gross expenditure). Performance materiality was calculated at £2.999 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level. Additionally, we set a threshold of £60,000 for reporting misstatements to you.
22. On receipt of the financial statements and following completion of

audit testing we reviewed our materiality levels and concluded that our original calculations remained appropriate.

Evaluation of misstatements

23. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature, and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.
24. Some presentational and monetary adjustments were discussed and agreed with management during the audit. The adjustments, taken individually and aggregated, did not have any effect on the health board's reported financial outturn for the year. The adjustments primarily related to:
- Amendment to the Remuneration and Staff Report to include headcount data as required by the accounts manual.
 - Revisions to the Governance Statement to include some additional contextual information in relation to internal audit, ICT security and Integration Joint Boards.
 - Correction to a misallocation of income between deferred income and payments to account within Note 16.
 - Amendment to note 29 to include all relevant related party transactions.
 - Compensating adjustments to the trade payable and trade receivable balances.

Significant findings from the audit

25. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment are significant to the oversight of the financial reporting process.
26. The following table highlights an issue which we have reported over a number of years and, in our view, requires to be communicated again to those charged with governance in accordance with ISA 260.

Table 1: Significant finding from the audit

Significant finding from the audit in accordance with ISA260
<p>Equal Pay</p> <p>In previous years equal pay has featured as a recurring issue and we commented that the board, on advice from the Central Legal Office, was not able to provide any financial quantification of equal pay claims. In 2014/15 the Director of Finance for the health service advised that equal pay claims were to be included as a provision in the accounts of NHS boards because of an offer of settlement in relation to certain claims. There have been significant developments in 2015/16 whereby these claims are due to be settled. Scottish Government has provided funding to cover the costs of equal pay which are included in the accounts. We can confirm that the board has properly accounted for equal pay in accordance with Scottish Government guidance.</p> <p>The matter is now closed.</p>

Future accounting and auditing developments

Health and Social Care Integration

27. The IJBs within Forth Valley became fully operational on 1 April 2016 when delegated services transferred to them from the NHS board and local councils. Therefore, the financial results of IJBs will require to be consolidated into the board's accounts for 2016/17 on the basis of materiality.
28. The board and IJBs have different reporting regimes. Forth Valley NHS Board is required to submit its audited accounts by 30 June each year whereas IJBs do not have to submit their audited accounts until 30 September. The board will have to ensure that procedures are in place for IJBs to provide financial and non-financial information by a mutually agreed date to allow the board to meet its statutory reporting obligations.
29. In addition, the board will need to consider what assurances are required from IJBs to support disclosures in its annual governance statement.

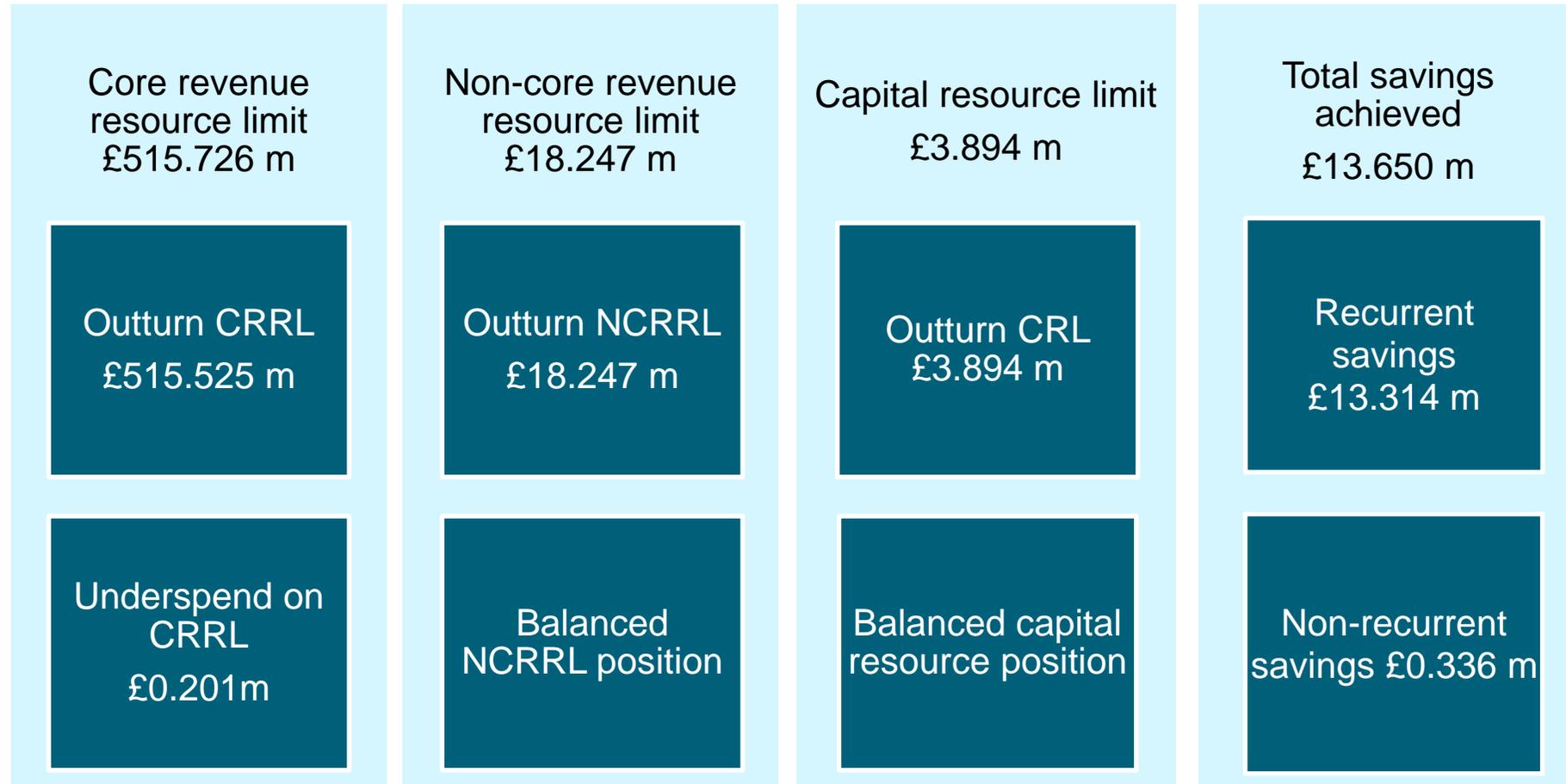
Audit appointment from 2016/17

30. The Auditor General for Scotland is responsible for the appointment of external auditors to Scottish health bodies. External auditors are appointed for a five year term either from Audit Scotland's Audit Services Group or private firms of accountants. Financial year 2015/16 is the last year of the current audit appointment round.
31. Audit Scotland has been retained as the appointed auditor for Forth Valley NHS Board following a recent procurement process although with a different audit team. Your new appointed auditor will be David McConnell, Assistant Director. Paul Craig, Senior Audit Manager, will have operational responsibility for the audit. The new team's appointment is for the five years commencing financial year 2016/17.
32. We would like to thank board members, audit committee members, executive directors and other staff particularly those in finance for their co-operation and assistance over the last five years.

Code of Audit Practice

33. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011. It outlines the objectives and principles to be followed by auditors. It is part of the overall framework for the conduct of public audit in Scotland.
34. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In addition to publishing all Annual Audit Reports, Annual Audit Plans and other significant audit outputs will be put on the website for all audited bodies. This is irrespective of whether the body meets in public or makes documents such as audit committee papers routinely available on its own website.

Financial management and sustainability



Financial management

35. In this section we comment on the board's financial performance and assess its financial management arrangements.
36. Budget funding is set by the Scottish Government Health and Social Care Directorate (SGHSCD). It is a statutory requirement for the board to ensure expenditure is within the Revenue Resource Limit (RRL) and Capital Resource Limit (CRL) set by the SGHSCD. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial performance 2015/16

37. Audit Scotland published its annual overview report, "NHS in Scotland 2015", in October 2015 which reports on the financial performance and outlook. It says that with the financial challenges that boards face, they are finding it increasingly difficult to meet performance targets and standards while remaining within their annual budgets.
38. The board's final RRL (£515,725,218), CRL (£3,894,000) and cash requirement (£557,283,000) were agreed with the SGHSCD on 27 April 2016.
39. The board achieved its financial targets for 2015/16 as illustrated in Table 2. The Board had budgeted to break-even against its RRL in 2015/16. The actual out-turn position for the year was an underspend of £0.201 million. This was achieved despite considerable financial pressures.

Table 2: Summary of financial performance

Performance against budget limits	Target (£m)	Actual (£m)	Saving (£m)
Revenue resource allocation	533.973	533.772	0.201
Capital resource allocation	3.894	3.894	0
Cash requirement	557.283	557.283	0

Source: Forth Valley NHS Board's 2015/16 financial statements

40. The balance sheet shows that the board has total assets of £542 million and liabilities of £433 million i.e. net assets of £109 million.
41. Reflecting on the financial position of the board we concur with management's view that a going concern assumption is appropriate in preparing the financial statements.

Efficiency savings

42. Forth Valley NHS Board, in common with other territorial health boards, was required to make efficiency savings totalling 3% of its baseline RRL in 2015/16. This equated to a savings target of £13.488 million. The board actually made savings of £13.650 million of which £13.314 million (97.5%) were achieved on a recurrent basis and the balance of £0.336 million (2.5%) on a non-recurrent basis. In our experience, the board has good arrangements for identifying and delivering efficiency savings.

43. The position is much more challenging in 2016/17 year when the board will be required to deliver 6% recurrent savings. Cash savings of this magnitude present a considerable challenge to the board going forward and it is important that robust savings plans are in place to deliver these savings.

Capital resource limit 2015/16

44. The board remained within its Capital Resource Limit of £3.894 million. It fully utilised its capital allocation which was mainly spent on the medical equipment replacement programme, corporate accommodation, e-health strategy and upgrades to Falkirk Community Hospital's Wards 18 and 19 to accommodate adult mental health services.

Financial management arrangements

45. As auditors, we need to consider whether health bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the Director of Finance has sufficient status to be able to deliver good financial management
- standing financial instructions and standing orders are comprehensive, current and promoted within the board
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance

- members provide a good level of challenge and question budget holders on significant variances.

46. We reviewed the board's standing financial instructions and standing orders, which are updated annually, and concluded that they are comprehensive and current. Standing financial instructions and standing orders are readily available to all staff on the board's intranet.

47. Over the years we have consistently reported that the board has good financial management arrangements in place. This continues to be the case. The board and its Performance Resources Committee (PR&C) receive comprehensive and good quality financial monitoring reports. These reports include information on budget performance analysed by directorate. Also, they provide details of cost pressures, progress against savings targets and actions being taken to mitigate risks.

48. The P&RC has responsibility for carrying out detailed scrutiny of the board's financial and operational performance and ensuring that prompt corrective actions are taken where appropriate. Additionally, more detailed monthly financial monitoring reports are provided to budget holders at an operational level.

49. As auditors we attend a number of board and committee meetings each year including the P&RC. Board members provide a good level of challenge and question executive directors on significant variances and service performance issues.

Conclusion on financial management

50. As in previous years, we have concluded that the board has strong financial management arrangements. These support the review and scrutiny of financial performance and the achievement of financial targets and provide board members with assurance on the state of the board's finances.

Financial sustainability

51. Financial sustainability is concerned with whether the board has the capacity to meet the current and future healthcare needs of the communities it serves. In assessing financial sustainability we are concerned with the board's financial performance, financial planning and its use of resources principally asset management and workforce management.

Financial planning

52. The board's Draft Local Delivery Plan (LDP) for 2016/17 to 2020/21 aligns strategic priorities with financial plans, workforce plans and service plans. The five year financial plan is a key component of the LDP which sets out how the board plans to achieve financial balance over the five year period.
53. The five year financial plan has been compiled to reflect a break-even position in each of the five years. The plan also recognises the significant cost pressures facing the board going forward notably staff pay costs, the growing costs of drugs, new technologies and rising pension costs.
54. The board recognises that the level of risk associated with the plan is higher than in previous years and a number of areas of higher risk have been highlighted including:
- implications of national pay policy – estimate remains at 1% per annum but there is the potential for future year increases given recent pay freezes / low pay uplift
 - hospital drug costs have been rising at a rate significantly above inflation (i.e. 10%)
 - loss of service and financial flexibility through resources being split across 3 council areas as part of health and social care integration.
55. While facing significant cost pressures the board will also have to deal with reduced funding, in real terms, over the five year period of the plan. The basic funding uplift for 2016/17 is 1.7%. The majority of this funding is to cover the integration fund, new drugs and delayed discharges. In each subsequent year the funding uplift is assumed to be a flat rate of 1.8%.
56. Savings will therefore play a significant part in maintaining financial balance over the 5-year period. The 6% Scottish Government cash savings target for the board, as set out in the Draft LDP for 2016/17 is £26.614 million, all of which is on a recurring basis. £21.691 million of savings have been identified to date with detailed plans in place to achieve these. Work is on-going to identify schemes to deliver the remaining £4.923 million.

57. The board has a good track record in achieving its efficiency savings targets. The position in 2016/17 is extremely challenging particularly given the requirement to achieve 6% (approximately £27 million) recurring cash savings. While management are committed to delivering these savings, there remains a significant risk that the Board may not be able to deliver them. Indeed, the board estimates that £10 to £12 million of these savings are high risk and may not be achieved.

Recommendation 1

58. The financial plan also estimates that recurring cash efficiency savings of £16.107 million will be required in 2017/18 and £16.006 million in 2018/19. The realisation of these savings will become progressively more challenging year on year with many of the 'easier' savings having already been achieved.

Asset management

59. Asset management is essential to ensure the board has the buildings and equipment needed to deliver services in the future. The board has a Property and Asset Management Strategy (PAMS) covering the period 2011 to 2016 which was updated in May 2015. The strategy also includes an annual assessment of the current condition and performance of the estate that includes amongst other things physical condition, functional suitability, space utilisation and statutory standards.

60. Property not owned by Forth Valley NHS Board (i.e. PPP and leased accommodation) accounts for some 58% of the estate by overall floor space. These properties are modern and well maintained and their use has helped reduce backlog maintenance.

61. Backlog maintenance is estimated to be around £15.6 million although this is being addressed through the refurbishment of wards at Falkirk Community Hospital. Also, projects such as the Stirling Care Village provide the opportunity for significant co-location within and between public sector organisations. This will have the benefits of generating capital receipts as well as reducing backlog maintenance.

62. The finance reports submitted to the board, and the Performance and Resources Committee, by the Director of Finance include a section dedicated to capital expenditure. These provide details of income and expenditure, property sales and forecast against CRL.

Workforce Management

63. Workforce planning is a statutory requirement and essential to ensure the board has the right people and skills needed to deliver services in the future. It is a key element of the board's strategic planning process as set out in the Draft LDP.

64. We carried out a high level review of the board's workforce planning arrangements using a questionnaire based on the main findings in the Audit Scotland Public Sector Workforce report (November 2013). We found that appropriate arrangements were in place and these were consistent with the guidance issued by the Scottish Government.

65. Succession planning was identified as an area with scope for improvement. However, management informed us that this is being addressed through a targeted management and leadership programme known as 'Shaping the Future'.

66. The board's workforce plan 2015-16 recognises Forth Valley NHS Board has an ageing workforce. Currently 36% of the workforce is aged 50 or over and this is set to rise to 41.7%. This presents its own challenges in supporting people throughout their working lives and providing opportunities for continued participation in the workforce beyond traditional retirement age.
67. The board's corporate risk register identifies the sustainability of GP services as one of the highest risks facing the board due to difficulties in recruiting and retaining. The board monitors the situation closely through the GP Sustainability Group chaired by the Medical Director. The Director of Finance also provides regular reports to the board on primary care workforce challenges and the actions being taken to address them.
68. The board is committed to maintaining GP services in Forth Valley. It already directly manages three practices (Slammanan, Kersiebank and Bannockburn) because of the difficulty in recruiting GPs. While this has presented a number of challenges, it has also provided opportunities to develop new ways of working. At Kersiebank, for example, a multidisciplinary team of professionals works closely with local GPs and practice nurses to meet the needs of the local population. These teams include advanced nurse practitioners, mental health workers and pharmacists. This takes pressure off GPs while ensuring the sustainability of local practices.
69. Additionally, the board also makes use of bank, agency and locum staff. These provide flexibility by covering for vacancies and staff absence in the health system. But, this comes at a cost. Spending on non-core staff costs (i.e. bank, agency, locum and overtime) in 2015/16 was £16.9 million compared to £16.2 million in 2014/15 (a 4.3 % increase).
70. There are significant pressures arising from agency medical staffing costs. These amounted to £4.7 million at the end of March 2016. Continued reliance on such staff could have an adverse impact on the board's plans to achieve the savings required for longer term sustainability.
- Recommendation 2**
71. Forth Valley NHS Board like most NHS boards is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence despite measures to maximise attendance at work. Last year we reported some encouraging signs of improved performance. However, the problem persists and at February 2016 the sickness absence rate was 5.23% compared to 4.8% for the comparable period last year. While disappointing this is better than the Scotland wide position of 5.37%.
- Recommendation 3**

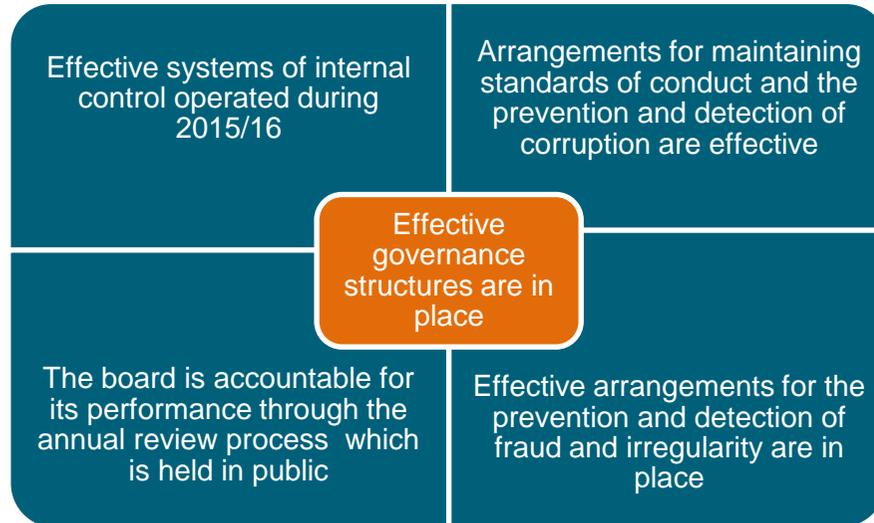
Conclusion on financial sustainability

72. We concluded that the board has done well to achieve a small underspend (£0.201k) against budget in 2015/16 despite considerable financial pressures. This is commendable and reflects the strong financial management and leadership within the board. Also, the board has done well to exceed its savings target for 2015/16 with the majority of these being achieved on a recurring basis.

Outlook

73. The board is predicting a balanced financial position over the next five years. However, it is faced with significant recurring cost pressures due to pension reform, price increases significantly above inflation (notably drug costs), rising demand for services, the cost of meeting health targets and guarantees.
74. Also, there has been a negative movement on the board's National Resource Allocation Position with funding based on a population share of 5.43% compared to an actual population share of 5.64%. This increases the financial pressures facing the Board.
75. The board's plans to maintain financial sustainability are based on achieving significant recurring savings to bridge the gap between available funding from recurrent sources and the cost of services. Financial year 2016/17 is particularly challenging with the board estimating that cash savings of some £27 million are required to maintain financial balance. Savings of this magnitude are unprecedented and there is a real risk that the board may not achieve financial balance in 2016/17.
76. Furthermore, as from 2016/17, the board has to deal with the loss of service and financial flexibility with the transfer of resources to Integration Joint Boards.

Governance and transparency



- 77. The board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHS Forth Valley and for monitoring the adequacy of these arrangements.
- 78. There have been no significant changes to the board's governance structure since last year. The board continues to be supported by a number of standing committees as illustrated opposite. These standing committees meet on a regular basis throughout the year.

- 79. We review committee minutes to ensure that committees are fulfilling their responsibilities. We also attend each meeting of the Audit Committee. Additionally, we attend selected committees including the Performance and Resources Committee to observe how they perform.



- 80. We concluded that the board has appropriate governance arrangements in place and they provide a framework for effective organisational decision making.

Internal control

81. As part of our audit we review and test the board's systems of internal control for the purposes of our audit of the financial statements. Our objective is to obtain sufficient audit evidence to support our opinion on the board's financial statements.
82. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the board's ability to record and report financial and other information in the financial statements. We consider the systems of internal control to be effective.
83. Our findings were reported to the Audit Committee on 18 March 2016 as part of our progress update to committee.

Internal audit

84. The internal audit function is carried out by the Fife, Tayside and Forth Valley Audit and Management Service (FTF). To avoid duplication of effort we place reliance on the work of internal audit wherever possible.
85. Audit Scotland as auditor of the host board (NHS Fife) carried out a review of the adequacy of the internal audit function of FTF. Based on this review and our local knowledge we concluded that internal audit operated in accordance with the Public Sector Internal Audit Standards (PSIAS) during 2015/16. Consequently, we placed formal reliance on internal audit's work in relation to cash and bank.
86. We noted, however, that the internal audit progress report

submitted to Audit Committee in March 2016 identified a number of assignments carried forward to 2016/17. Despite this, sufficient work had been carried out to allow the Chief Internal Auditor to sign off the annual internal audit report for 2015/16. The situation should be monitored to ensure that work carried forward does not impact on the delivery of the 2016/17 audit plan.

ICT audit

87. ICT is a key area of control because it underpins all systems used by the Board. In 2015/16 we carried out a *Your Business @ Risk* (YB@R) exercise. This is a web-based survey that helps management quickly assess procedural, cultural and ethical compliance risks that have the potential to undermine the effectiveness of its information governance policies. 7% of staff across all directorates responded to the survey.
88. It highlighted a number of good practices such as a high level of awareness of information security amongst staff. However, it also identified a number of areas where controls needed strengthening. For example, 32% of staff surveyed said that they had accessed a computer that was logged on with another user's credentials. Moreover, in 5% of these cases access was obtained without the other user's knowledge or approval. The full results of the survey have been provided to management to help inform improvements.
89. Management have now procured a product called "Metacompliance" which is a policy awareness tool which will enable policy details concerning information security, and other

key business areas, to be delivered directly to staff. Staff will be required to sign off after viewing policies. It also has a monitoring facility that will allow management to monitor and identify those staff who have not viewed the board's policies.

- 90. Metacompliance is at the pilot stage of implementation and is expected to be rolled out across the organisation by the end of 2016. We would also encourage the board to re-run the YB@R survey when this rollout is complete to gauge whether metacompliance has had a positive impact.
- 91. Overall, we concluded that the board's ICT governance arrangements are appropriate and that steps are being taken to further strengthen these arrangements.

Arrangements for the prevention and detection of fraud and other irregularities

- 92. We assessed the board's arrangements for the prevention and detection of fraud during the planning phase of our audit. Our review covered a number of areas such as whistleblowing.
- 93. The board also works closely with the CFS to raise awareness and provide training on fraud prevention and detection. A recent example being Operation Sava which was undertaken in the Forth Valley NHS Board area. This project focused on preventing fraudulent and mistaken patient claims for exemption under the NHS Tax Credit category. CFS staff visited dental practices across the Board area to reinforce the important prevention role that practice staff can play in reducing claims made wrongly by patients.

- 94. We concluded that the board is proactive in promoting fraud awareness and had effective arrangements in place for fraud detection and prevention during 2015/16.

National Fraud Initiative in Scotland

- 95. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies to identify 'matches' that might suggest the existence of fraud or error.
- 96. The current NFI exercise identified a total of 1,879 matches of which 170 were recommended for investigation. As at 2 May 2016, the Board had fully investigated 169 of the recommended with no frauds or irregularities found. The results of NFI activity are also reported to the Audit Committee.
- 97. We concluded that the board actively investigates NFI matches and that there are no issues of concern that we require to highlight in this report.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

- 98. The board has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for officers and members. There are established procedures for preventing and detecting corruption including annual reviews of Standing Financial Instructions and Standing Orders.

99. Based on our review of the evidence we concluded that the board has effective arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

Transparency

100. Local residents have the opportunity to hold the board to account through the annual review process. The annual review aims to encourage dialogue and accountability between local communities and their local health boards. The latest annual review was held in the Forth Valley Royal Hospital in Larbert on the 16 September 2015. This was attended by board members led by the chairman and a Scottish Government Official. There was an open session where the public asked questions of board members on issues such as the provision of mental health services within Forth Valley.

101. Meetings of the board are open to the public while minutes and supporting papers are available on Forth Valley's website. This provides the public with ready access to information about how the board takes decisions and how it is utilising its resources and to ask questions of the Chief Executive and the board.

102. The board's standing committees are not open to the public nor are the papers on Forth Valley NHS Board's website. However, standing committee minutes are included in the board papers posted on the website. The board should consider enhancing transparency by publishing papers submitted to standing committees. Where papers include confidential information these can be withdrawn or redacted as appropriate.

103. In an effort to make information as accessible as possible a number of organisations broadcast board meetings live on the web and / or make recordings of meetings available via their websites. As part of the commitment to openness and transparency the board should consider whether this would be an option for the future.

104. We concluded that the board is open and transparent although we believe that there are some areas where the board could make improvements to the current arrangements.

Integration of health and social care

105. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. The integration of health and social care services straddles both the local government and health sectors but only covers some of their functions. This is a change to the delivery of health and social care of considerable scale and complexity.

106. In December 2015, Audit Scotland and the Accounts Commission published a report entitled Health and Social Care Integration. This is the first in a series of three reports that will chart progress in health and social integration (HSCI) in the coming years.

107. The report emphasises that HSCI is important for delivering care in community based settings. Also, it highlights a range of risks that partners face in the initial stages of implementing HSCI, as summarised overleaf.

Partners need to set out clearly how governance arrangements will work in practice, particularly when disagreements arise. This is because there are potentially confusing lines of accountability and potential conflicts of interests for board members and staff. There is a risk that this could hamper the ability of an Integration Joint Board (IJB) to make decisions about the changes involved in redesigning services. People may also be unclear who is ultimately responsible for the quality of care. In addition, IJB members need training and development to help them fulfil their role.

IJBs must have strategic plans that do more than set out the local context for the reforms. To deliver care in different ways, that better meets people's needs and improves outcomes, IJBs need to set out clearly:

- the resources, such as funding and skills, that they need
- what success will look like
- how they will monitor and publicly report on the impact of their plans.

NHS boards and councils must work with IJBs to agree budgets for the new IJBs. This should cover both their first year and the next few years to give them the continuity and certainty they need to develop and implement strategic plans. IJBs should be clear about how they will use resources to integrate services and improve outcomes.

Source: Audit Scotland's Health and Social Care Integration Report (Dec. 15)

108. The two Integration Joint Boards within Forth Valley were established on 3 October 2015 but did not become fully operational until 1 April 2016 when delegated services transferred to them. However, during this period the NHS board and partners provided support to help IJBs develop their governance arrangements including internal audit, risk management, performance reporting, standing orders and financial regulations. These were considered and approved by IJBs in March 2016 although recognising that further updates will be required as operational responsibilities are clarified.
109. Also, the board reviewed its own governance arrangements to take account of health and social care integration. A paper on integration assurance was presented to the Forth Valley NHS Board's Audit Committee on 18 March 2016 detailing progress against four key areas:
- Integration schemes – the approved schemes for both the Falkirk and Stirling & Clackmannanshire IJBs have been published. These detail responsibilities, governance arrangements and delegated services.
 - Calculation of budget and spend for initial IJB budgets – initial budgets were formally agreed by NHS Forth Valley and by both IJBs. The methodology used in calculating budgets was subject to due diligence.
 - Decision making / governance – updated standing financial instructions, scheme of delegation and financial operating procedures were considered and approved by the Board. These reflected changes as a result of integration.

- A formal report on financial assurance was submitted to the March meeting of the Forth Valley NHS Board audit committee confirming that a sound and robust approach has been adopted.
110. Membership of the IJBs includes representatives from the NHS board and local authorities. Both IJBs have also appointed a Chief Officer and a Chief Finance Officer.
 111. In addition, both IJBs have Strategic Plans which were formally approved in March 2016 by the respective Integration Joint Boards. These plans set out how delegated services will be delivered over the next three years. Crucially, the strategic plans include initial budgets that were formally agreed between the NHS board and both IJBs in March 2016.
 112. The IJBs will have a crucial role to play in delivering the Scottish Government's 2020 Vision. Audit Scotland as part of its series of reports on HSCI will be reporting on integration authorities' progress after their first year of being established. A future report will also look at integration authorities' longer-term impact on shifting resources to preventative services and community-based care and improving outcomes for the people who use these services.
 113. We concluded that significant progress has been made since last year in relation to health and social care integration notably the publication of integration schemes and approval of Strategic Plans for both local IJBs. Moreover, the board and its partners have provided support to IJBs to help develop their governance arrangements in the period running up to their 'go live' date.

2020 Vision

114. The Scottish Government's vision is that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. Audit Scotland published its annual overview report, "[NHS in Scotland 2015](#)", in October 2015. It found that the pace of change needs to increase if the 2020 Vision is to be achieved.
115. In August 2015 the Cabinet Secretary for Health, Wellbeing and Sport opened a national conversation on improving the health of the population and on the future of health and social care. It is envisaged that the national conversation will be used to influence a programme of work to drive greater progress towards the 2020 vision and any necessary changes over the next 10 to 15 years. This is a signal from the Scottish Government that it intends to promote faster progress through NHS boards.
116. Furthermore, the Scottish Government's National Clinical Strategy published in February 2016 emphasised the need to "design services based around supporting people, rather than single disease pathways, with a social foundation of integrated health and social services based on new modes of community-based provision". This strategy seeks to further develop the 2020 Vision but over a longer timeframe i.e. up to 2025 - 2030.
117. The board's Local Delivery Plan has explicit reference to and reflects the outcomes of the 2020 Vision. The local healthcare strategy though is the main means by which the 2020 Vision will be taken forward. It is currently being developed by the board and will cover the period 2016-21.

- 118.** The strategy draws on the board's Clinical Services Review (CSR) which, as reported last year, aims to deliver more care at home (or in local communities) so that patients can retain their independence in a homely setting. The CSR also involved local consultation with the public and with staff, the third sector, voluntary groups and local Managed Clinical Networks.
- 119.** The publication of the board's healthcare strategy was deliberately delayed into 2016 to allow consideration of the Scottish Government's national conversation during 2015 and the National Clinical Strategy (NCS) published in February 2016. The NCS seeks to develop the 2020 Vision further but over a longer timescale (up to 2025-30).
- 120.** A final draft of the local healthcare strategy is due to be submitted to the board meeting in September 2016 for approval followed by a period of formal consultation with partners and contributors.
- 121.** In order to achieve the 2020 Vision, health boards and councils working with integration authorities will have to develop new ways of working. An example of good practice cited by Audit Scotland is Forth Valley's Advice Line for You otherwise known as ALFY. This is a nurse-led telephone advice service with a focus on self-management of care and is designed to support older people remain at home. This is a step in the right direction but much more needs to be done to deliver the 2020 Vision.
- 122.** We concluded that the board is well sighted on the 2020 Vision and the challenges it presents.

Outlook

- 123.** The growing number of people with complex health and social care needs (especially the elderly), together with continuing tight finances, means that current models of care are unsustainable.
- 124.** The Scottish Government has set out an ambitious vision for health and social care to respond to these challenges. The government's 2020 Vision aims to enable everyone to live longer, healthier lives at home or in a homely setting. This will require the board to develop new models of care such as the Stirling Care Village to take forward the government's 2020 Vision. The village will bring a range of health and social services on to one site to improve access especially for the frail and elderly.
- 125.** Integration joint boards will have a key role to play in delivering the government's 2020 Vision. The Falkirk and Stirling & Clackmannanshire IJBs only became operational on 1 April 2016 when they became responsible for delegated health and social services. The NHS board, local councils and IJBs will need to work closely to shift the balance of care towards a more preventative and community-based approach.
- 126.** The Audit Scotland report Health and Social Care Integration (December 2015) stated that there is evidence to suggest that IJBs will not be in position to make a major impact during 2016/17. Audit Scotland plans to re-visit health and social integration in future years to assess progress and impact.

Best Value



127. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

Arrangements for securing Best Value

128. The Head of Performance and Governance prepares an annual assurance report for the Audit Committee which provides a summary of NHS Forth Valley’s best value framework and the evidence supporting it. The current year’s report has been updated to reflect health and social care integration developments. It was submitted to the Audit Committee on 3 June 2016 for consideration.

129. The annual assurance report is organised around the five key themes - vision & leadership, effective partnerships, governance and accountability, use of resource and performance management. In addition, the report includes information and evidence on two cross-cutting themes i.e. equality and sustainability.

130. As part of our routine audit work we regularly review the minutes and agenda papers of the board, and selected standing committees, to gain an understanding of the range of activities carried out within Forth Valley. In this way we are able to verify the evidence quoted in the annual assurance report.

131. We concluded that the board has well-developed arrangements in place for demonstrating the board’s commitment to best value and continuous improvement.

Performance management

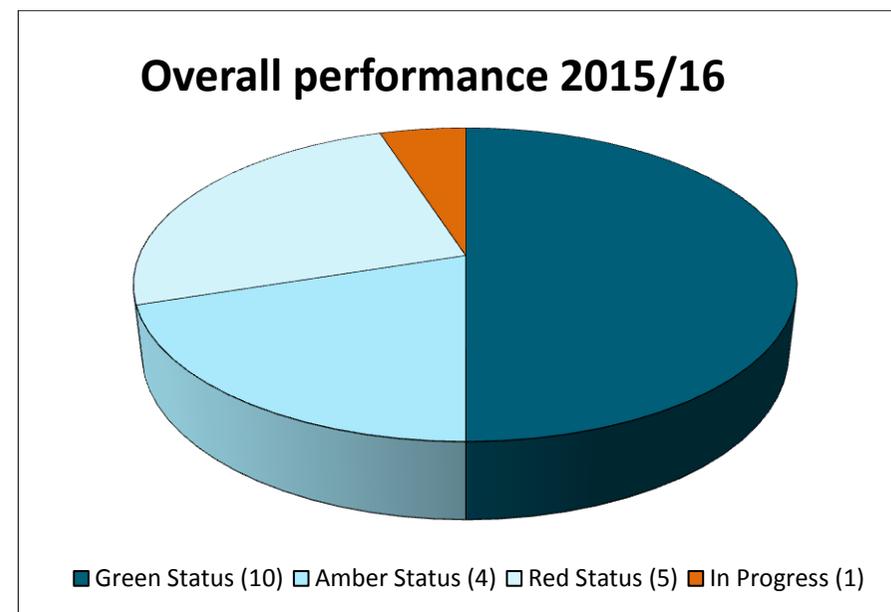
132. The performance of Forth Valley NHS Board is monitored by the Scottish Government against a number of performance targets which support the delivery of the Scottish Government’s national performance framework. These targets and their trajectories (plans) are set out in the board’s Local Delivery Plan (LDP).

133. The board is kept well informed of performance across all areas of activity and receives regular updates of performance from the Chief Executive. However, responsibility for detailed review and scrutiny of performance lies with the Performance and Resources Committee (P&RC) which meets every two months.

134. The P&RC receives comprehensive performance reports prepared by the Head of Performance and Governance. These reports, known as Core Performance Reports, cover a broad range of local and national performance standards. They contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance.
135. In addition, both the board and P&RC receive supplementary performance reports on specific aspects of performance namely waiting times and financial position. These enable members to focus on key risks relating to access and financial sustainability.
136. The waiting times report provides a commentary and analysis on a range of access targets established by the Scottish Government. The report also compares performance against NHS Scotland, highlights pressure points within the health system and actions being taken by directorates to reduce waiting times and improve access to services.
137. The finance report provides members with information performance against budget analysed by directorates. The report also provides details of savings and whether these are on track for delivery. Additionally, it also highlights the main risks which could impact on the board's ability to remain in financial balance as well as the actions being taken to manage and reduce spending.
138. We concluded that the board had a well developed performance management framework in place during 2015/16.

Overview of performance targets in 2015/16

139. The board's performance against its 20 Local Delivery Plan Standards as reported in the 2015/16 annual accounts, and based on the most up to date position at the end of March 2016, is summarised in the following diagram.



140. Of 20 Local Delivery Plan Standards, ten were categorised as green, four amber, five red and one in progress, where:
- Green means targets being met
 - Amber means slightly behind target
 - Red means targets out-with acceptable standards
 - Grey means in progress (no data yet available)

141. Overall, Forth Valley NHS Board performs well with the majority of targets categorised as green or amber. However, there are five targets that are out-with acceptable standards:

- 12 week treatment time guarantee
- 12 week outpatient wait
- Access to child and adolescent mental health services
- Psychological therapies
- Staphylococcus Aureus Bacteraemia (SAB)

142. Of the five areas categorised as red, four relate to access and waiting times. The board recognises that it faces significant challenges in these areas and action plans have been put in place to improve performance. These include service re-design and the recruitment of specialist staff to reduce waiting times. The P&RC closely monitors performance to ensure that action plans lead to improvement.

143. In previous years we have reported on the board's difficulty in managing delayed discharges downwards. Considerable time and resources have been allocated to improving delayed discharge performance including the establishment of a dedicated delayed discharge hub. While management report that progress has been made in recent months, the position for delays over 14 days at the March 2016 census was 19 against a zero standard. The majority of these delays are within the Falkirk area. The board, local councils and the integration joint boards are carrying out detailed work to address the particular challenges.

144. In relation to SABs the target is to reduce these to 0.24 or less per 1000 acute occupied bed days. The target continues to be categorised as red although significant improvements have been made over the last year. The board invests considerable time and resources in healthcare associated infection control. Indeed, every SAB is fully investigated to identify the root cause of the infection and action taken to prevent a recurrence.

145. We concluded that the board has good performance monitoring arrangements in place that enable members to exercise effective scrutiny.

National performance audit reports

146. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the board. These are outlined in [appendix III](#) accompanying this report.

147. As reported in previous years, Forth Valley NHS Board has processes in place to ensure that all national performance reports and their impact on the board are considered by the Audit Committee and other governance committees, as appropriate. Also, part of the Audit Committee's remit is to monitor management action taken in response to all audit recommendations including performance audit studies following consideration by the relevant committee.

148. In addition the Director of Finance prepares a covering report for Audit Committee highlighting the key findings in Audit Scotland's

performance reports and their relevance in the local context.

149. Staff from Audit Scotland who were directly involved in a performance study, are invited to attend Audit Committee to present their findings and respond to members questions. The most recent example of this was the Health and Social Care Integration report (December 2015) which was discussed at the January meeting of the Audit Committee. This report generated considerable debate and questioning from members.
150. From our attendance at Audit Committees and evidence available to us, we conclude that the arrangements for considering national performance audit reports are consistent with good practice.

Outlook

151. Audit Scotland in its annual overview of the NHS in Scotland (October 2015) highlighted that pressures on NHS boards have intensified over the past year as has the urgency for fundamental changes such as introducing new ways to deliver healthcare and developing a national approach to workforce planning.
152. The overview report also highlighted that the strong focus on performance targets may not be sustainable when combined with the additional pressures of increasing demand and the overall NHS budget remaining static or decreasing in real terms. The effort that NHS boards are making to meet challenging financial and performance targets each year makes it more difficult for them to focus on the long-term planning required to achieve the Scottish Government's 2020 Vision.

153. Additionally, Audit Scotland has been changing how it develops its programme of work shifting to a longer-term and strategic approach focusing on the key risks and opportunities facing Scotland's public sector. Within health a number of studies are planned to address key areas of risk including the NHS workforce (2016/17), self-directed support (2016/17), children and adolescent mental health (2017/18) and digital in health (2017/18). Full details of our future work programme can be found at www.audit-scotland.gov.uk

Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement in the financial statements		
<p>Balance Sheet accruals</p> <p>In previous years' audit we identified instances of both income and expenditure not being accounted for in the correct financial year.</p> <p>Risk</p> <p>Actual financial performance could be misstated in the accounts.</p>	<ul style="list-style-type: none"> • Testing the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements. • Review of accounting estimates for bias. • Evaluation of significant transactions that are outside the normal course of business. • Focus testing of the regularity and cut-off assertions during the financial statements audit. 	<ul style="list-style-type: none"> • We tested a sample of large value journals at the year end. • We examined management's accounting estimates for bias with focussed review and testing of accruals and provisions. • We looked for any significant transactions that were outside the normal course of business to ensure proper accounting treatment was applied. • We carried out detailed testing of cut-off procedures to ensure that transactions were accounted for in the correct financial year. <p>Our work has not identified any uncorrected misstatements in the financial statements.</p>

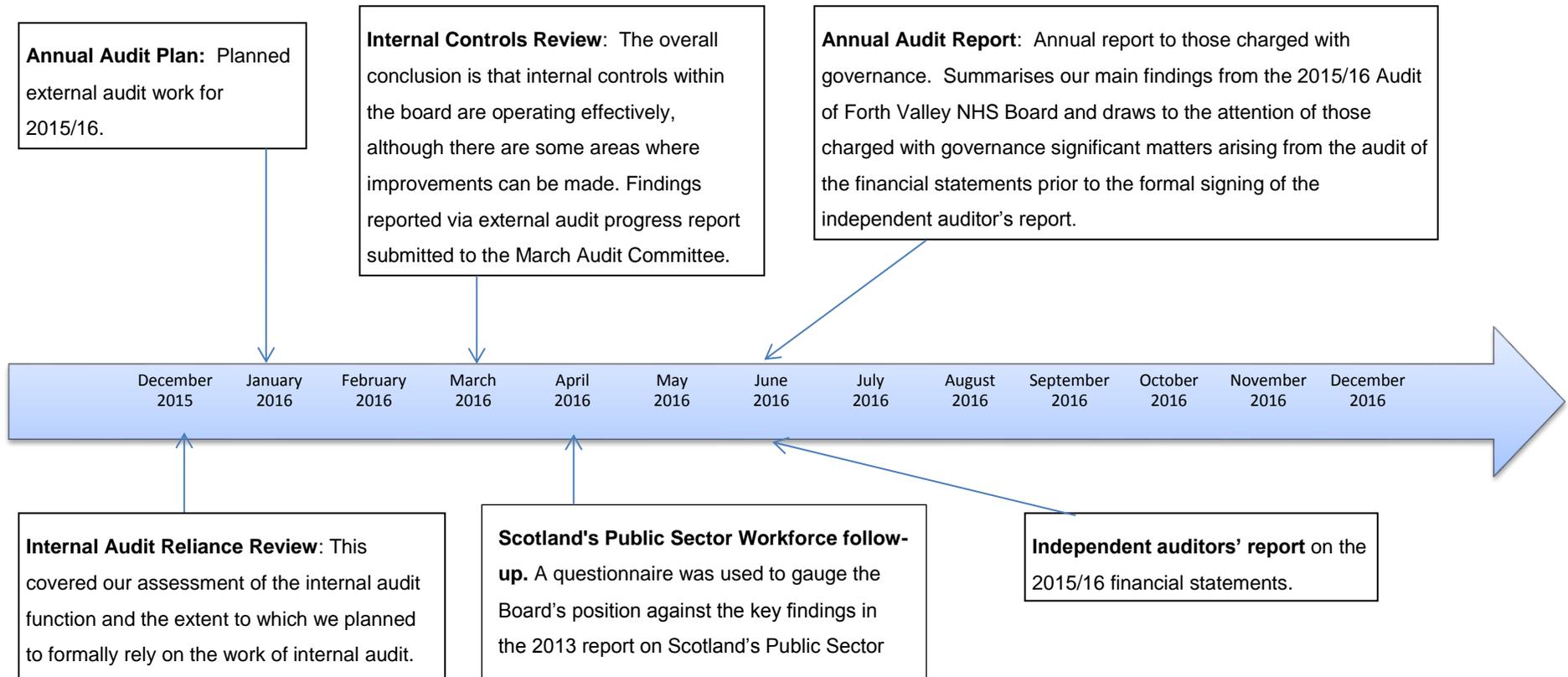
Audit Risk	Assurance procedure	Results and conclusions
<p>Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p>Risk</p> <p>Management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Cut-off procedures tested for both trade payables and trade receivables to ensure that income and expenditure were accounted for in the correct financial year. 	<ul style="list-style-type: none"> • We carried out detailed testing of trade payable and trade receivable transactions to ensure that they were posted to the correct financial year. • We performed substantive testing on a sample of transactions from each material category of income and expenditure with reference to supporting documentation to confirm that they were accounted for in the correct accounting period. <p>Our testing did not identify any issues to report to those charged with governance.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Financial stability</p> <p>On-going financial balance and delivery of year on year savings continues to present the board with significant challenges both now and in the future.</p> <p>Risk</p> <p>The board may fail to achieve its financial targets in 2015/16.</p>	<ul style="list-style-type: none"> Review financial monitoring reports submitted to the board to ensure the financial position and savings targets were in line with the Local Delivery Plan. Monitor updates to the board's financial plan throughout the year. Test the accuracy and reliability of income and expenditure figures included in the accounts as part of the annual audit cycle. 	<ul style="list-style-type: none"> Reviewed financial monitoring reports submitted to the board throughout the year to assess performance against trajectory (plan). Checked financial position against final allocations issued by the SGCHD. Substantively tested a sample of income and expenditure transactions across material account areas as part of year end testing. <p>The board achieved all its financial targets for 2015/16 and made a small surplus (£0.201 million).</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>Performance targets</p> <p>In common with other NHS boards, certain performance targets are proving to be difficult to achieve alongside financial challenges.</p> <p>Risk</p> <p>Performance standards and targets are not achieved and the delivery of quality, affordable services is not sustained.</p>	<ul style="list-style-type: none"> Review the board's core performance reports to assess progress in achieving performance targets and the actions being taken to improve performance. Review waiting times reports submitted to the Performance and Resources Committee for scrutiny and review. 	<ul style="list-style-type: none"> Reviewed core performance reports during 2015/16. Reviewed waiting times reports and attended some P&RC meetings to observe discussions on performance. <p>We concluded that the board performs well in a number of areas but is not achieving all its performance targets, in particular, those relating to access and waiting times.</p>

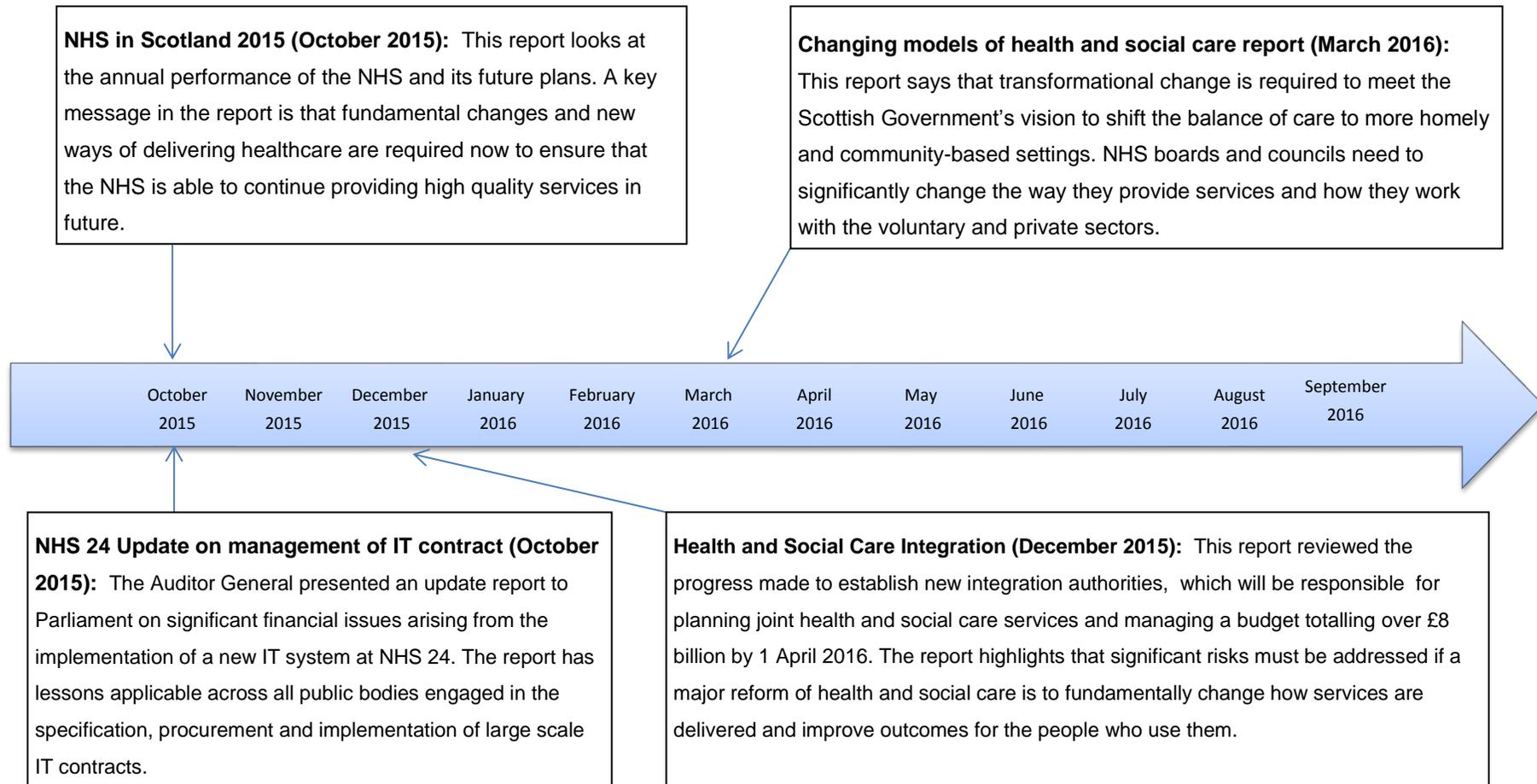
Audit Risk	Assurance procedure	Results and conclusions
<p>Workforce planning</p> <p>The board faces a significant challenge in maintaining adequate staffing levels in the medical and nursing workforce while continuing to rely on non-core staff to sustain services.</p> <p>Risk</p> <p>Continued reliance on locum and agency staff is not sustainable and could impact on the board's ability to achieve the level of savings required to maintain financial balance in the longer-term.</p>	<ul style="list-style-type: none"> Review the finance reports submitted to the Performance and Resources Committee for information relating to non-core staff costs. Local follow-up audit work based on Scotland's Public Sector Workforce report published by Audit Scotland in November 2013. 	<ul style="list-style-type: none"> We reviewed the Financial Monitoring Reports specifically information on pay costs, and workforce, to gauge the extent of reliance on agency staff. We reviewed workforce planning as part of local follow-up audit of Scotland's Public Sector Workforce report. <p>We concluded that the board has good workforce planning arrangements but is still having difficulty in recruiting and retaining staff thereby incurring significant expenditure on agency staff.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Integration of health and social care</p> <p>Progress has been made in this area although recognised as an area of concern in the board's corporate risk register.</p> <p>Risk</p> <p>Preparation for the delegation of services to Integration Joint Boards may not be fully complete by 1 April 2016.</p>	<ul style="list-style-type: none"> • Review progress reports on health and social care integration (HSCI) submitted to the board. • Review Integration Joint Boards' (IJBs) minutes and supporting papers to assess progress. • Confirm the IJBs had approved and put in place integration schemes and strategic plans. 	<ul style="list-style-type: none"> • Reviewed progress reports on HSCI submitted to the board. • Reviewed NHS board, council and IJB minutes and papers. • Confirmed that the board and its partners approved IJBs integration schemes and Strategic plans. <p>We concluded that the board and its partners made good progress in preparing for HSCI during 2015/16. Both IJBs in the Forth Valley area published their integration schemes and approved their Strategic Plans by the statutory date of 1 April 2016.</p>

Appendix II: Summary of NHS Forth Valley local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16



Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
Wider dimension audit responsibilities				
1. MKI Ref 74241	Paragraph 57	<p>Issue</p> <p>The board has a good track record in achieving its efficiency savings targets. However, for 2016/17 it will require to deliver 6% (£27 million) recurring cash savings. The board has yet to identify £4.923 million of the savings required for next year. Moreover, of those savings identified to date some £10 to £12 million are considered high risk and may not materialise.</p> <p>Risk</p> <p>The board may not be able to deliver the targeted savings in 2016/17.</p> <p>Recommendation</p> <p>The board should ensure that saving plans are developed identifying how the £4.923 million of savings in 2016/17 will be made.</p>	An updated savings plan is due to be considered by the board on 31 May 2016 which will indicate a reducing savings gap of £2.1million. Work will continue throughout the year to identify further savings opportunities and ensure recurrent balance is maintained.	Director of Finance (ongoing with a board update in August 2016)

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2. MKI Ref 74242	Paragraph 70	<p>Issue</p> <p>Spending on non-core staff costs (i.e. bank, agency, locum and overtime) rose from £16.2 million in 2014/15 to £16.9 million in 2015/16. Of this amount some £4.7 million related to agency medical costs. The use of agency staff provides flexibility to cover for staff absences and vacancies but needs monitoring closely.</p> <p>Risk</p> <p>Continued reliance on non-core staff could have a significant impact on the board's plans to achieve the savings targets required for longer term financial sustainability.</p> <p>Recommendation</p> <p>The board should reduce reliance on non-core staff to maintain services.</p>	Reduction in medical agency costs is one of the approved Savings Plan areas for 2016/17.	Medical Director (monthly monitoring with final review in March 2017)

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3. MKI Ref 74238	Paragraph 71	<p>Issue</p> <p>The board continues to have difficulty in achieving the sickness absence target of 4%.The latest available figures (at February 2016) show the sickness absence rate as 5.23% although this compares favourably with the Scottish average of 5.37%.</p> <p>Risk</p> <p>A high sickness absence rate could impact on the board's ability to achieve its financial targets due to increased agency costs to provide staff cover.</p> <p>Recommendation</p> <p>The board should review its current measures for maximising attendance at work and ensure that these are effective.</p>	Sickness absence is reviewed monthly via performance reports. Directorate performance is monitored at Directorate reviews. Staff Governance Committee monitor and review actions and plans to improve performance.	Director of Human Resources (ongoing)