



## **NHS Lothian**

2015/16 Annual Audit  
Report for the Board of  
NHS Lothian and the  
Auditor General for  
Scotland

June 2016

## Key contacts

Dave McConnell, Assistant Director  
[dmccconnell@audit-scotland.gov.uk](mailto:dmccconnell@audit-scotland.gov.uk)

Carole Grant, Senior Audit Manager  
[cgrant@audit-scotland.gov.uk](mailto:cgrant@audit-scotland.gov.uk)

Audit Scotland  
4<sup>th</sup> Floor (South Suite)  
8 Nelson Mandela Place  
Glasgow  
G2 1BT  
Telephone: 0131 625 1500  
Website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

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

Dave McConnell, Assistant Director, Audit Scotland is the appointed external auditor of NHS Lothian for the period 2011/12 to 2015/16.

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

## Contents

Key messages .....	3
Introduction .....	4
Audit of the 2015/16 financial statements.....	5
Financial management and sustainability .....	10
Governance and transparency .....	16
Best Value.....	22
Appendix I: Significant audit risks.....	26
Appendix II: Summary of NHS Lothian local audit reports 2015/16.....	29
Appendix III: Summary of Audit Scotland national reports 2015/16.....	30
Appendix IV: Action plan .....	31

# Key messages

<b>Audit of financial statements</b>	<ul style="list-style-type: none"> <li>• We reported, within our independent auditor's report               <ul style="list-style-type: none"> <li>– an unqualified opinion on the financial statements</li> <li>– an unqualified opinion on regularity</li> <li>– an unqualified opinion on other prescribed matters.</li> </ul> </li> </ul>
<b>Financial management &amp; sustainability</b>	<ul style="list-style-type: none"> <li>• All financial targets in 2015/16 were met.</li> <li>• A surplus of £0.349 million was achieved against total Revenue Resource Limit (RRL).</li> <li>• Total efficiency savings of £24.9 million (£18.5 million on a recurrent basis) were achieved against the total efficiency target of £31.3 million.</li> <li>• A balanced financial plan is not yet in place for 2016/17.</li> </ul>
<b>Governance &amp; transparency</b>	<ul style="list-style-type: none"> <li>• Well-established and appropriate governance arrangements are in place.</li> <li>• Systems of internal control operated effectively during 2015/16.</li> <li>• The board's internal audit service complies with Public Sector Internal Audit Standards.</li> <li>• Robust anti-fraud arrangements are in place.</li> </ul>
<b>Best Value</b>	<ul style="list-style-type: none"> <li>• A well developed performance management framework is in place.</li> <li>• The Board receives regular updates on all aspects of performance and the actions being taken to address issues.</li> <li>• The expected performance levels for delayed discharges, waiting times and healthcare associated infections remain a significant challenge.</li> </ul>
<b>Outlook</b>	<ul style="list-style-type: none"> <li>• The board is subject to sustained pressure to deliver a balanced budget at the same time as having to make major changes to service delivery. The Scottish Government's 2020 vision and the implementation of health and social care integration may take several years to have a noticeable impact and achieving financial balance in the short term and sustainability in the medium to long term is a significant challenge.</li> </ul>

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of NHS Lothian. The report is divided into sections which reflect our public sector audit model.
2. The management of NHS Lothian is 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 NHS Lothian, 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 NHS Lothian 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><b>Audit opinion</b></p>	<ul style="list-style-type: none"> <li>• We have completed our audit and issued an unqualified opinion that the financial statements of NHS Lothian for 2015/16 give a true and fair view of the state of its affairs and of its net operating cost for the year.</li> </ul>
<p><b>Regularity of income and expenditure</b></p>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>
<p><b>Other information</b></p>	<ul style="list-style-type: none"> <li>• We review and report on other information published with the financial statements notably the Performance Report and the 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.</li> <li>• 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 report and accounts.</li> </ul>
<p><b>Consolidation template</b></p>	<ul style="list-style-type: none"> <li>• The board's consolidation template has been audited to confirm that the figures are consistent with the audited financial statements.</li> </ul>

## Submission of financial statements for audit

9. We received the unaudited financial statements on 4<sup>th</sup> May, in accordance with the agreed timetable. The working papers were of a good standard and finance staff provided support to the audit team which enabled the delivery of the audit to deadline.
10. The financial statements of the board are prepared in accordance with the Government Financial Reporting Manual (FReM). Significant restructuring 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 and the inclusion of diagrams has improved the overall clarity.
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 NHS Lothian there are 4 IJBs – East Lothian IJB, Edinburgh IJB, Midlothian IJB and West Lothian IJB – all were established during 2015/16, however none of them became operational until 1 April 2016. In all cases minimal (and therefore non-material) expenditure was incurred to 31 March 2016 mainly on staff costs. Consequently, the financial transactions of local IJBs were not included in the health board's group accounts although appropriate disclosures were included to explain the position.

12. 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

13. 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 and Risk Committee on 29 February 2016.
14. 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.
15. 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.
16. 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 in arriving at our opinion on the financial statements.

17. 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

18. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not affect the decisions of the users of the 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).
19. 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.
20. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of NHS Lothian we set our planning materiality for 2015/16 at £17.237 million (or 1% of gross expenditure). Performance materiality was calculated at £12 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level. Additionally, we set a misstatement

threshold of £0.1 million and amounts below this value are treated as trivial and not reported.

21. 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

22. The audit identified a number of presentational adjustments which were discussed and agreed with finance officers. There were also a small number of misstatements that finance officers decided not to adjust in the financial statements. If these had been adjusted for they would have decreased net operating costs by £0.069 million with a similar increase in the net asset position. The overall impact would have been that the total revenue resource outturn would have increased from £0.349 million to £0.418 million.
23. We requested that all errors be corrected, although the final decision on this matter rests with those charged with governance taking into account advice from officers.

## Significant findings from the audit

24. International Standard on Auditing 260 requires us to communicate 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.
25. Table 1 below details those issues or other audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

---

**Table 1: Significant findings from the audit**

Significant findings from the audit in accordance with ISA260
<p><b>Family Health Service over accrual</b> – The timing of payments within family health service expenditure result in significant accruals within the board’s accounts. Actual cost information became available during the audit and a number of immaterial adjustments were identified across the accruals. The impact of this is that the accruals in the unaudited accounts include a net overstatement of expenditure of £0.069 million. Officers have decided not to adjust the accounts and the impact of this adjustment is detailed at paragraph 22.</p>
<p><b>Equal Pay</b></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>



## Future accounting and auditing developments

### Health and Social Care Integration

26. From 1 April 2016 IJBs will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom. The Accounts Commission have appointed auditors to audit the financial statements of IJBs.
27. As stated at paragraph 11, the IJBs within NHS Lothian were not operational during 2015/16 and were not consolidated into the group accounts on the basis of materiality. From 1 April 2016 the local IJBs became fully operational and their financial results will need to be reflected in the board's group accounts for 2016/17.
28. The board and IJBs have different reporting regimes. NHS Lothian is required to submit its audited accounts by 30 June each year whereas the IJBs do not have to submit their audited accounts until 30 September each year. For 2016/17 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 for its annual governance statement.

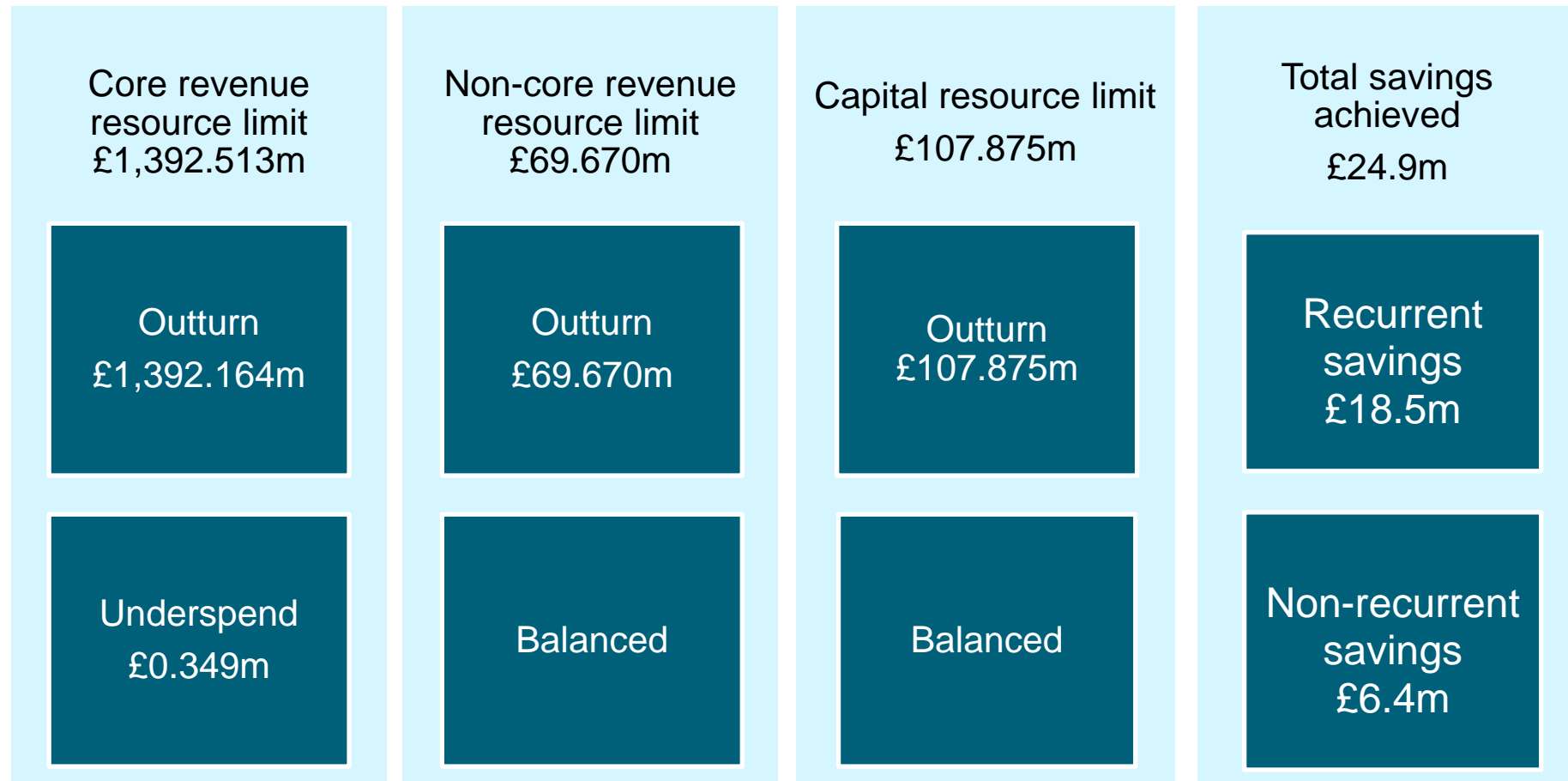
### Code of Audit Practice (the Code)

30. A new Code of Audit Practice has now been published and will apply to public sector audits for financial years starting on or after 1 April 2016. The Code is a key part of the overall framework for the conduct of public audit in Scotland. The new Code increases the transparency of public sector audit work by making more 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.

### Audit appointment from 2016/17

31. 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. The financial year 2015/16 is the last year of the current audit appointment round. From next year (2016/17) Scott Moncrieff will be the appointed auditor for NHS Lothian and in accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of the transition.
32. We would like to thank board members, audit and risk committee members, executive directors and other staff, particularly those in finance, for their co-operation and assistance over the last five years.

# Financial management and sustainability



## Financial management

33. In this section we comment on NHS Lothian's financial performance and assess the board's financial management arrangements.
34. The board, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorate (SGHSCD). The budget for revenue expenditure is termed the Revenue Resource Limit (RRL) and consists of core and non-core elements. The budget for capital expenditure is termed Capital Resource Limit (CRL). Both funding streams are agreed annually with the SGHSCD.
35. The board must ensure that expenditure is held within the resource limits set by the SGCHD. Regular monitoring of expenditure and income against these budget limits is central to effective financial management.

## Financial performance 2015/16

36. The board's final RRL (£1,462.183 million) and CRL (£107.875 million) for 2015/16 were agreed with the SGCHSCD on 28 April 2016 and the board's outturn against these targets is illustrated on the previous page.
37. The RRL achievement was a significant challenge for the board. The financial plan, presented to the Board on 1 April 2015 outlined how financial balance might be achieved for 2015/16, however early overspends and slippage in the achievement of savings resulted in a review being undertaken after quarter 1 to address the projected a

year end position of a £13.693 million overspend. The financial review identified further management actions that should be taken to bring expenditure back into line and to achieve financial balance at the year end. Further concerns were reported to the Board in December 2015 when an in-month operational overspend of £3.813 million posed a challenge to the achievement of a balanced year end outturn.

38. The achievement of the RRL target was only achieved through the utilisation of significant non-recurrent resources totalling over £17 million including one-off benefits from rates and VAT.

## Efficiency savings

39. The 2015/16 financial plan included the achievement of £31.3 million of efficiency savings, however it recognised that a significant proportion, more than 40%, were classified as high risk. The board achieved total efficiency savings of £24.9 million, with £18.5 million being on a recurrent basis. The shortfall primarily related to slippage within the University Hospital Support Services business unit and the Edinburgh CHP.
40. Due to the tight financial settlement for 2016/17 the board has to achieve a recurring cost reduction of 6.11% (£82.153 million). The delivery of significant efficiency savings will be vital if a balanced outturn is to be attained. Financial planning for 2016/17 is covered in the financial planning section of this report.

## Capital resource limit 2015/16

41. The board remained within its CRL (£107.875 million) which included £25.68 million ODEL (spending outside the departmental expenditure limit) funding for new PFI assets that are under construction. It fully utilised its capital allocation which was primarily spent on rolling capital programmes, including medical equipment and backlog maintenance, and on the Royal Hospital for Sick Children / Department for Clinical Neuroscience. The ODEL funding and associated expenditure relates to the Royal Edinburgh Hospital.

## Financial management arrangements

42. 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.

43. We reviewed the health board's standing financial instructions and standing orders and concluded that they are comprehensive and current.
44. Financial monitoring reports are submitted to all meetings of the Board and the Finance and Resources Committee. The financial monitoring reports are comprehensive and contain service performance information at board level and business unit level. Additionally detailed reports, including monthly financial monitoring, are provided to budget holders to enable corrective action to be taken.
45. As auditors we attend a number of Board and other committee meetings each year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.

## Conclusion on financial management

46. We have concluded that the board has effective financial management arrangements that support the review and scrutiny of financial performance and the achievement of financial targets.

## Financial sustainability

47. 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 planning and its use of resources principally its workforce.

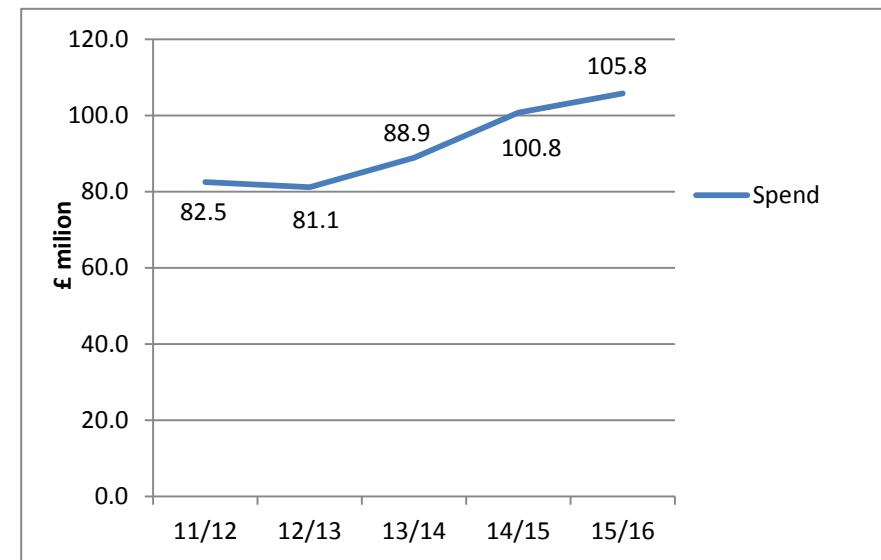
## Financial planning

48. The board is required to prepare a Local Delivery Plan (LDP) each year which aligns strategic priorities with financial plans, workforce plans and asset plans. The LDP recognises that the majority of resources are already committed on a recurrent basis before the start of each year and therefore there is limited flexibility available to the board.
49. A Board presentation took place in March 2016 to ensure they were aware of the challenges of producing a balanced financial plan for 2016/17. An update on the financial planning process was then provided to the Board on 6 April 2016 and highlighted that there remained a gap of £31 million in establishing a balanced financial plan for 2016/17. Work has been ongoing to identify further savings and the LDP, presented to the Board on 11 May 2016, reported a reduced, but still significant, gap of £20.9 million after taking account of agreed recovery actions (£27.4 million) and non-recurring financial flexibility (£33.8 million). The agreed recovery actions relate to the low and medium risk savings plans developed by business units.

**Refer to Action Plan No. 1**

50. In addition to the funding gap for 2016/17 and the increasing reliance on non-recurring resources the board will have to continue to manage significant cost pressures in key areas such as delayed discharges and the increasing costs of acute drugs. The following exhibit shows the increase in spend on acute drugs since 2011/12.

**Exhibit 1: Spend on acute drugs**



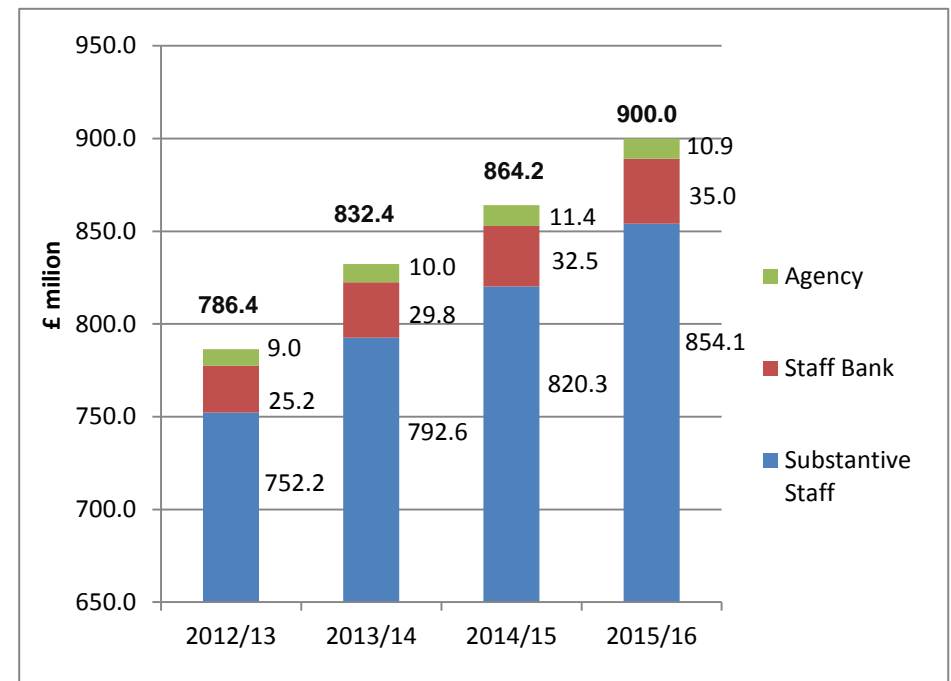
51. The exhibit demonstrates that spend on acute drugs has increased by £23.3 million (28.2%) since 2011/12. This type of cost pressure exacerbates the already challenging position that exists due to the rising demand for services particularly among the elderly.

## Workforce Management

52. Workforce planning is integral to the board's strategic planning process. The population served by the board is predicted to grow faster than any other area in Scotland over the next 25 years with the largest area of growth in those over 60. The availability of appropriate staff is an important factor in the board's capacity to provide safe patient care.

53. Spending on nursing and support staff costs in 2015/16 showed a £7 million overspend against the annual budget. This overspend, driven largely by supplementary staff costs, was offset by underspends in other pay areas resulting in an overall overspend on pay costs of £3.4 million.
54. In 2011/12 there was a significant reduction in the size of the workforce, however in recent years the board has had to increase the staffing numbers in order to deliver the required services (18,569 average whole time equivalent in 2011/12 has increased to 20,752 in 2015/16). This increase in workforce has allowed the board to reduce its need for agency staff numbers, from 423 in 2014/15 to 393 in 2015/16.
55. Exhibit 2 shows the workforce, staff bank and agency costs since 2012/13 based on management accounts. This shows an overall increase of £113.6 million (14.5%) since 2012/13 reflecting the additional staff employed by the health board which makes up the majority of the additional expenditure incurred in 2015/16.
56. We recognise that the use of bank, agency and locum staff provides flexibility to cover for vacancies and staff absence. However, continued reliance on such staff could have an impact on the board's plans to achieve the savings required for longer term sustainability and it is good to see the reduction in numbers for agency staff in 2015/16.

Exhibit 2: Workforce spend



57. As with other health boards, NHS Lothian is experiencing difficulties in achieving the national performance standard of 4% for sickness absence. At 5.02% the board is below the Scottish average of 5.16% however the rate has been steadily increasing since 2011/12 and the further deterioration from 2014/15, when it was 4.71%, is a concern. The board is committed to managing sickness absence downwards through a range of measures including increased support for line managers and the application of a robust process for managing poor attendance.

## Public Finance Initiative (PFI) / Public Private Partnerships (PPP) costs

58. NHS Lothian has seven PFI/PPP projects which include the Royal Infirmary of Edinburgh and Midlothian Community Hospital and are disclosed in note 23 of the accounts. The capital costs of these projects are included in the balance sheet with a combined value of £212 million. The associated recurrent cost of these schemes is £55 million with a total future commitment of £569 million.
59. Two further projects, the Royal Edinburgh Hospital re-provision project and the Royal Hospital for Sick Children / Department for Clinical Neurosciences re-provision project are included in the accounts as assets under construction with a value of £85 million.

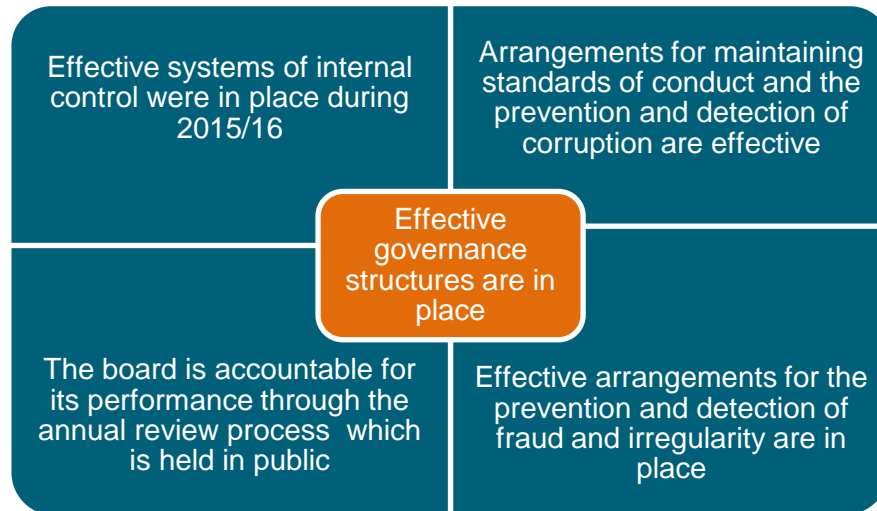
## Conclusion on financial sustainability

60. The board is yet to finalise a balanced financial plan for 2016/17. The remaining resource shortfall of £20.9 million, at this point in the financial year, is an indication of the budget challenges which the board faces in the short term and, as this is projected into future years, will also impact in the medium term. Addressing the twin challenges of service pressures and resource pressures in a sustainable way will present the major corporate strain for the board in the coming years.

## Outlook

61. The board will continue to operate in a funding environment which is subject to sustained pressure to deliver more while facing increasing cost pressures and static or decreasing real terms funding.
62. The health board is dependent on significant efficiency savings and recognises the considerable challenge to move into a financially sustainable position. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years and this makes it more challenging for the board to deliver balanced budgets in future.
63. In common with other health boards, NHS Lothian is finding it increasingly challenging to meet performance targets and standards while remaining within annual resource limits. Ongoing financial pressures, combined with greater activity and demand, makes achieving targets and standards more difficult.

# Governance and transparency



- 64. The Board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHS Lothian and for monitoring the adequacy of these arrangements.
- 65. There have been no changes to the board’s governance structure since last year, with the Board supported by a number of standing committees as illustrated opposite. The standing committees meet on a regular basis throughout the year. We review committee minutes to ensure that the Board and committees are fulfilling their responsibilities. We also attend each meeting of the Board and the Audit and Risk Committee.

- 66. The board has commenced a process of reviewing committee reports to ensure they provide members with the required information in a concise and understandable format that supports the scrutiny and decision making process. The process is ongoing and reports are being revised based on the feedback received from members.
- 67. We concluded that the board has appropriate governance arrangements in place that provide a framework for effective organisational decision making.



## Internal control

68. As part of our audit we review and test a number of the board's systems of internal control. Our objective is to obtain sufficient audit evidence to support our opinion on the board's financial statements. We reported our findings through our key internal controls report submitted to the Audit and Risk Committee on 18 April 2016.
69. 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, process, summarise and report financial and other data so as to result in a material misstatement in the financial statements. Our findings included a small number of recommendations to enhance the control systems in operation. We consider the systems of internal control to be effective.

## Internal audit

70. Internal audit provides the Board and Accountable Officer with independent assurance on the board's overall risk management, internal control and corporate governance processes. The internal audit function in 2015/16 was carried out by a mixed team of NHS Lothian staff overseen by a Chief Internal Auditor and Audit Manager supplied by Scott Moncrieff. The board is in the process of securing internal audit services for 2016/17 following the appointment of Scott Moncrieff as external auditors from 2016/17.
71. We are required by International Standards on Auditing to make an assessment of the adequacy of the internal audit function. Based on this review and our local knowledge we concluded that the

internal audit service provided in 2015/16 operated in accordance with the Public Sector Internal Audit Standards (PSIAS) and had sound documentation standards and reporting procedures in place.

72. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. The internal audit plan for 2015/16 is materially complete and we have been able to rely on the review of expenditure and payables to support our financial statements audit work. We have also considered a number of other reviews to inform our wider audit responsibilities under the Code.

## ICT audit

73. ICT is a key area of control because it underpins all systems used by the board. As part of our planning process we carried out a high level review of ICT covering a number of areas. Overall, we concluded that the ICT arrangements are effective and we are not aware of any specific issues that should be highlighted.

## Arrangements for the prevention and detection of fraud and other irregularities

74. 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 including whistleblowing. The board also works closely with the Counter Fraud Services (CFS) to raise awareness and provide training on fraud prevention and detection. Currently CFS investigate fraud irregularities on a referral basis.

75. 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

76. 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, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error. If fraud is not identified and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
77. As part of our audit work, we considered the board's approach to the NFI exercise and reviewed the progress being made in following up NFI data matches. The current NFI exercise identified a total of 12,547 matches of which 1,145 were recommended for investigation. The board has investigated the recommended matches with no fraud errors being found. The results of NFI activity are also reported to the Audit and Risk Committee regularly throughout the year.
78. 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

79. The board has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for officers and members. Also, there are established procedures for preventing and detecting corruption including annual reviews of Standing Financial Instructions and Standing Orders.
80. Based on our review of the evidence we concluded that the board has effective arrangements in place for the prevention and detection of corruption.

## Transparency

81. Local residents should be able to hold the board to account for the services it provides. Transparency means that residents have access to understandable, relevant and timely information about how the board is taking decisions and how it is using its resources.
82. The performance of all NHS boards is subject to an annual review process. The annual review aims to encourage dialogue and accountability between local communities and health boards. The annual review was held on 3 August 2015 and included an open session where members of the public were able to ask questions.
83. Members of the public can also attend meetings of the Board and have access to Board papers on the website. The Board papers provide comprehensive information on performance including

waiting times and access targets. This provides the public with ready access to information about how the board takes decisions and how it is utilising its resources.

84. Overall, we conclude that the board is open and transparent. We acknowledge that some committee (e.g. staff governance and healthcare governance) are held in private due to the confidential nature of their business. The annual report and accounts are also clearly set out and include a review of financial results and performance during the year.

## Integration of health and social care

85. 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 which 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.
86. Audit Scotland published the first of a series of reports on the integration agenda in December 2015. This report, entitled Health and Social Care Integration, states that stakeholders have done well to get the systems in place for integration, but much work remains. The report outlines key issues that require to be addressed if the reforms are to be successful in improving outcomes for people and these are summarised in the extract below.

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.

87. As noted in paragraph 11 the four Lothian IJBs became fully operational on 1 April 2016 when delegated services transferred to them. All partners worked together to get the necessary arrangements in place.
88. 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.
89. We conclude that significant progress has been made in relation to health and social care integration including the publication of integration schemes and approval of Strategic Plans. The board and its partners have provided support to IJBs to help develop their governance arrangements.

## 2020 Vision

90. 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. The report recognised the importance of the Scottish Government and NHS boards ensuring that changes are underpinned by good long-term financial and workforce planning. The report also recognised the need to consider the implications for performance targets and standards and the NHS estate, as well as ongoing initiatives and reform programmes. By doing so, the report concluded that, the Scottish Government and boards will gain a better understanding of the nature, scale and impact of changes required.
91. 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 clear signal from the Scottish Government that it intends to promote faster progress through NHS boards.

## Vale of Leven Inquiry

92. Following the publication of The Vale of Leven Hospital Inquiry Report into the circumstances contributing to the high occurrence of C.difficile, health boards were required to carry out a self-assessment of progress against the recommendations directed at health boards. The board continues to have difficulties in meeting Staphylococcus aureus bacteraemia (SAB) and Clostridium difficile Infection (CDI) targets despite a recovery plan being in place.
93. Overall, we conclude that the board is taking measures to address this issue with the support from Clinical Teams to help reduce the risk of healthcare associated infections.

## Freedom of Information requests

94. The board processed 86% of FOI requests within the statutory timescales. The introduction of a new software (Vuelio) has allowed the board to track requests and generate reports more easily, resulting in a significant improvement in the number of responses within the 20 day timeframe. We have no concerns about the procedures followed by the board in processing FOI requests.

## Outlook

95. NHS Lothian faces continuing challenges on a number of fronts including mounting financial pressures, exacting performance targets, health and social care integration and delivering the Scottish Government's aim of having people living longer and healthier lives at home or a homely setting (i.e. the 2020 Vision).
96. Embedding robust governance arrangements will be an essential element in meeting these challenges and maintaining accountability. All stakeholders benefit from the assurance and confidence a good governance regime brings.
97. Good governance will be particularly important where board resources and service delivery are devolved to third party organisations to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an ongoing focus on governance to ensure that the national and local priorities are being addressed.

98. The Scottish Government is planning to review the number, structure and regulation of health boards. The government is also taking forward a review of national NHS targets. An expert group is to be set up to lead the review and will examine a range of national targets to ensure the service delivery and that best use is made of NHS resources. It will also look at how target setting aligns with the Government's strategy for the future direction of health and social care services.

# Best Value



99. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value in the use of resources.

## Arrangements for securing Best Value

100. Best Value arrangements are part of business as usual within the health board. They are embedded in its planning processes, governance arrangements and its performance management and quality improvement frameworks. The board is committed to the principles of Best Value and continuous improvement.

101. In addition there are arrangements in place for the Audit and Risk Committee to receive assurance from the Accountable Officer on the board's commitment to Best Value via the annual governance statement.

102. Overall, we concluded that the board has well-developed arrangements for securing Best Value and continuous improvement.

## Performance management

103. The performance of NHS Lothian is monitored by the Scottish Government against a number of targets and standards which support the delivery of the Scottish Government's national performance framework. These targets and their trajectories are set out in the board's 2015/16 LDP.

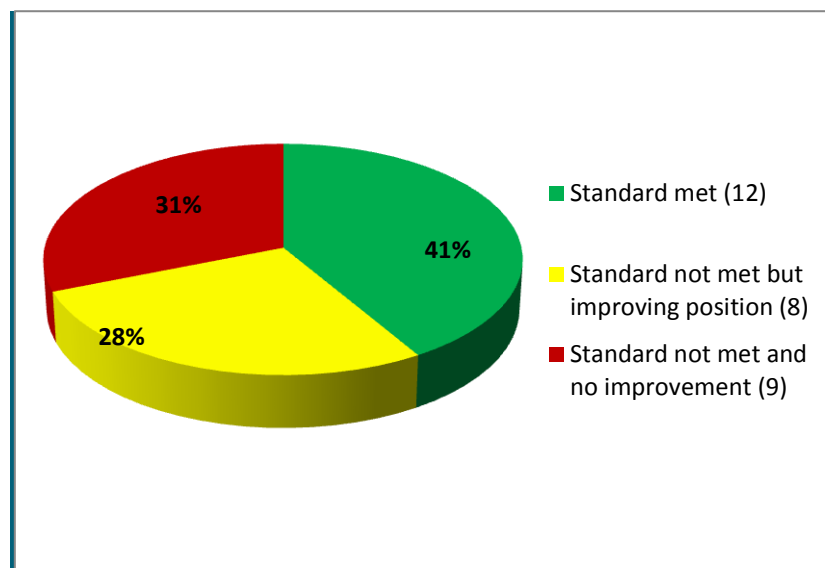
104. Performance against a range of measures, including LDP standards, is presented to each meeting of the board. The performance reports are accompanied by a narrative providing commentary on performance and setting out actions being taken to support the future achievement of the targets and standards. Furthermore, performance is monitored by the Corporate Management Team and discussed at the Annual Review meeting.

105. We concluded that the board had a well established performance management framework in place during 2015/16 supported by good performance monitoring.

## Overview of performance targets in 2015/16

106. The board's performance against its 29 key indicators is reported in the performance report within the 2015/16 annual accounts and summarised in the following diagram.

### Exhibit 3: Achievement of performance indicators



107. Those indicators currently being met by the board include:

- medical and surgical readmission rates for both 7 and 28 days and length of stay
- 95% treatment of cancer patients within 31 days
- 80% booked for antenatal care by 12<sup>th</sup> week of gestation, and
- 90% receiving IVF treatment within 12 months.

108. Of the indicators that are not being met 6 are showing an improving position and include:

- delayed discharges
- treatment time guarantee for inpatient and daycases (100% within 12 weeks)
- healthcare acquired infections (Staphylococcus aureus Bacteraemia (SaB) and Clostridium Difficile (C-diff)) (detailed in paragraph 92)
- 90% of child and adolescent mental health patients and psychological therapy patients to be treated within 18 weeks, and
- median rate of cardiac arrest to be no more than 0.95 per 1,000 discharges.

109. It is worth noting that although a number of these are improving they are still well short of achieving the required level, particularly the child and adolescent mental health standard (achieving 66.6% against 90% target) and the psychological therapy patients (69.5% against 90% target).

110. As we reported last year, delayed discharges continues to be a challenging area for the health board to manage particularly since the target was reduced from no patient waiting more than 28 days for discharge to 14 days. The year end position of 51 cases indicates that the initiatives have had some impact, but that it is an area that continues to require focus.

111. Finally the following indicators are included in the 11 that haven't been met and aren't currently showing improvements:
- 95% of unscheduled care patients to be dealt with within 4 hours
  - 95% of outpatients to be waiting no more than 12 weeks
  - staff sickness absence (detailed in paragraph 57)
  - handling of complaints, including acknowledging within 3 days and responding within 20 days, and
  - 90% receiving referral for drug or alcohol treatment within 3 weeks.
112. There is an ambition of admitting, treating or discharging 98% of unscheduled care patients within 4 hours, with the standard remaining at 95%. The current performance level of 92.8% is a slight reduction from the prior year. The outpatient treatment time standard at March 2016 is 85.2% against the target of 95%. This represents a significant challenge for the board while also trying to identify financial savings to achieve a balanced budget.
113. The board is taking measures to improve performance across the range of indicators with particular focus on delayed discharges, treatment time guarantees, waiting times and healthcare associated infections.

***Refer to Action Plan No. 2***

## National performance audit reports

114. 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 interest to the board. These are outlined in [appendix III](#).
115. All Board members have registered on the Audit Scotland website so that they are automatically notified of relevant Audit Scotland reports.
116. As reported in previous years, NHS Lothian has processes in place to ensure that all national performance reports and their impact on the Board are considered by the Audit and Risk Committee and other governance committees, as appropriate. Staff from Audit Scotland who were directly involved in a performance study, are available to attend Audit and Risk Committee to present their findings and respond to members questions.
117. From our attendance at Audit and Risk Committees we conclude that the arrangements for considering national performance audit reports are consistent with good practice.

## Equalities

118. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.



119. The board approved 'NHS Lothian Rights and Outcomes 2013-17' in March 2013. The report is accessible on the board's website and contains links to other publications and source legislation.

## Outlook

120. 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. The strong focus on performance targets may not be sustainable when combined with the additional pressures of increasing demand and the overall NHS budget static or decreasing in real terms.
121. 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.

# Appendix I: Significant audit risks

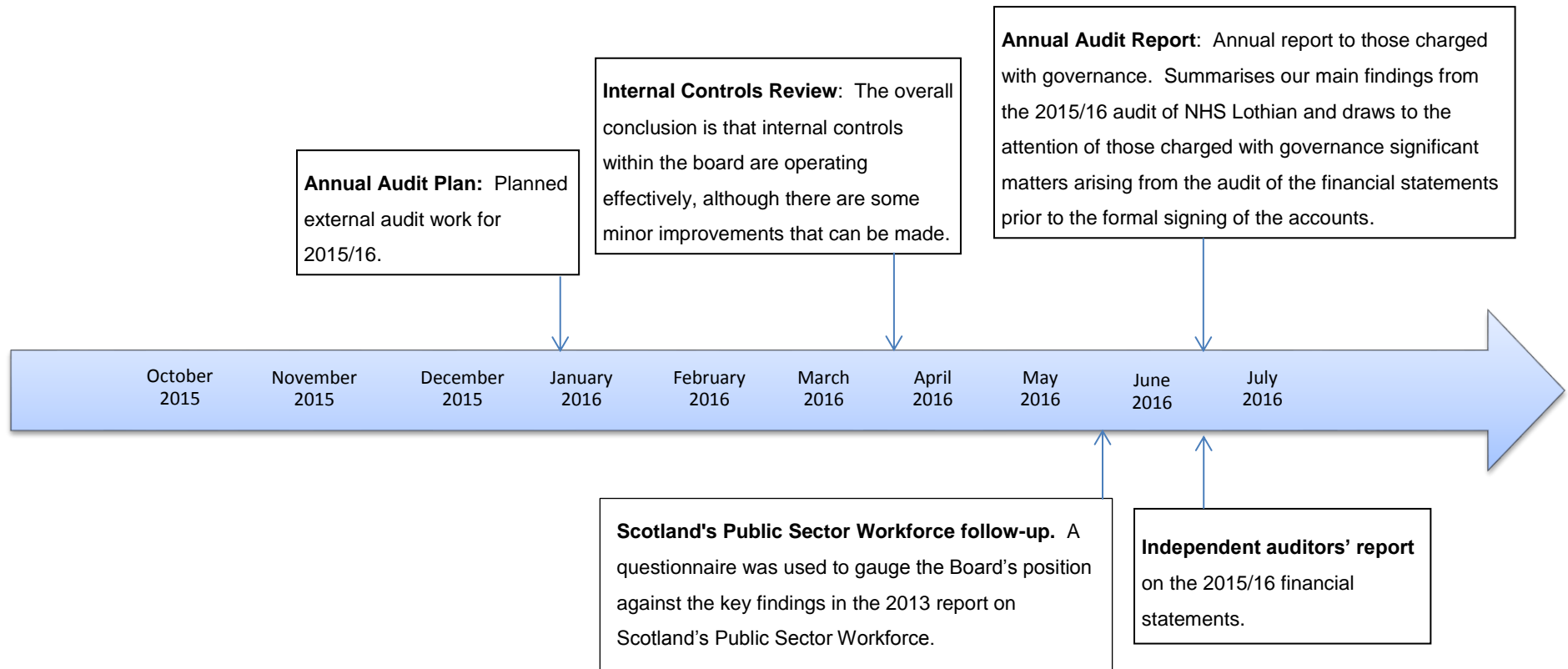
The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement in the financial statements</b>		
<p><b>Risk of management override of control</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of the accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>	<p>We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>We did not identify any incidents of management override of controls.</p>
<p><b>Financial outturns</b></p> <p>The board faces a wide range of financial challenges including achievement of break even by the year end. There is a risk that the board will not breakeven at the year end.</p>	<ul style="list-style-type: none"> <li>• Monitor updates to the financial plan.</li> <li>• Review financial monitoring reports to the Board.</li> <li>• Focused testing of transactions before and after the year end to confirm expenditure and income has been accounted for in the correct financial year.</li> </ul>	<p>We undertook detailed testing of income and expenditure transactions to ensure correctly classified.</p> <p>No material misstatements were identified.</p> <p>All financial targets were achieved.</p>

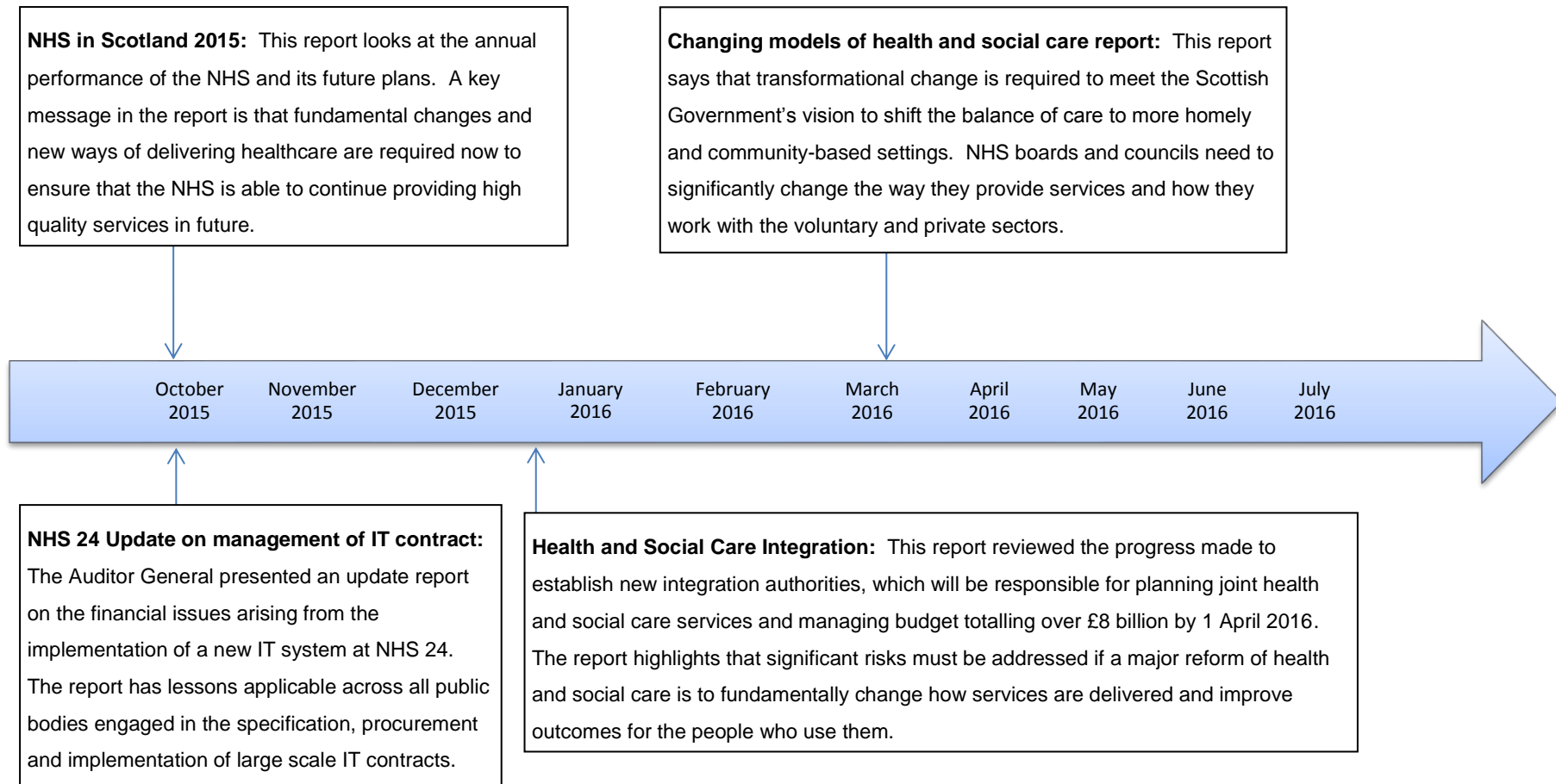
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Income</b></p> <p>NHS Lothian receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> <li>Analytical procedures on income streams.</li> <li>Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>	<p>We undertook detailed testing of income streams.</p> <p>No frauds were identified.</p>
<p><b>Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>Completion of 'review of the work of an expert' for the professional valuer.</li> <li>Focused substantive testing of key areas.</li> </ul>	<p>We reviewed the professional valuer in accordance with ISA 500 and undertook detailed testing of key valuations within the accounts.</p> <p>No material misstatements were identified.</p>
<p><b>Changes to the Government Financial Reporting Manual (FReM)</b></p> <p>Changes to the FReM require enhanced valuation disclosures for property, plant and equipment and a restructuring of the annual report to include a performance report and an accountability report.</p>	<ul style="list-style-type: none"> <li>Focused testing of property, plant and equipment disclosures.</li> <li>Confirmation that the structure of the annual report is consistent with guidance.</li> </ul>	<p>We reviewed the valuation methodology and disclosures for property, plant and equipment. The restructured annual report format was included in the accounts provided to audit and was subject to detailed review.</p> <p>No issues were identified from the audit work undertaken.</p>

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks identified from the auditor’s wider responsibility under the Code of Audit Practice</b>		
<p><b>Workforce planning</b></p> <p>The board faces a significant challenge in maintaining adequate staffing levels across the workforce. Continued reliance on bank and agency staff is not sustainable and there is a risk that this could have a significant impact on the board’s plans to achieve the savings required for longer term financial sustainability.</p>	<ul style="list-style-type: none"> <li>• Completion of targeted follow-up work based on the recommendations in the 2013 Scotland’s Public Sector Workforce report.</li> </ul>	<p>We reviewed the workforce planning arrangements across the board and met with key officers.</p> <p>The board has established sound workforce planning arrangements and continues to work on recruiting and retaining staff in key areas.</p>

# Appendix II: Summary of NHS Lothian local audit reports 2015/16



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



## Appendix IV: Action plan

No.	Paragraph ref.	Issue / Risk / Recommendation	Management action/response	Responsible officer / Target date
1.	49	<p><b>Financial sustainability</b></p> <p>The board is yet to finalise a balanced financial plan for 2016/17. The remaining resource shortfall of £20.9 million, at this point in the financial year, is an indication of the budget challenges which the board faces.</p> <p><b>Risk</b></p> <p>There is a risk that the board will be unable to deliver a balanced financial outturn for 2016/17.</p> <p><b>Recommendation</b></p> <p>The board should continue to identify opportunities to close the resource shortfall for 2016/17.</p>	<p>The Board is continuing to explore all opportunities with Scottish Government to reduce the financial plan gap.</p> <p>We have now moved into financial forecast mode and will be working with business units to deliver against their breakeven targets.</p>	<p>Director of Finance</p> <p>March 2017</p>

No.	Paragraph ref.	Issue / Risk / Recommendation	Management action/response	Responsible officer / Target date
2.	113	<p><b>Achievement of performance indicators</b></p> <p>The board did not achieve a significant number of performance indicators in 2015/16, with particular issues identified in delayed discharges and waiting times.</p> <p><b>Risk</b></p> <p>There is a risk that the board will not be able to deliver the required level of services within the current financial constraints.</p> <p><b>Recommendation</b></p> <p>The board should continue to monitor and take action to address the performance against the indicators.</p>	Performance against indicators, including LDP standards, are regularly monitored and reported to the Board with corrective action and investment taken where appropriate / available.	Chief Executive March 2017