

NHS

LANARKSHIRE

2022/23 Annual Audit Report



 AUDIT SCOTLAND

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

June 2023

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Key messages

2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2 The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework. Expenditure and income were regular and in accordance with applicable enactments and guidance.

Financial management and sustainability

- 3 NHS Lanarkshire met the 3 key financial targets set by Scottish Government for 2022/23 and achieved breakeven against its Revenue Resource Limit (RRL).
- 4 During 2022/23, NHS Lanarkshire realised £38.223 million of efficiency savings. The majority of these savings were achieved on a non-recurring basis. With rising cost pressures, including pay and non-pay costs, NHS Lanarkshire starts the financial year 2023/24 with a recurring funding gap of £59.297 million.
- 5 NHS Lanarkshire has prepared a medium-term financial forecast which identifies a funding gap of £34.947 million for 2023/24, increasing to £53.992 million by 2025/26.
- 6 Transformational plans are underway to increase service provision, but significant staffing challenges remain.
- 7 NHS Lanarkshire should continue to look to increase substantive staff recruitment to agreed staffing models to ensure it reduces its reliance on agency staff.

Vision, leadership and governance

- 8 NHS Lanarkshire has effective and appropriate governance arrangements in place.
- 9 Climate change arrangements are progressing to reach net zero but challenges remain.

Use of resources to improve outcomes

- 10** NHS Lanarkshire has appropriate arrangements for performance monitoring and for performance reporting.
- 11** Service performance against national waiting time standards continues to decline.
- 12** The University Hospital Monklands Replacement Project Outline Business Case has been approved by the Board.
- 13** NHS Lanarkshire has an appropriate and effective best value framework.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of NHS Lanarkshire. The scope of the audit was set out in an Annual Audit Plan presented to the 7 March 2023 meeting of the Audit and Risk Committee. This annual audit report comprises:

- significant matters arising from an audit of NHS Lanarkshire’s annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the Board of NHS Lanarkshire and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. I, John Boyd, have been appointed by the Auditor General as auditor of NHS Lanarkshire for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new Code of Audit Practice which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank board members, audit and risk committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. NHS Lanarkshire has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the Accounts Direction from the Scottish

Ministers. NHS Lanarkshire is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. The responsibilities of the independent appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

7. Weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of NHS Lanarkshire from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £247,710, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

10. We add value to NHS Lanarkshire by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice.

1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare an annual report and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

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

The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework. Expenditure and income were regular and in accordance with applicable enactments and guidance.

Audit opinions on the annual report and accounts are unmodified

11. The Board approved the annual report and accounts for NHS Lanarkshire and its group for the year ended 31 March 2023 on 28 June 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report was prepared in accordance with the financial reporting framework
- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The unaudited annual report and accounts were not received in line with the agreed timetable

12. The unaudited annual report and accounts were not received in line with our agreed audit timetable on 8 May 2023 and there were delays in receiving a complete working papers package. This was as a result of unforeseen staffing issues within the finance team. These impacted on the start date and work had to be paused at the start of the audit. However the finance and audit teams worked closely together to ensure the statutory deadline was achieved.

13. We also recognise that this is the first year of the new audit appointment and some of the supporting documentation requested to provide the necessary audit evidence was not familiar to the finance team. We have arranged to have a post audit meeting with the key finance contacts as a 'learn lessons' from the 2022/23 audit to take forward into 2023/24.

Our audit approach was based on the overall materiality level of £28.4 million

14. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

15. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values for both NHS Lanarkshire and group

Materiality level	Board	Group
Overall materiality	£28.4 million	£28.403 million
Performance materiality	£21.3 million	£21.302 million
Reporting threshold	£250,000	£250,000

Source: Audit Scotland

16. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

17. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. We have used our professional judgement and set performance materiality at 75 per cent of overall materiality.

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

Our audit identified and addressed the risks of material misstatement in the annual report and accounts

19. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Identified Significant risks of material misstatement in the annual report and accounts

Audit risk	Audit Response	Conclusion
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Assess the design and implementation of controls over journal entry processing.</p> <p>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Detailed testing of journal entries with a focus on significant risk areas, including year-end and post-close-down entries where we consider greatest risk of management override.</p>	<p>We undertook detailed substantive testing of journal entries, accruals and invoices. Our journal testing included a data analytics review to identify key risk factors. We also reviewed accounting estimates and transactions for appropriateness and indication of management bias.</p> <p>Conclusion: We did not identify any incidents of management override of controls or indications of fraud or error.</p>

Audit risk	Audit Response	Conclusion
	Evaluate any identified significant transactions outside the normal course of business, identified through audit testing of income and expenditure and accruals.	
<p>2. Valuation of land and buildings</p> <p>We will review the arrangements in place to satisfy the board that the annual revaluation process is complete and is free from material misstatement. In particular, we will focus on the reasonableness of the valuers' assumptions.</p>	<p>Review the work of the valuer, and in particular review the assumptions that have been used and any data used to inform the valuation.</p> <p>Review of reports from the valuer to confirm overall asset valuation movements.</p> <p>Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred.</p> <p>Test the reconciliation between the financial ledger and the property asset register.</p> <p>Sample testing of individual asset valuations to confirm the suitability of the basis of valuation, the recognition of the valuation in the accounts and underlying assumptions used.</p>	<p>We reviewed the work of the valuer focussing on the assumptions and data used and confirmed the overall movements in asset valuation.</p> <p>We also sample tested asset valuations to confirm the suitability of the basis of valuation, the recognition of the valuation in the accounts and the underlying assumptions.</p> <p>Conclusion: We are satisfied NHS Lanarkshire has appropriate arrangements are in place in relation to the annual revaluation process.</p>

Significant findings and key audit matters

20. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the board including our view about the qualitative aspects of the body's accounting practices.

21. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

22. The significant findings and key audit matters are summarised in [Exhibit 3](#) Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included.

Exhibit 3

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Assets under construction</p> <p>As part of our audit work, we performed testing of a sample of Assets Under Construction (AUC) disclosed within the Property, Plant and Equipment note of NHS Lanarkshire's unaudited accounts. We identified that the classification and treatment of additions held as AUC is not in line with accounting requirements.</p> <p>AUC impairments of £9.2 million relates to: £5.2 million Monklands General Business Continuity which is updating Monklands Hospital which is already recognised as an asset and £3.4 million coded to Hairmyres Hospital. These are existing enhancements and should be coded to additions under land and buildings at the time the cost is incurred.</p>	<p>The additions to AUC are capital enhancements to existing land and building assets: the accounting treatment of additions within AUC and Land & Buildings should be classified in line with accounting requirements.</p> <p>Recommendation 1 (refer Appendix 1, action plan)</p>
<p>2. SFR 30 related expenditure</p> <p>SFR 30 related expenditure as reported in SFR 30 returns is £327.904 million compared to £224.482 million detailed within Note 3(b) line 'Goods and Services with Other NHS bodies' a variance of £103.422 million. All of the expenditure within 'Goods and services with other NHS bodies' is SFR 30 related expenditure. The remainder of SFR 30 expenditure has been coded to other expenditure codes such as drugs costs and staff costs (for junior doctors expenditure) which is accurate reporting under the FReM. However NHS Lanarkshire do not undertake a reconciliation to ensure all SFR 30 expenditure included within the financial statements can be agreed to the SFR 30 returns.</p>	<p>NHS Lanarkshire should undertake a reconciliation of the total income and expenditure with other NHS bodies during the financial year, to the figures included in the SFR 30 returns.</p> <p>This will provide NHS Lanarkshire with assurance that the figures received in SFR 30 returns is accurate, and agree to actual income and expenditure within the financial statements.</p> <p>Recommendation 2 (refer Appendix 1, action plan)</p>

Issue	Resolution
<p>For 2022/23, we requested NHS Lanarkshire to undertake a review of the variance this to confirm high value amounts that contributed to the total variance. This exercise has provided assurance over approximately £291.314 million (88 per cent).</p>	
<p>3. Prior year restatement</p> <p>Prior year balances within the consolidated property, plant and equipment note to the accounts were restated to correct an arithmetic error. The prior year total for asset financing of owned (purchased) PPE has been increased by £36.899 million, with an equivalent reduction in the total for on-balance sheet PFI contracts. These restatements net to nil, therefore there is no impact on the bottom line balance. This restatement is at the note level only, therefore there is also no impact on the core financial statements.</p>	<p>For information only.</p>
<p>Source: Audit Scotland</p>	

23. In addition to the significant findings detailed in [exhibit 3](#), we identified areas where NHS Lanarkshire need to make improvements as detailed below.

24. Through our review of the work the valuer, we identified discrepancies between the data used for the purpose of the building valuations GIA against the data held on these buildings by the technical services team within NHS Lanarkshire.

Recommendation 3

NHS Lanarkshire should undertake a review to ensure data is consistent between the valuer and the technical services team.

25. Significant judgements and sources of estimation uncertainty are disclosed at Note 1.30 to the financial statements. This disclosure is not fully compliant with IAS 1 in that it does not clearly explain the areas of estimation and their potential impact from any changes over the next twelve months. In line with IAS 1, information relating to the following should be provided:

- nature of the assumption or other estimation uncertainty

- sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity
- expected resolution of an uncertainty and the range of possible outcomes within the next financial year in respect of the carrying amounts of the asset and liabilities affected
- explanation of changes made to past assumptions concerning those assets and liabilities if the uncertainty remains unresolved.

Recommendation 4

Management should review the current disclosure against the requirements outlined.

Identified misstatements of £9.788 million were adjusted in the financial statements

26. In addition to the significant misstatements outlined in [Exhibit 3](#), other misstatements of £9.788 million were identified in the annual accounts as outlined below:

- Asset under construction – an adjustment of £3.173 million was processed to adjust for construction costs.
- FHS practitioners costs – an adjustment of £4.071 million correction of FHS creditors to recognise as a prepayment.
- Negligence provision – an adjustment of £0.574 million was processed to adjust between provisions for less than one year and provisions more than one year.
- Overpayment of suppliers – an adjustment of £1.970 million was processed to reallocate debit balances included within creditors.

27. Adjustments have been processed to the annual report and accounts for the above misstatements. These adjustments were individually and collectively below our performance materiality, but above our reporting threshold. We concluded that further audit procedures were not required as the misstatements arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

28. In addition to the above there was an adjustment of £30.671 million in respect of NHS Lanarkshire's share of the Integration Joint Boards' (IJBs') deficit for the year, increasing the consolidated net expenditure figure and reducing reserves by £30.671 million. This information was not available at the time of preparing the unaudited accounts.

There were number of non-material misstatements identified within the financial statements

29. We identified a number of misstatements which were not corrected by management in the audited accounts. We considered the size, nature and circumstances leading to all uncorrected misstatements, individually and in aggregate, and concluded that these were not material. Further details of the uncorrected misstatements are included in [Appendix 2](#).

There is an opportunity to make further improvements to the Performance Report

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

31. We reviewed the performance report provided to us as part of the unaudited 2022/23 annual report and accounts taking into account good practice notes issued by Audit Scotland in recent years in relation to the content of performance reports in the NHS and Central Government. A number of updates have been made to the Performance Report and we are content that the content complies with the requirements of the FReM.

32. NHS Lanarkshire has had to adapt to a number of changes in priorities and how performance is measured as a result of the Covid 19 pandemic.

33. In March 2022 the Board approved interim Corporate Objectives for 2022/23. The Scottish Government then issued new guidance for preparing a delivery plan on 28 February 2023 which detailed the 2023/24 planning objectives. In turn, the Board developed a streamlined set of Corporate Objectives which were approved at its May 2023 meeting.

34. In addition to the above a number of other key documents were issued such as:

- NHS Lanarkshire three-year workforce plan submitted to the Scottish Government in November 2022
- NHS Lanarkshire Sustainability and Climate Change Strategy in late 2022
- NHS Lanarkshire three stage transformation programme, Operation Flow.

35. There is an opportunity for NHS Lanarkshire to more clearly demonstrate how their new Corporate Objectives support the Scottish Government

objectives. In turn NHS Lanarkshire's other plans and strategies need to clearly support and link to the Corporate Objectives.

Recommendation 5

NHS Lanarkshire should review the Performance Report to help stakeholders understand how the Corporate Objectives and supporting strategies link to Scottish Government objectives and how these will help improve future performance.

Good progress was made on prior year recommendations

36. NHS Lanarkshire has made good progress in implementing the audit recommendations identified by Audit Scotland, NHS Lanarkshire's previous external auditor. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

NHS Lanarkshire met the 3 key financial targets set by Scottish Government for 2022/23 and achieved breakeven against its Revenue Resource Limit (RRL).

The 2022/23 funding gap was managed through additional funding and efficiency savings. The majority of these savings were achieved on a non-recurring basis. With rising cost pressures, including pay and non-pay costs, NHS Lanarkshire starts the financial year 2023/24 with a recurring funding gap of £59.297 million.

NHS Lanarkshire has effective budgeting and financial control arrangements in place.

NHS Lanarkshire operated within its Revenue Resource Limit (RRL) of £1,569.874 million

37. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within. In each year, NHS Boards have 1% flexibility on their annual resource budget to allow scope to marginally under or over-spend within an overall breakeven position across a three year period (2022-25).

38. As a result [Exhibit 4](#) shows that NHS Lanarkshire operated within the 3 key financial targets set by Scottish Government during 2022/23.

Exhibit 4

Performance against resource limits in 2022/23

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	1,569.874	1,569.874	0
Non-core revenue resource limit	39.638	39.638	0
Total revenue resource limit	1,609.512	1,609.512	0
Core capital resource limit	33.322	33.322	0
Non-core capital resource limit	0	0	0
Total capital resource limit	33.322	33.322	0
Cash requirement	1,642.834	1,642.834	0

Source: NHS Lanarkshire Annual Report and Accounts 2022/23

Integration Joint Boards underspent against the NHS Lanarkshire budget

39. NHS Lanarkshire delegates responsibility for a specified range of health and social care services to the North and South Lanarkshire Integration Joint Boards (IJBs) and passes the budgets associated with these services to the IJBs. The budget is amended throughout the year to reflect additional funding received by the board for IJB services.

40. Under the integration financial guidance, any funding unspent at the year-end belongs to the IJBs and is retained by them to be held in reserves for use in future years. Both North and South Lanarkshire Integration Joint Boards underspent by £23.753 million and £9.762 million respectively against the NHS Lanarkshire budget.

Budget processes were appropriate

41. In March 2022 NHS Lanarkshire's draft annual operating plan set an overall budget for 2022/23 of £1,712.963 million.

42. We reviewed NHS Lanarkshire's budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and Board members receive regular, timely and up to date financial information on NHS

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

43. The finance report presented to each meeting of the Board also includes an analysis of the movements in NHS Lanarkshire's RRL since the previous finance report. This provides Board members with sufficient detail on the nature of changes to NHS Lanarkshire's funding allocation as a description is provided for each change to the funding allocation along with the monetary values.

44. Each year internal audit produce an Internal Control Evaluation (ICE) report which is informed by a detailed review of formal evidence sources including Board, Standing Committee, Corporate Management Team (CMT) and other papers. Internal audit opinions are also informed by regular meetings with directors, senior officers and through fieldwork undertaken for specific audits during the year.

45. The principal objective of this review is to provide assurance to the Chief Executive, as Accountable Officer, that there is a sound system of internal control that supports the achievement of the board's objectives and aims to identify of any significant issues that may affect the Governance Statement in the annual accounts.

46. The internal audit 2022/23 ICE report was presented to the Audit Committee meeting on 7 March 2023 and identified no significant issues in relation to financial governance.

47. The 2022/23 Internal Audit Annual Report presented to the Audit Committee meeting on 6 June 2023, did not highlight any weaknesses in relation to financial governance that impact on the annual accounts or our audit work.

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

The 2022/23 funding gap managed through additional funding and efficiency savings

49. In its opening 2022/23 financial plan in March 2022, NHS Lanarkshire was required to make savings of £38.223 million between projected costs and income. Initial efficiency schemes identified savings of £5.669 million which left an unidentified funding gap of £32.554 million. Based on previous years' experience, NHS Lanarkshire estimated that they could identify opportunities to reduce further the gap to £14.868 million. This was submitted as an opening target to the Scottish Government Health and Social Care Directorate (SGHSCD).

50. During the financial year there was ongoing uncertainty in relation to the impact of inflation on supplies and energy prices with the gap in year increasing by approximately £5 million more than originally estimated. The funding gap widened further in year when the allocation to cover the excess costs of responding to Covid-19 was issued at £14 million less than NHS Lanarkshire's forecast expenditure.

51. There was significant uncertainty in the levels of funding and care during the year. Conversely some of the opening estimates in respect of funding and pay costs proved to be overly pessimistic and there were elements of funding within budgets that were identified as surplus at the mid-year stage broadly bringing the forecasts back on trajectory towards the original £14.868 million deficit.

52. The finance report to the end of March 2023 highlights that the required revised target was achieved which allowed NHS Lanarkshire to breakeven in 2022/23. Key elements in achieving this included:

- retrospectively claiming funding which other Boards had been allocated in previous years for the cost of new medicines or the Clinical negligence and other risks scheme (CNORIS) totalling £14.083 million
- Scottish Government releasing £ £12.324 million in the final quarter to cover the costs of new medicines which has been a long standing cost pressure
- additional drug price savings of £5.115 million
- around £5 million from recognising delays mainly in national and regional service developments.

53. There has been substantial reliance on non-recurring income, slippage and savings to achieve a break-even position, leaving much of the opening gap still to be resolved in 2023/24. NHS Lanarkshire starts financial year 2023/24 with a recurring funding gap of £59.297 million.

NHS Lanarkshire has appropriate financial control arrangements in place

54. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach and the testing the operating effectiveness of specific controls, we did not identify any internal control weaknesses which could affect NHS Lanarkshire's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

There were control assurance issues with providers of key financial systems

55. A part of our overall audit approach we rely on assurances from key service providers. This includes:

- NHS National Services Scotland (NSS) provision of primary care payments and the national IT contract
- NHS Ayrshire & Arran provision of the National Single Instance eFinancials service

56. We considered the evidence from service auditor's assurance reports and other auditor assurances for 2022/23 and identified three issues which are detailed below.

- **The National Single Instance eFinancials service report:** The service auditor reported that *“the eFinancials system was updated from version 5 to version 6 between Friday 20th and Monday 23rd January 2023, issues have emerged when the system went live and multiple users were accessing the system concurrently. Following the migration to eFin v6, the system became unstable when a number of users access DBCapture concurrently... (with).. significant disruption to accounts payable service and as a result there had been delays in paying suppliers and document images are not saved into the Finance System when invoices are paid through this method. The level of disruption experienced has varied across Boards, partly due to when the decision was taken locally to revert to paying invoices manually”*. At NHS Lanarkshire this did cause issues as reported in the Governance Statement.
- **The National Single Instance eFinancials service report:** The service auditor acknowledged a gap in the current service audit arrangements at the body. *“Atos provides national IT services to the NHS in Scotland and hosts the servers upon which the financial ledger sits. Therefore, IT general controls, controls over the server, backup of financial ledger data and disaster recovery arrangements are outside the scope of the service report”*. NHS NSS confirmed that specific assurance for general IT controls relates to payroll and practitioner services and not to the general ledger.

57. These service audit reports were presented to the Audit and Risk Committee meeting on 6 June 2023 and have been referred to in the Governance Statement included within NHS Lanarkshire's 2022/23 annual report and accounts.

Standards of conduct for prevention and detection of fraud and error are appropriate

58. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

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

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

61. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Throughout the year NHS Lanarkshire has been involved in the National Fraud Initiative (NFI) process with investigation work underway.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

NHS Lanarkshire has prepared a medium-term financial forecast which identifies a funding gap of £34.947 million for 2023/24, increasing to £53.992 million by 2025/26.

Transformational plans are underway to increase service provision, but significant staffing challenges remain.

NHS Lanarkshire should continue to look to increase substantive staff recruitment to agreed staffing models to ensure it reduces its reliance on agency staff.

Our audit work identified and addressed risks relating to financial sustainability

62. [Exhibit 5](#) sets out the wider scope risks relating to Financial Management we identified in our 2022/23 Annual Audit Plan. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 5

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

Audit risk	Audit Response	Conclusion
<p>1. Financial Sustainability</p> <p>There is significant financial uncertainty facing the health board. NHS Lanarkshire has projected a budget gap of £72.540 million for 2023/24 representing a significant challenge for NHS</p>	<p>Review NHS Lanarkshire's financial plans and consider underlying savings plans.</p> <p>Assess the progress made by NHS Lanarkshire in implementing sustainable transformational change to address financial targets</p>	<p>Results: Financial breakeven was achieved in 2022/23 as the board delivered £38.223 million of efficiency savings. The majority of the efficiency savings achieved in 2022/23 were on a non-recurring basis. Finance reports are presented to each meeting of</p>

Audit risk	Audit Response	Conclusion
<p>Lanarkshire in order to deliver services in a financially sustainable way. This is driven through a combination of inflationary pressures on pay and non-pay costs, demand driven pressures and funding allocations not increasing to offset these costs. Efficiency savings realised to date are generally on a non-recurring basis (e.g. through unfilled staffing vacancies) rather than on a sustainable recurring basis. This will result in added pressure in subsequent years as budgets become increasingly constrained.</p>	<p>while meeting performance targets.</p>	<p>the Board which include an update on the progress of efficiency savings plans. A separate efficiency savings update report is presented regularly to the Audit Committee.</p> <p>Conclusion: The Board should continue to monitor and report on the progress of efficiency savings plans.</p>

The response to Covid-19 and a range of emerging financial pressures have exacerbated the financial position of the NHS in Scotland

63. As highlighted in Audit Scotland's *NHS in Scotland 2022* report, the financial position is concerning across the health sector. Despite growth in health funding a range of financial pressures are presenting a significant challenge for all health boards. These include:

- inflation;
- recurring pay pressures;
- ongoing Covid-19 related costs;
- rising energy costs and;
- a growing capital maintenance backlog.

NHS Lanarkshire has prepared a medium term financial plan

64. NHS Lanarkshire's 2022/23-2025/26 financial plan was approved by the Board on 29 March 2023. NHS Lanarkshire's forecast includes additional costs relating to Covid-19 and costs related to recovering and addressing service backlogs in other areas. Forecasts in the financial plan are based on several assumptions including allocation uplifts, inflationary costs and pay growth. It

also considers the impact of known commitments made by NHS Lanarkshire over the three-year period.

65. This has been used to estimate the additional financial gap which must be addressed each year. The financial plan forms part of NHS Lanarkshire's reporting requirement to Scottish Government and is updated annually.

66. The projected financial position for NHS Lanarkshire for 2023/24 projects a gap before savings of £56.505 million, reducing to £34.132 million assuming potential savings of £22.373 million are achieved, of which £13.185 million would be non-recurring.

67. Going forward into 2024/25 and 2025/26 respectively, it is projected that the gap, after achieving in year savings will continue to increase to £47.826 million and £53.992 million respectively.

68. To identify ways to close this deficit, a Sustainability and Value programme has been set up with the NHS Lanarkshire's expenditure segmented into different workstreams each led by a director. Progress to May 2023 indicates traditional efficiency schemes will not be sufficient to close the gap and looking to redesign services within a reduced funding envelope will be required. The risk of not being able to achieve this over three years sits on the risk register at the highest level.

Transformational plans are underway to increase service provision, but significant staffing challenges remain

69. NHS Lanarkshire has initiated a three stage transformation programme, Operation Flow, was initiated following visits to other health boards, research on effective interventions and experience from their own improvement activity.

70. In February 2023 senior clinical and management resource focussed on supporting teams to implement a variety of interventions to prevent unnecessary admission or delays in discharge. The aim was to create a firebreak and decompress the hospitals to a level of occupancy where work could progress to embed longer term, resilient sustainable optimised service models.

71. It succeeded in reducing occupancy across the three District General Hospitals from:

- 105 per cent in January 2023 to 89 percent during the firebreak
- increased the number of people spending 4 hours or less in the emergency departments from 61 per cent to 70 per cent.

72. Without sustained additional resource input the numbers again increased with occupancy at 94 per cent in April 2023 and the 4 hour performance at 64

per cent. NHS Lanarkshire has agreed with Scottish Government that targeted investment is needed to reduce occupancy in hospitals and improve progress of patients through the emergency departments. Implementing and monitoring this programme is a key priority for NHS Lanarkshire in 2023/24.

NHS Lanarkshire continues to rely on supplementary staff to fill gaps

73. NHS Lanarkshire has experienced challenges in recruitment throughout 2022/23 and continues to be reliant on agency and locum staff. These increased costs are impacting on NHS Lanarkshire's ability to achieve their medium to long term plans.

74. NHS Lanarkshire's overall average staffing had increased by the equivalent of 1,318.9 whole time staff (WTE) (11 per cent) since March 2020, the start of the pandemic with 214.6 WTE more staff recorded in 2022/23 taking the total whole time equivalent staffing to 13,276. Staffing increases supported by specific Scottish Government funding are mostly within the Health and Social Care Partnerships in line with their stated policy of shifting the balance of care.

75. There has been recruitment across many services, with the acute services employing substantial additional numbers of healthcare support workers and opening access to agency staffing for unfilled shift. This resulted in spend on agency nursing within acute services increasing from £1.935 million in 2018/19 to £25.882 million in 2022/23, contributing to an £8.151 million overspend against the nursing budgets in the Acute Division.

76. While agency staffing in the immediate situation can help provide safe staffing numbers, in the long term as it brings in staff who are not familiar with the specific hospital environment and may have limitations in the tasks they can undertake or their flexibility in covering multiple areas. If agency is seen as attractive it also impacts on NHS recruitment and retention.

77. In recognition of this a national direction has been issued to Boards directing them through a series of measures to reduce agency use including improving the ease of joining individual Board staff banks and blocking the use of the premium rate agencies not on the national contracts.

78. In March 2023, the Board noted a paper from the Human Resources Directorate which outlined the Recruitment and Employability Initiatives currently underway to help widen access and meet both service and workforce demands

Recommendation 6

NHS Lanarkshire should continue to look to increase substantive staff recruitment to agreed staffing models to ensure it reduces its reliance on agency staff.

Workforce planning

79. NHS Lanarkshire submitted its three-year workforce plan to the Scottish Government in November 2022. The plan was developed in partnership with North and South Lanarkshire Health and Social Care Partnerships (HSCPs) in line with Scottish Government Health Workforce Directorate guidance using 6 steps to workforce planning methodology as the agreed collective approach.

80. The aim of the plan is to develop a healthcare strategy that supports the development of an integrated health and social care system which has a focus on prevention, anticipation and supported self-management. This aligns with the strategic commissioning plans set out Both North and South Lanarkshire Integration Joint Board's (IJB) overall strategy for health and social care services for the next three years up to 2025.

81. Quarterly Workforce Reports are presented to each meeting of the Staff Governance Committee (SGC), the minutes of which are taken to relevant meetings of the Board. These quarterly reports allow members to monitor the board's statistics in relation to staff numbers, vacancies, supplementary staffing, agency shifts, staff turnover and staff absences, with additional commentary on each area.

82. The Quarterly Workforce Report presented to the SGC meeting in May 2023 highlights that agency shifts, which is the number of bank shifts which are subsequently escalated to third-party agencies to provide external staffing support continues to increase, sitting at 4,470 against a target of 1,890. This reflects the broader ongoing staffing challenges but also results in NHS Lanarkshire incurring additional higher costs to provide this service.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

NHS Lanarkshire has effective and appropriate governance arrangements in place.

Climate change arrangements are progressing to reach net zero but challenges remain.

Governance arrangements are appropriate and effective

83. NHS Lanarkshire's governance arrangements have been set out in the Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate and effective.

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

85. Board members provide appropriate scrutiny and challenge at regular bi-monthly meetings to ensure the Board's performance is effectively reviewed. There has been no significant change to the Board's governance arrangements during 2022/23.

86. NHS Lanarkshire's strategic planning and performance monitoring role is shared with two separate legal bodies; the North and South Lanarkshire Integration Joint Boards (IJBs). Each Integration Joint Board comprises 4 non-executive directors from the NHS Board and 4 councillors from the respective

Council. Each have appointed a Chief Officer and a Chief Finance Officer responsible for delivery of the IJB's objectives.

87. NHS Lanarkshire delegates the planning and commissioning for Primary, Community and Mental Health services to the IJBs and passes to them the relevant budgets. The IJBs also strategically plan, alongside the NHS Board for Accident and Emergency Services, and inpatient services for General, Geriatric, Respiratory, Rehabilitation and Palliative Care inpatient services

88. The IJBs decide what integrated services will be provided and how they will be funded and direct NHS Lanarkshire and North and South Lanarkshire councils to deliver those services. The Integration Joint Boards have a joint responsibility for reducing delayed discharges and their Chief Officers are full members of the NHS corporate management team.

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

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

91. The Board's Code of Corporate Governance is reviewed on an annual basis. A report was approved by the Board at its meeting in May 2023 confirming that no changes were required at this time.

92. In May of each year the Code of Corporate Governance is reviewed, and officers confirmed that there are no changes required at this stage. NHS Lanarkshire will review the Code against any changes made as a result of considering the Blueprint for Good Governance (Version 2).

93. A self-assessment tool was piloted in NHS Highland earlier this year and once that tool has been disseminated by Scottish Government for Boards to use, NHS Lanarkshire will undertake that exercise.

Climate change arrangements are progressing to reach net zero but challenges remain

94. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75 per cent reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

95. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

96. NHS Lanarkshire's Sustainability and Environment group oversees and coordinates risk management for strategic sustainability planning, climate change adaptation and service improvement across all NHS Lanarkshire services. The group also produces reports on NHS Lanarkshire's energy performance and carbon emissions to meet Scottish Government requirements around annual climate change and sustainability reporting.

97. NHS Lanarkshire published their first **Sustainability and Climate Change Strategy** in late 2022, which set out improvement ambitions and objectives in relation to tackling the climate emergency, detailing the strategic intentions to meet net-zero by 2045. ([Sustainability and Climate Change Strategy | NHS Lanarkshire \(scot.nhs.uk\)](https://www.scot.nhs.uk/sustainability-and-climate-change-strategy)).

98. In February 2023 NHS Lanarkshire published their first **Climate Emergency and Sustainability Annual Report**, which outlined progress through 2021/22 against the measures put in place to reduce emissions. ([Climate Emergency and Sustainability Annual Report | NHS Lanarkshire \(scot.nhs.uk\)](https://www.scot.nhs.uk/climate-emergency-and-sustainability-annual-report)). The data contained within the annual report was drawn from the Public Sector Duties Report submitted annually to Sustainable Scotland Network (SSN). In 2021/22, NHS Lanarkshire scored 67 per cent overall, improving their score by 10 per cent and moving from an overall award of Bronze to Silver.

99. The costs of implementing the Climate Emergency & Sustainability Strategy have been considered and documented by NHS Lanarkshire, in Section 10 of the Sustainability & Climate Change Strategic Strategy 2022-2026.

100. However NHS Lanarkshire recognises that there will need to be investment in their estate to improve the energy efficiency and to introduce new practices that reduce carbon emissions. NHS Lanarkshire continue to look for opportunities to secure grant funding such as the Green Public Sector Estate Decarbonisation Scheme to allow some of the sustainability work plans to be progressed within NHS Lanarkshire. Grant funding is currently restricted to non PFI buildings which means opportunities are significantly restricted. This has been highlighted as a significant financial and delivery risk and is currently under review nationally.

101. NHS Lanarkshire has added **Ability to respond to climate change** onto their Corporate Risk Register in April 2023 with a risk level of Very High. It highlights that if appropriate action is not taken to mitigate, adapt and respond to the effects of climate change, there is a significant risk the physical and supporting infrastructure is impacted and services are disrupted to the extent NHS Lanarkshire cannot efficiently deliver safe and appropriate healthcare.

102. NHS Lanarkshire has included all required disclosures regarding sustainability within the annual report and accounts.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

NHS Lanarkshire has appropriate arrangements for performance monitoring and for performance reporting.

Service performance against national waiting time standards continues to decline.

The University Hospital Monklands Replacement Project Outline Business Case has been approved by the Board.

NHS Lanarkshire has an appropriate and effective best value framework.

NHS Lanarkshire has appropriate arrangements for performance monitoring and for performance reporting

103. The Board is kept well informed of performance across all areas. The detailed review and scrutiny of performance has been delegated to the Planning, Performance and Resources Committee (PPRC) which meets quarterly.

104. Performance update reports are prepared by NHS Lanarkshire's Acute Services Division and North and South Lanarkshire IJBs. The Acute Services Division reports provide updates on performance in the delivery of key scheduled care waiting time targets and unscheduled care standards (Access Targets). The reports also highlight areas of pressure and challenge and describes the actions being taken to manage clinical prioritisation.

105. The reports from each IJB provide updates on delayed discharge performance against trajectory and waiting times performance for those services hosted by the IJB, as well as providing details of activity underway to improve performance where required.

106. We concluded that the NHS Lanarkshire has appropriate arrangements for performance monitoring and for performance reporting.

Service performance against national waiting time standards continues to decline

107. The 2022/23 annual report and accounts reports on NHS Lanarkshire's performance against its national waiting time standards. While these are not currently NHS Lanarkshire's primary focus for performance monitoring, they provide context for the scale of the impact of the pandemic on the delivery of health services. [Exhibit 6](#) (on page 38) demonstrates how activity and waiting times for acute services have continued to be impacted by Covid-19 and [Exhibit 7](#) (on page 39) provides a comparison of current waiting times compared to prior years.

108. In [Exhibit 6](#) the largest increase in demand is in relation to the number of patients waiting for a new outpatient appointment with an increase of 172.6 per cent from December 2019 to March 2023. In terms of activity the largest fall has been the number of inpatient and day case admissions with an overall reduction of 34.5 per cent over the same period.

109. In terms of the length of waits the picture is mixed. Whilst the number waiting longer than six weeks for diagnostic tests has reduced by 85.7 per cent over the period to March 2023, the number of patients waiting longer than 12 weeks for an inpatient or day case admission has increased by 368.7 per cent.

110. The impact of increases in waiting times is reflected in [Exhibit 7](#). This highlights that for each target/standard performance has declined year on year since 2020, however both cancer treatment measures and the drug and alcohol measure are above the national average.

111. A&E discharge and patient treatment times have continued to get worse and are well below the national average. The proportion of patients on the waiting list at month end who have been waiting less than 12 months since referral at month end has seen the largest decline at 40.5 per cent compared to the national average of 47.1 per cent.

Demand		% change
Number waiting for diagnostic tests	<p>Monthly Dec 2019 to March 2023</p> <p>10,800</p> <p>21,211</p>	96.4%
Number of patients waiting for an inpatient or day case admission	<p>Quarterly Dec 2019 to March 2023</p> <p>7,079</p> <p>12,283</p>	73.5%
Number of patients waiting for a new outpatient appointment	<p>Quarterly Dec 2019 to March 2023</p> <p>20,082</p> <p>54,752</p>	172.6%
Activity		
Number of scheduled elective operations in theatre system	<p>Monthly Dec 2019 to March 2023</p> <p>1,892</p> <p>1,830</p>	-3.3%
Number of inpatient and day case admissions	<p>Quarterly Dec 2019 to March 2023</p> <p>6,193</p> <p>4,056</p>	-34.5%
Number of new outpatient appointments	<p>Quarterly Dec 2019 to March 2023</p> <p>34,763</p> <p>27,280</p>	-21.5%
Length of waits		
Number waiting longer than 6 weeks for diagnostic tests	<p>Monthly Dec 2019 to March 2023</p> <p>3,945</p> <p>564</p>	-85.7%
Number of patients waiting longer than 12 weeks for an inpatient or day case admission	<p>Quarterly Dec 2019 to March 2023</p> <p>1,853</p> <p>8,499</p>	358.7%
Number of patients waiting longer than 12 weeks for a new outpatient appointment	<p>Quarterly Dec 2019 to March 2023</p> <p>4,610</p> <p>10,508</p>	127.9%

Source: Public Health Scotland

Exhibit 7

Performance against key waiting time standards

Target/standard	Performance at March 2020	Performance at March 2021	Performance at March 2022	Performance at March 2023 ¹
Cancer 62 Day RTT Proportion of patients that started treatment within 62 days of referral	96.9%	90.9%	88.1%	78.4%
18 Weeks RTT Proportion of patients that started treatment within 18 weeks of referral	88.8%	72.4%	71.8%	62.8%
Patient Treatment Time Guarantee (TTG) Proportion of inpatients or day case that were seen within 12 weeks	66.5%	63.6%	51.0%	46.1%
Outpatients waiting less than 12 weeks Proportion of patients on the waiting list at month end who have been waiting less than 12 months since referral at month end	92.3%	56.6%	56.6%	40.5%
A & E attendees Proportion of A & E attendees who were admitted, transferred, or discharged within 4 hours	86.3%	82.8%	60.2%	57.2%
Cancer 31 Days RTT Proportion of patients who started treatment within 31 days of decision to treat	98.3%	98.8%	98.2%	93.1%
Drug and Alcohol 21 days Proportion of drug and alcohol patients that started treatment within 21 days	99.6%	99.5%	98.5%	94.0%

Note. 1: Where March 2023 data is not yet available, the most recent validated data is used. Data for Cancer and Drug and Alcohol Waiting Times is at December 2022. Source: Public Health Scotland.

The University Hospital Monklands Replacement Project Outline Business Case has been approved by the Board

112. In December 2020 the Board approved the Monklands Replacement Project (MRP) Site Selection Process Report with Wester Moffat the preferred site for the location of the new University Hospital Monklands. In January 2021, the Scottish Government confirmed the site's approval.

113. In January 2022 the Monklands Replacement Governance Committee, reporting to the Planning, Performance & Resources Committee (PPRC) was established. The Monklands Replacement Project has been subject to a number of delays, cost pressures and external challenges during the development phase.

114. The Outline Business Case (OBC) was approved by the Board on 30 November 2022 and has been considered by two committees at Scottish Government and awaiting a decision to proceed to Full Business Case.

115. Assessment of the project programme shows an impact on the estimated completion date for the project which is likely to move from 2028 to 2031. The final programme timescales will be agreed when the Full Business Case is submitted in late 2024.

NHS Lanarkshire has an appropriate and effective best value framework

116. [*Ministerial guidance to Accountable Officers*](#) for public bodies and the [*Scottish Public Finance Manual*](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

117. During 2020/21 NHS Lanarkshire carried out a detailed review of its arrangements to secure best value across the seven themes set out in the guidance. The primary focus of the review was to look at the strategy, policy or assurance mechanism that the Board or its committees have in place to ensure the expected feature of best value is delivered.

118. NHS Lanarkshire's practice is to formally review its arrangements for securing best value every three years (as was done in 2020/21) with annual update reviews to reflect any changes to board arrangements in the interim.

There were no significant changes to these arrangements that required an annual update review by officers in 2023.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Assets under construction</p> <p>As part of our audit work, we performed testing of a sample of Assets Under Construction (AUC) disclosed within the Property, Plant and Equipment note of NHS Lanarkshire's unaudited accounts. We identified that the classification and treatment of additions held as AUC is not in line with accounting requirements.</p> <p>Risk – There is a risk that the value of Assets Under Construction and other categories of assets disclosed in NHS Lanarkshire's annual accounts are misstated.</p>	<p>NHS Lanarkshire should introduce a process to ensure that Assets Under Construction are classified in line with accounting requirements.</p> <p>Exhibit 3</p>	<p>NHS Lanarkshire will review the accounting treatment of Assets Under Construction and align these to accounting requirements.</p> <p>Head of Finance Capital/PFI and Financial Services</p> <p>31 March 2024</p>
<p>2. SFR 30 related expenditure</p> <p>NHS Lanarkshire do not undertake a reconciliation to ensure all SFR 30 expenditure included within the financial statements can be agreed to the SFR 30 returns.</p>	<p>NHS Lanarkshire should undertake a reconciliation of the total income and expenditure with other NHS bodies during the financial year, to the figures included in the SFR 30 returns.</p> <p>Exhibit 3</p>	<p>NHS Lanarkshire will endeavour to implement an analysis which demonstrates the figures in the accounts correlate to SFR 30.</p> <p>Head of Finance Capital/PFI and Financial Services</p> <p>31 March 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk SFR 30 income and expenditure included within the accounts does not reconcile to the SFR 30 returns.</p>		
<p>3. Gross Internal Area (GIA)</p> <p>Through our review of the work the valuer, we identified discrepancies between the data used for the purpose of the building valuations GIA against the data held on these buildings by the technical services team within NHS Lanarkshire. We were satisfied that the discrepancies did not impact on the accuracy of the valuations as these were informed through valuation inspections.</p> <p>Risk – There is a risk incorrect/out of date data is held by NHS Lanarkshire.</p>	<p>NHS Lanarkshire should undertake a review to ensure data is consistent between the valuer and the technical services team.</p> <p>Paragraph 23-24</p>	<p>NHS Lanarkshire will work with professional advisers to ensure the GIA measurement are consistent.</p> <p>Head of Finance Capital/PFI and Financial Services</p> <p>Immediate</p>
<p>4. Key sources of judgement and estimation uncertainty</p> <p>Significant judgements and sources of estimation uncertainty are disclosed at Note 1.30 to the financial statements. This disclosure is not fully compliant with IAS 1 in that it does not clearly explain the areas of estimation and their potential impact from any changes over the next twelve months.</p> <p>Risk – the disclosure is not in line with IAS 1.</p>	<p>Management should review the current disclosure against the requirements outlined.</p> <p>Paragraph 25</p>	<p>NHS Lanarkshire will review and update the disclosure.</p> <p>Head of Finance Capital/PFI and Financial Services</p> <p>31 March 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>5 Performance Report</p> <p>The Performance Report and content complies with the requirements of the FReM. However, there is an opportunity for NHS Lanarkshire to more clearly demonstrate how their new Corporate Objectives support the Scottish Government objectives. In turn NHS Lanarkshire's other plans and strategies need to clearly support and link to the Corporate Objectives.</p>	<p>NHS Lanarkshire should review the Performance Report to help stakeholders understand how the Corporate Objectives and supporting strategies link to Scottish Government objectives and will improve future performance.</p> <p>Paragraph 33</p>	<p>This will be done in conjunction with a review of our overall in year performance reporting and we aim to achieve clearer alignment.</p> <p>Director of Finance</p> <p>May 24 (with revised performance reporting in place by August 23)</p>
<p>6 Reliance on agency staff</p> <p>NHS Lanarkshire has experienced challenges in recruitment throughout 2022/23 and continues to be reliant on agency and locum staff. These increased costs are impacting on NHS Lanarkshire's ability to achieve their medium to long term plans.</p>	<p>NHS Lanarkshire should continue to look to increase substantive staff recruitment to agreed staffing models to ensure it reduces its reliance on agency staff.</p> <p>Paragraph 76</p>	<p>NHSL is actively reviewing opportunities to increase substantive staffing in areas where shortfalls are leading to agency use and will review success mid-year.</p> <p>Directory of Nursing and Midwifery</p> <p>October 2023</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Asset disposals</p> <p>Testing of asset disposals in 2021/22 found that 4 from a sample of 5 had been disposed of in the previous year and had not been identified by officers as no asset verification exercise</p>	<p>The board should introduce procedures to ensure asset disposals are removed timeously from the asset register in the correct financial year.</p> <p>Paragraph 22, Exhibit 2</p>	<p>Management will ensure that the annual asset verification exercise take place. Additionally, reconciliations between the medical physics asset register and the finance asset register will take place timeously throughout the year</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>had been completed. The net book value of these 4 asset disposals was nil therefore there was no impact on the prior year figures. Audit has conducted asset existence testing which sought to confirm that assets in the asset register are still held by the board and this testing found no errors.</p> <p>Risk – Asset disposals are not reflected accurately in the accounts.</p>		<p>to ensure disposals are adjusted for.</p> <p>Deputy Director of Finance (Corporate)</p> <p>Immediate</p>
<p>2. Efficiency savings</p> <p>The board's 2022/23 financial plan identifies a funding gap of £31.845 million, after the deduction of estimated efficiency savings schemes of £6.604 million. The board has yet to identify how this remaining funding gap will be addressed.</p> <p>Risk – The board may not be able to reduce the funding gap in 2022/23.</p>	<p>The board should ensure that saving plans are developed identifying how the £31.845 million funding gap in 2022/23 will be addressed.</p> <p>Paragraph 66</p>	<p>The board has increased its focus on financial recovery and is devoting more time to the financial position. The Corporate Management Team is meeting bi-weekly as a finance recovery board and developing work streams to attempt to address the gap. Members of the finance department are also engaged in various national financial improvement work streams. A discussion with Scottish Government is expected in June 2022 to agree the recovery strategy.</p> <p>Director of Finance</p> <p>Immediate</p>

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250,000.

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

Narrative	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr £m	Cr £m	Dr £m	Cr £m
Accounting Misstatements					
Being overstatement of provisions for CLO fees and outlays.*	Provisions			1.100	
	Expenditure		1.100		
Being over-accrual for contractor costs.	Accruals			0.981	
	Expenditure		0.981		
Over-accrual for agency payments.	Accruals			0.500	
	Expenditure		0.500		

*NHS Lanarkshire believes it is prudent to include the full payment to the claimant including any agreed reimbursement of their legal costs.

NHS LANARKSHIRE

2022/23 Annual Audit Report

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