

NHS Lothian

Report on the 2009/10 Audit to the Board and the Auditor General for Scotland

July 2010



 AUDIT SCOTLAND

NHS Lothian

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General for Scotland**

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Contents

Key Messages	1	Looking Forward	30
Introduction	3	Appendix A: Action Plan	32
Financial Statements	5	Appendix B: National Reports	33
Use of Resources	10		
Governance and Accountability	19		
Performance	25		



Key Messages

Introduction

In 2009/10 we looked at the key strategic and financial risks being faced by NHS Lothian. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of NHS Lothian for 2009/10. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

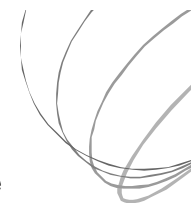
Financial position and use of resources

The Board carried forward a surplus of £0.188 million before taking account of adjustments arising from the implementation of International Financial Reporting Standards (IFRS) and utilised this to fund non-recurring expenditure commitments. During 2009/10 the Board recorded a cumulative surplus of £0.146 million relative to a Revenue Resource Limit (RRL) of £1.122 billion. The outturn position against the RRL has been partly achieved through the slippage of developments, a reassessment of provisions and slippage on new allocations. In delivering the reported position, in common with other NHS Boards, the Board has also managed a number of cost pressures, for example the costs associated with managing waiting times in accordance with performance targets and an additional cost of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) premium.

NHS Lothian's 2009/10 financial plan included a £24.6 million efficiency savings target. At the year end, all planned savings were achieved. However, of the total savings achieved, some £9.1 million were non-recurrent savings and will have to be re-provided in the 2010/11 financial plan. We have been advised that recurrent schemes to deliver the non-recurrent element of in-year delivery have now been identified

As in previous financial years, the Board's financial statements include significant accruals, particularly in respect of Agenda for Change reviews, and do not reflect any potential liability for Equal Pay claims. Accounting estimates and provisions, by their nature, include a degree of uncertainty and any underestimate of costs in 2009/10 could have a significant impact in future years.

There has been a funding uplift of 2.15% in 2010/11. In addition, NHS Lothian received a further allocation of £5.8 million from the Scottish Government in relation to recommendations from the National Resource Allocation Committee report. However there continues to be a significant shortfall in funding relative to NHS Lothian's assessment of its NRAC allocation share such that the gap between actual and the assessed allocation is increasing. As outlined in the Board's five year revenue plan, these tighter financial settlements will have a significant impact on long term financial planning and the control of costs. In addition, there is a national requirement to deliver a recurrent efficiency savings target of 2% in 2010/11. The achievement of recurring savings will again be challenging.



Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public service and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. Audit Scotland have reported that two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector to determine priorities.

Governance and accountability

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall, the corporate governance and control arrangements for NHS Lothian operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems underpinning the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

Performance

The Board continues to report progress in meeting HEAT targets. Sound processes and systems are in place for monitoring against the Local Delivery Plan targets and internal standards. The Board achieved the majority of its HEAT targets and internal standards. However, there remains a continued issue around maintaining targets over the course of each year. We noted that action continues to be taken to address problem areas and the Board considers it is well placed to meet targets in due course.

During 2009/10 the Lean in Lothian programme has focused on the delivery of 12 redesign projects which included St John's theatre utilisation and a review of administrative processes within selected community mental health teams. To date, management have estimated that the Lean in Lothian programme has supported achievement of over £6 million in increased productivity/cost avoidance/cost savings, although it is acknowledged that not every project can provide efficiency savings. The programme continues to provide significant positive impact on efficiency and the patient experience without the need for significant funding.

Looking forward

The final part of our report notes some key risk areas for NHS Lothian going forward. There continues to be significant challenges around: the increasing demands of a growing population, delivering on HEAT targets, delivering efficiencies and managing a very extensive capital programme, all in a period of uncertain funding. National issues around Equal Pay claims may also provide a challenge in future years

The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.



Introduction

1. This report summarises the findings from our 2009/10 audit of NHS Lothian. The scope of the audit was set out in our Annual Audit Plan presented to the Audit Committee on 8 February 2010. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued a number of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response. Appendix A sets out the key risks highlighted in this report and the action planned by management to address them.
3. Best value duties apply across the public sector and, in the health service, best value is a formal duty on all Accountable Officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and this has been further developed during 2009/10 with the completion of a bank of best value toolkits which, although primarily designed for audit use, are available to all public bodies for reference.

Exhibit 1: Framework for a best value audit of a public body





4. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer guidance to public bodies, and particularly those in the Central Government and Health sectors, on securing continuous improvement in performance, with due regard to the balance between cost and quality.
5. Throughout this report we comment on aspects of NHS Lothian's arrangements in this area. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report represents a further step towards that goal.
6. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. We mention the key findings from all relevant reports, and the implications for NHS Lothian, where appropriate, throughout this report. Full copies of the study reports can be obtained from Audit Scotland's website, www.audit-scotland.gov.uk.
7. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of NHS Lothian during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



Financial Statements

8. In this section we summarise key outcomes from our audit of NHS Lothian's financial statements for 2009/10 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources. The Board's 2009/10 financial statements were prepared on the basis of International Financial Reporting Standards (IFRS) for the first time.

Our responsibilities

9. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - the consistency of the information which comprises the management commentary with the financial statements
 - the regularity of the expenditure and receipts.
10. We also review the Statement on Internal Control by:
- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control
 - assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

Overall conclusion

11. We have given an unqualified opinion on the financial statements of NHS Lothian for 2009/10.
12. The unaudited accounts were provided to us on 11 May 2010 supported by working papers. The standard of the supporting papers was generally satisfactory and responses from NHS Lothian staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 21 June 2010 as outlined in our Annual Audit Plan.



Issues arising from the audit

13. As required by auditing standards we reported to the Audit Committee on 21 June 2010 the main issues arising from our audit of the financial statements. The key issues reported were as follows.
14. **Capital accrual.** The purchase of land in respect of Plots 14-16 at the Royal Infirmary of Edinburgh for car parking will enable the commencement of building works in respect of the new Sick Children's Hospital on an existing car park. Management considered that this transaction represented a constructive obligation on NHS Lothian's part and had accrued £4.5 million into the accounts at 31 March 2010. However we were of the view, as no missives had been signed by 31 March and no formal approval had been given by all parties involved, that this transaction should not have been accrued in the 2009/10 statement of accounts. We considered that this represented a capital commitment at 31 March 2010. The accounts were adjusted. This transaction has now been concluded and therefore represents a short term timing difference on the delivery of the Board's Capital Programme during 2009/10.
15. **Equal Pay Claims.** The National Health Service in Scotland has received in excess of 11,000 claims for equal pay and 1,774 (2009: 1,907) of these relate to NHS Lothian. It is possible that these claims represent a current liability for NHS Boards generally. As with a number of other NHS Boards, an unquantified contingent liability has been included in NHS Lothian's accounts for equal pay. Further details on this issue are included at paragraphs 22 to 25 below.
16. **Provisions.** The financial statements initially disclosed provisions of £53.6 million which included £23.5 million for pensions and similar obligations. The Board had used a discount rate of 2.2% in the calculation of the pension provision. The rate applied was based on information originally advised by the SGHD. However, this information was later revised and all Boards were notified that a rate of 1.8% should have been used. This change led to additional expenditure of £3.5 million being charged to the accounts. Following further discussion with the Scottish Government Health Directorates (SGHD) it was agreed on 11 June 2010 that funding would be provided to cover this increase in expenditure, on the condition that it is to be repaid should discount rates increase above the 2.2% previously applied.
17. **Provisions.** Within the total provision figure is some £30.1 million relating to clinical and medical negligence claims. We noted that the NHS Scotland Central Legal Office (CLO) claims report as at 31 December 2009 was used as the basis for providing the figures, as in the previous year, in order to provide an early accounts close. When the year end information was used (at 31 March 2010), the provision should have increased by some £0.2 million. We therefore included this amount within the summary of unadjusted differences.
18. **Bad debt provision.** The bad debt provision recorded within the accounts has reduced from £2.6 million to £0.8 million in 2009/10. While an element of the reduction is as a result of a reduction in



debt outstanding with other health bodies, the underlying basis of the provision has been changed. Management have advised that the level of provision is reviewed annually and adjusted to reflect the phasing of debt outstanding. Management have given assurances that the level of bad debt provision as applied to the debt due gives a fair reflection of the net amount owing to NHS Lothian.

19. **Agenda for Change (AfC).** The liability figure included in NHS Lothian's financial statements at year end is £21.4 million (2009: £24.7 million). Included within this amount is some £13.6 million in respect of 2,300 staff appeals/reviews and any decision on these cases will impact on over 8,300 staff. The remainder of the accrual reflects an estimate of the potential liability for payment due to, for example, staff leavers, two tier working and craft allowances. We are aware that an undertaking had been given by NHS Lothian to conclude all outstanding reviews by 30 June 2010. Management have provided assurances in the letter of representation that the amount accrued represents a fair estimate of the costs still to be paid.
20. **Inventories.** Stock holdings of £14.8 million are recorded in the accounts. We reported in 2008/09 that two stock areas (£0.8 million) were included in the accounts where validity test checks had not been undertaken to provide assurance as to their value. In 2009/10, we noted that once again, the same stock areas had not been subject to the agreed validity checks (£0.9 million). From discussion and previous audit work we are assured that these stock holdings exist but the accuracy of the quantity and therefore overall book value is uncertain. Management have provided assurances in their letter of representation to us that the stock is fairly stated and that, in future, the agreed validity checks shall be undertaken on a regular basis.
21. Having discussed the Summary of Unadjusted Differences with the Audit Committee on 21 June we were satisfied that no adjustment was necessary for the net difference of £57,000.

Equal Pay Claims

22. The National Health Service in Scotland has received in excess of 11,000 claims for equal pay and NHS Lothian has currently 1,792 claims outstanding. These have been referred for the attention of the CLO to co-ordinate the legal response to this issue.
23. Developments over the past year have slowed the progress of claims and led to a reduction in the number of claims going forward. The CLO have stated that claims still do not provide sufficient detail about the comparator jobs to allow an estimate to be made of the likelihood of the success of the claims or of any financial impact that they may have. The CLO and Equal Pay Unit are monitoring the progress of claims as well as developments relating to NHS equal pay claims elsewhere that may further inform the position.
24. Discussions have been held between Audit Scotland, their partner firms, the Scottish Government, the CLO and Board representatives to ascertain the appropriate accounting treatment of equal pay claims



in 2009/10. Given the CLO's advice that, although some liability is probable, it is not possible to estimate the impact of the claims, it has been agreed that disclosure as an unquantified contingent liability remains appropriate for the 2009/10 financial statements of affected NHS Boards. Given the developments during the year and the comprehensive disclosure within the financial statements, auditors agreed that the emphasis of matter paragraph included within the 2008/9 audit opinion was not required for 2009/10.

25. We continue to strongly encourage NHS Lothian, working with the SGHD the CLO and other NHS Boards to form a view of the potential liabilities as soon as possible taking into account the progress of cases in Scotland and England.

Risk area 1

Regularity

26. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

International financial reporting standards (IFRS)

27. As announced by the Chancellor in the 2008 Budget report, Government departments and other public sector bodies would report using International Financial Reporting Standards (IFRS) from 2009/10. As a prerequisite to this health Boards were required to prepare shadow IFRS based accounts for 2008/09 to provide comparative figures for the 2009/10 IFRS based accounts.
28. Following our review of the shadow accounts we highlighted a number of areas to management where further work was required to ensure that the full IFRS accounts in 2009/10 are true and fair. These included:
 - Three of the property leases being treated as operating leases appeared to be finance leases and the back-up documentation for two leases was not made available for audit review.
 - In relation to PFI assets the figures presented for audit review of Bathgate Primary Care Centre were not supported by evidence from the Full Business Case and/or the Project Agreement.
 - For four PFI schemes where evidence was available from the Full Business Case and/or the Project Agreement, we considered that it may be more appropriate to recognise these schemes as finance leases.



- NHS Lothian had established its own PFI financial model, rather than use the finance model supplied by SGHD. Either agreement from the SGHD was needed for the use of this model or evidence that the use of its own model did not differ materially from that of the SGHD.
 - The impact of component accounting for property, plant and equipment required consideration. An annual review of Useful Economic Lives and Residual Values was required for all fixed assets, in compliance with IAS 16.
29. As part of the audit of the 2009/10 financial statements we revisited the above issues and confirmed whether they had been properly reflected in the accounts, as appropriate. We noted that while some areas had been addressed, such as the comparison of the Board's PFI model with the SGHD model, others had not been progressed as previously agreed with management. However we were able to conclude that those areas would not have a material impact in the financial statements. We have agreed with management that the outstanding areas should be reviewed and concluded.

Risk area 2

PFI/PPP schemes

30. NHS Lothian has a number of PFI commitments which are disclosed in Note 23 in the accounts. As a result of the application of IFRS, all six contracts are now reported as on balance sheet (under the previous accounting regime five were accounted for as off balance sheet). Four of the projects are 30/60 bedded units for frail elderly and dementia patients; the fifth is a primary care centre which accommodates 3 GP practices and Community Health Partnership community activities. The capital values of these schemes range from £2.3 million to £3.7 million. Assets and liabilities have increased by £16 million and £11 million respectively as a consequence of bringing these assets onto the balance sheet. The largest PFI scheme is the Royal Infirmary of Edinburgh (RIE) and has a capital value of £173 million and has previously been accounted for on-balance sheet. The associated recurrent revenue costs of all these projects is some £49.5 million.
31. Construction continues on the Midlothian Community Hospital PFI project with a contract value of £18.4 million. Completion remains on target for September 2010 with occupancy the following month. We shall continue to monitor progress on this scheme.



Use of Resources

32. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of the following areas:

- financial position
- management of people
- management and use of information and communications technology (ICT).

The Board's financial position

Outturn 2009/10

33. NHS Lothian is required to work within the resource limits and cash requirement set by the Scottish Government. The Board's performance against these targets is shown in Table 1.

Table 1

2009/10 Financial Targets Performance £'000

Financial Target	Target	Actual	Variance
Revenue Resource Limit	1,122,312	1,122,166	146
Capital Resource Limit	72,063	67,372	4,691
Cash Requirement	1,289,000	1,288,102	898

34. During 2009/10 the Board achieved a cumulative surplus of £0.146 million after repaying the final element of brokerage of £3.0 million to the SGHD.
35. The outturn position against the Revenue Resource Limit (RRL) has been subject to careful and ongoing review by management. The mid-year review recognised a number of cost pressures and other potential financial risks which required funding of some £10 million and also identified areas where some flexibility could be achieved. The final outturn position noted additional cost pressures of £13.7 million which was offset by additional funding sources achieved by the slippage of various developments, a reassessment of provisions and the slippage in new developments for which funding was received in-year, of £13.9 million.



36. NHS Lothian's 2009/10 financial plan included a £24.6 million savings target to achieve financial balance which included some £10 million which had to be re-provided in the 2009/10 financial plan to ensure that 2008/09 non-recurring and under-achieved savings were realised on a recurring basis. By the end of 2009/10, all required savings were achieved. However, of the total efficiency savings achieved, £9.1 million represented non-recurrent savings and this has been re-provided in the 2010/11 financial plan.
37. The financial statements record an underspend of some £4.69 million when compared with the Capital Resource Limit (CRL). This underspend occurred as a result of a land purchase which was not concluded in time to be treated as a charge to the 2009/10 accounts (this is referred to at paragraph 14 above). During 2009/10, NHS Lothian returned £12 million of capital funding which could not be expended during the year due to timing issues. The total amount held by the SGHD on behalf of NHS Lothian is now £51.1 million and is available to fund future investments. It has been built into the 10 year strategic capital plan as a future source of finance. Some £37 million of the banked funds have been assumed to be released as funding for the 2010/11 capital plan. However the remaining banked funds (£15 million) may be subject to review by SGHD as they attempt to balance their financial position.
38. The financial statements record, at note 21, capital commitments of £80 million authorised and contracted and £223 million authorised but not contracted. Capital expenditure over the next 5 years is projected to be in the region of £292 million but with the anticipated reduction in capital funding, there is an overall funding shortfall of over £40 million which will need to be carefully managed. In view of uncertainty in future funding levels, the Board have not approved the capital budget beyond 2010/11.
39. In addition any anticipated receipts from the disposal of assets, in particular those arising as a result of the clinical accommodation release strategy may not be realised given the uncertain economic climate.
40. Table 2 below, shows how the RRL surplus of £0.146 million was achieved through a combination of recurring and non-recurring funding. The Board had an underlying recurring deficit of £9 million in 2009/10 which was offset by a non-recurring surplus of £9 million.



Table 2

Funding Position 2009/10

	£ Million	£ Million
Recurring income	1,098	
Recurring expenditure	(1,123)	
Recurring savings	16	
Underlying recurring surplus/(deficit)		(9)
Non-recurring income	24	
Non-recurring expenditure	(24)	
Non-recurring savings	9	
Non-recurring surplus/(deficit)		9
Financial surplus/(deficit)		0
Underlying recurring surplus/(deficit) as a percentage of recurring income		0.83%

Financial sustainability and the 2010/11 budget

41. There were tighter financial settlements for health Boards in 2009/10 with a general uplift of 3.15% which was the same as last year but considerably down on the 6.91% in 2007/08. This downward trend has continued in 2010/11 as the SGHD has confirmed a general funding uplift of only 2.15%. However, NHS Lothian received an above average settlement of 3.14% for 2009/10 which includes an additional 0.6% (£5.8 million) to reflect the gradual impact of the implementation of the National Resource Allocation Committee (NRAC) formula and 0.4% (£3.9 million) access funding support. However, management estimate that NHS Lothian will be some £68.6 million short of their required funding position relative to the NRAC formula as at 31 March 2011. NHS Lothian estimate that in 2010/11 they should receive 14.61% of the national funding compared to their actual share of 13.69%. Consequently management consider the impact on long term financial planning and the control of pay and non pay costs to be significant.
42. The 2010/11 financial plan recognises considerable increases in the following areas: pay by £20.1 million (3.3%), non-pay inflation £6.5 million (1.8%), drug costs £5.5 million (11.4%) and prescribing costs £7 million (5.5%). These costs represent significant elements of the Board's expenditure and therefore present a major challenge to the Board's Financial Plan in 2010/11.
43. The Board's 2010/11 local reinvestment plan (LRP) is crucial to the Board achieving financial balance. There is currently a funding shortfall of some £31 million which will require to be met through the achievement of efficiency savings. In addition, a further £9 million is required because it was delivered non-recurrently in 2009/10 resulting in the Board facing a cost savings challenge of £40 million. The Board is aiming to deliver these savings through the contraction of the workforce and



various contractual savings. This is a major challenge to NHS Lothian which has been delivering efficiencies for several years in order to achieve a balanced position. This is against the background of significant cuts in public sector spending and its continued shortfall against its assessed NRAC allocation share.

Risk area 3

44. NHS Lothian's five year financial plan assumes that additional funding will be received in order to bring the Board closer to its NRAC calculated level. The plan assumes that some £5.8 million will be received in each of the five years to 2014/15. However, it is unclear as to whether this additional funding will actually be received. This will have a significant impact on the Board's ability to meet its current and projected level of service and achievement of its HEAT targets.

Risk area 3

People management

45. As with other health boards in Scotland NHS Lothian continued to face a challenge in working to achieve the sickness absence target of 4% by March 2010. The sickness absence rate for the Board has fluctuated during the year but at 31 March 2010 was 4.5%. This was a significant achievement in view of the H1N1 outbreak and also the exceptional weather conditions during the 2009/10 winter. NHS Lothian continues to seek ways of addressing sickness absence and these include sickness absence targets being incorporated into line management objectives for 2009/10 and the establishment of a programme of sickness absence based audits targeting those areas with high levels of absence.
46. The Board, like many others in Scotland, did not achieve the original national Agenda for Change target for assimilating staff and paying outstanding back pay by the end of December 2006. The vast majority of employees have now been assimilated and received payment of the arrears owed to them but a significant number of cases still require to be settled following review. During the year NHS Lothian, as a result of additional resources, increased the pace of the review process by creating a second review panel. However we noted that while the Board has committed to a completion date of all reviews by the end of June 2010, the review process is continuing. An accrual for £21.6m has been made in the 2009/10 financial statements to cover the outcome of these reviews and other outstanding issues (see also paragraph 19).

Risk area 4

47. The Knowledge and Skills Framework (KSF) identifies the knowledge and skills that individuals need to apply in their post. NHS Lothian aims to achieve at least 80% of staff covered by Agenda for Change to have their annual KSF development reviews completed and recorded on electronic-KSF by



March 2011. However, as at 31 March 2010 NHS Lothian had only 2.5% of staff receiving e-KSF annual reviews against an interim target of 30%. This remains a very challenging target to achieve.

Risk area 5

Management and use of ICT

48. As part of the 2009/10 audit we reviewed local implementation of two nationally selected applications and considered the impact of two independent reviews on information governance.

Review of PACS and SCI-Store

49. The NHS Scotland eHealth Strategy 2008-2011 sets out an incremental approach towards the delivery of a virtual electronic health record (EHR) that will enable all clinicians to have ready access to all clinical information for the patients in their care. Core to the delivery of this aim is the increased use of nationally selected eHealth systems that all territorial NHS Boards are expected to utilise.

50. As part of our 2009/10 audit work we reviewed the NHS Lothian implementation of two national data storage systems that are increasingly at the core of the EHR vision:

- The Picture Archiving and Communications System (PACS) which stores all radiology images and reports, making them readily available throughout all hospitals.
- The Scottish Care Information store (SCI-Store) which stores laboratory results and radiology reports, making them readily available to General Practice use.

51. Our draft report which is currently with management for agreement noted that:

- Due to the standard well-known format of the password which enables access to the national PACS archives, there is a risk of inappropriate access to NHS Lothian data.
- The high number of administrator-level users who can amend user access privileges may lead to a loss of control over access to clinical data.
- Business continuity plans have not been tested leading to a risk of delay in restoring essential services.
- NHS Lothian have invested in and are at the early stages of implementing a system designed to pro-actively analyse audit trail data and identify potential data security breaches. We are pleased to record that there have been some early successes in identifying data breaches which would not otherwise have been detected.



Data management and information governance

52. The confidentiality and security of personal data held by public sector bodies continues to be a topic of public interest. As the eHealth roadmap works toward making clinical data more accessible through the EHR, the risk of inappropriate access to this data increases. NHS Lothian acknowledges this challenge. Following on from a formal investigation by the Information Commissioner's Office (ICO), arising from a data loss incident in 2008, it was agreed that the ICO should conduct a full Data Protection Audit during 2009. In addition, Internal Audit (IA) was also asked to review Information Governance as part of their 2009/10 plan.
53. The ICO and IA reports were both published in April 2010, and provided progress updates against some of the risks we reported during 2008/09.
- The ICO report concluded that although a clear hierarchy was in place to oversee information governance within NHS Lothian, full compliance with the Data Protection Act 1998 was considered "unlikely" and that the arrangements in place at NHS Lothian at the time of the audit, with regard to governance and controls, provide only limited assurance that processes and procedures were in place and being adhered to. Staff training and compliance monitoring were identified as key challenge areas.
 - The IA report concluded that although good information governance policies are in place, NHS Lothian continues to report low attainment levels against a number of the NHS Scotland Information Governance standards. IA acknowledged that an action plan describing the necessary improvements is available, but noted that target completion dates had not been set for any of these. In addition, as disclosed on the Statement on Internal Control, improvements require to be made to support the Freedom of Information publication scheme.

Risk area 6

54. A number of reviews were undertaken as part of our 2008/09 audit but were not concluded in time to permit their findings to be referred as part of our 2008/09 final report. A brief summary of these are included below.

Information Management

55. Audit Scotland is continuing to develop a range of audit toolkits to cover key best value principles. These are being developed for use by auditors although they may also be used by NHS bodies themselves for self-assessment purposes. The second of the toolkits, which covers information management, was piloted in NHS Lothian during 2008/09.
56. We reviewed and reported on the Board's use of resources in relation to five aspects of Information Management. We assessed four out of the five aspects of Information Management to be at the



'better practices' level with one, Service Delivery, assessed at the 'basic practice' level. Our overall conclusion was that the Board's arrangements in this area were generally soundly based but progress is required to ensure that a robust information asset register system is developed and that information delivery is monitored effectively.

Your Business @ Risk

57. We reported in September 2009, the results of the *Your Business @ Risk* survey. This survey provides an assessment of staff awareness of, and attitude towards, data confidentiality and protection. The profile of results demonstrates a good level of information security awareness within NHS Lothian. However, there are a number of areas that should be addressed to continue to improve overall staff awareness of information security. The Director of eHealth advised that the outcomes from the survey would be communicated to staff and that risk areas identified will be addressed through the Information Governance Steering Group.

Data management

58. We reported in October 2009, the findings of our review of data handling. The review considered the policies that NHS Lothian has in place to identify and manage information risks with specific emphasis being placed on the control of personal information, how it is identified and used, who it is shared with, and what processes are in place to assure its confidentiality.

59. The audit identified that the Board has established a single framework for information governance and security to apply throughout the NHS Lothian area. In particular, we noted that the Board:

- has demonstrated executive management leadership when informing staff about the importance of information security and managing the review of security incidents
- has local procedures in place for the handling of sensitive information
- has established a security perimeter for its electronic network, and deployed additional controls to protect electronic data in transit
- has a reasonable level of awareness of the information systems that are in operation, but recognises that work is still required to develop a robust information asset register
- provides basic data security training to new employees, and has recognised that there is need to introduce information security training as a core activity for all staff.

60. We are pleased to record that the completed action plan by management provides details of planned assurance action, responsible officers and timescales in response to the identified risk exposure.



Cross–sectoral national studies

61. Audit Scotland's annual programme of performance studies includes a mix of studies specific to the health sector and also a number of cross-sectoral studies which apply to the wider public sector. The following paragraphs outline some of the key messages from cross-sectoral studies published in 2009/10.

Improving public sector purchasing (July 2009)

62. The report examines the progress of the Public Procurement Reform Programme (the Programme) over the 3-year period 2006/07 to 2008/09. It also looks at savings generated by the Programme and the wider benefits of the Programme. The report highlighted that overall the wider impact of the Programme appears positive. However, savings are being achieved more slowly than expected although the health sector has been the most successful in this area.
63. The report also noted that there are wide variations across public bodies in the quality of purchasing data, practice and skill levels. Best Practice Indicators (BPIs) to help improve purchasing have been agreed but many public bodies are still in the process of completing and using them. The Scottish Government is working with the centres of expertise and public bodies to encourage further improvement in these areas.

Scotland's public finances – preparing for the future (November 2009)

64. The Auditor General's report on Scotland's public finances contained an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The aim of this report was to help to inform the debate on the future of public finances in Scotland. The key messages from this report are summarised below:
65. *The public sector is coming under the greatest financial pressure since devolution.*
- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
 - The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.
66. *The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.*



- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.

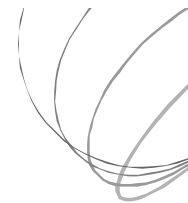
67. *In the current economic climate difficult decisions will have to be made about priority spending programmes.*

- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.

68. In these challenging times, it is important that the Board can deliver on its cost savings plans and deliver a sustainable service through service redesign and effective workforce planning.

69. NHS Lothian has sound procedures in place for the review of clinical related national reports published by Audit Scotland. However, the cross cutting sectoral reports are not routinely provided to committee members for their consideration. As a consequence the Board may not be aware of actions taken by officers in response to the recommendations outlined in the reports.

Risk area 7



Governance and Accountability

70. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our main findings arising from our review of NHS Lothian's arrangements.
71. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

72. This year we reviewed:
- key systems of internal control
 - internal audit
 - aspects of ICT
 - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
73. Our overall conclusion is that arrangements within NHS Lothian are sound and have operated through 2009/10.

Patient safety and clinical governance

74. Patient safety is a significant concern to patients, the public and the NHS. Therefore, patient safety is at the heart of the work of the Healthcare Governance and Risk Management Committee (HGRMC) in NHS Lothian. Increased workload, reliance on agency staffing and inadequate training and supervision may lead to standards of clinical care being jeopardised in terms of patient safety. The HGRMC monitors these areas through its review of workforce reports and quality improvement reports.
75. NHS Quality Improvement Scotland (QIS) published national standards for clinical governance and risk management in October 2005. In 2009 NHS Lothian has been awarded a QIS score of 9 out of a possible 12 against three clinical governance and risk management standards.



76. The NHS QIS report noted a number of strengths. These included at the highest assessed level ('reviewing' stage):
- the Board is continually improving its arrangements for clinical effectiveness and quality improvement across the organisation as part of a cycle of continuous quality improvement
 - a strong communications team both in terms of internal and external communications.
77. Two areas were noted for further development by the Board. These were the need to develop a systematic approach to documenting evaluation activity and the need to include strategic risk management priorities in any revision of the quality improvement strategy.
78. The Scottish Patient Safety Programme (SPSP) was launched in 2007 by the Scottish Patient Safety Alliance which brings together the Scottish Government, NHS QIS and NHS Boards. Within NHS Lothian, the SPSP was expanded from the original 5 pilot sites to all sites and clinical areas within the Acute Division in June 2009. The focus during 2009/10 therefore has been to increase capacity and develop an infrastructure to support the additional areas using the existing structures and processes of the Quality Improvement Teams (QITs).
79. Patients' records are not held centrally by NHS Lothian with specialties holding separate electronic and paper records. If a patient's full medical history is not readily available errors may be made in the patient's treatment. The HGRMC monitors developments in this area. As noted in paragraphs 50 and 51, officers in eHealth also review the use of electronic records. NHS Lothian agreed that healthcare record documentation standards should be introduced and implemented across NHS Lothian. We noted that some operational measures have been implemented, such as the monitoring of record keeping practices through QIT meetings, with the outcomes reported to the HGRM Committee. However full implementation of documentation standards has been slower than anticipated.
80. We noted in our audit plan that the use of the DATIX system to manage quarterly incident reporting required to be further developed in order that improvements to patient care and safety could be made. We are aware that the quality of this data has been improving and there is a system for closing the loop on incidents by regular reporting to staff and by demonstrating that changes have occurred, thus minimising the likelihood of recurrence. We noted that work was ongoing to review the use of DATIX and that a report would be presented to the HGRMC in due course.
81. The Healthcare Environment Inspectorate (part of NHS QIS) carried out an announced inspection visit to the RIE in January 2010. The report highlighted areas of strengths, in particular good patient feedback was received demonstrating high levels of satisfaction. Areas were highlighted for further improvement. These included, the need to review the written cleaning schedules to ensure consistency in the recording of cleaning activities across all wards and departments, and to review staff access to the infection control manual thereby ensuring that all staff have access to the most up-



to-date information and guidance on infection control issues. An action plan in response to the findings has been developed by NHS Lothian.

Partnership working

82. Partnership working in the NHS covers a number of areas, including partnerships with staff groups, local authorities, the voluntary sector, private healthcare providers and regional planning with other NHS Boards. The Board has undertaken significant work in partnership with local authorities in establishing a Community Health Care Partnership (with West Lothian Council) and Community Health Partnerships (CH[C]Ps) to provide care and public health services in a local setting to meet the needs of the local population.
83. Public Partnership Forums are established in each CH(C)P area with relevant committees meeting during the year. Such mechanisms should ensure that service users are involved in service developments and links are established with other local governance structures, for example, community planning committees, to co-ordinate services which meet the needs of local areas.
84. The Scottish Government is aiming to improve the efficiency and effectiveness of infrastructure investment by promoting partnership working with public bodies and the private sector with the aim of achieving better value for money. NHS Lothian, along with a number of public sector participants, has formed the South East Scotland Territory Pathfinder – to be known as the hub Company (hubCo). Revenue funding of £1.4 million and a share of the £30 million capital enabling funding will be made available to the hubCo to develop a number of community infrastructure facilities. NHS Lothian has a number of projects under consideration including the Wester Hailes Partnership Centre and the Gullane GP Surgery and Day Centre.
85. We are pleased to note that NHS Lothian is committed to the delivery of shared outcomes with its community planning partners. Single Outcome Agreements (SOAs) have been discussed and agreed with the relevant CH(C)Ps and have been signed off by the Chief Executive. Performance management processes and reporting have also been introduced.

Systems of internal control

86. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2009/10 NHS Lothian Internal Audit provided their opinion that, based on the internal audit work undertaken during the year, adequate and effective internal controls have been operating throughout the year. During the year no reports were issued with an 'unsatisfactory' rating.



87. As part of our audit we reviewed the high level controls in a number of NHS Lothian systems that impact on the financial statements. This audit work covered a number of areas including payroll, accounts payable and receivable, fixed assets, general ledger, family health services, stores and procurement. We also reviewed arrangements for the acceptance of gifts and hospitality, the register of interests and the payment of expenses. We identified a number of areas where controls could be strengthened and agreed an action plan with management. We were however able to conclude that there were no material weaknesses in the accounting and internal control systems and that the key controls were operating effectively.
88. In addition we placed formal reliance on aspects of internal audit's systems work in terms of International Standard on Auditing 610 (*Considering the Work of Internal Audit*) to avoid duplication of effort. This work provided us with additional assurances on the adequacy of the internal control environment within NHS Lothian.
89. With the development of shared services in NHS Scotland, there are a number of systems where NHS Lothian is dependent on another NHS body for provision of that service. NHS National Services Scotland (NSS) provides the following services:
- the Practitioner Services Division
 - national procurement: logistics
 - national IM and T
 - shared services consortium: financial ledger services.
90. In accordance with Statement on Auditing Standard No 70, NHS NSS has commissioned service auditors to provide independent assurance that the key controls and processes operate satisfactorily to support defined key objectives. All opinions from service auditors were unqualified for the year 2009/10.

Statement on internal control

91. The Statement on Internal Control (SIC) provided by NHS Lothian's Accountable Officer reflected the main findings from both external and internal audit work. The SIC records management's responsibility for maintaining a sound system of internal control and summarises the process by which the Accountable Officer obtains assurances on the contents of the SIC.
92. The SIC draws attention to an issue identified by Internal Audit on the need to make improvements to support the revised Freedom of Information Publication Scheme. In addition reference is made to the findings of the Information Commissioner (see paragraph 53).



Internal Audit

93. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible. As part of our risk assessment and planning process for the 2009/10 audit we assessed whether we could place reliance on NHS Lothian's internal audit function. We concluded that the internal audit service operates in accordance with relevant Internal Audit Standards and has sound documentation standards and reporting procedures in place. We therefore placed reliance on their work in a number of areas during 2009/10, as anticipated in our annual audit plan.

Prevention and detection of fraud and irregularities

94. NHS Lothian has in place a number of measures to prevent and detect fraud, including Standing Financial Instructions, Standing Orders and supporting policies and procedures. The Board has a formal programme of internal audit work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud.

95. The Board has also agreed a formal protocol covering a programme of Payment Verification checks with the Practitioner Services Division of NHS National Services Scotland. In 2009/10 these checks included verification against patient records, requesting patients to confirm treatment by letter, visits to practices and patient contact.

NFI in Scotland

96. During the year NHS Lothian took part in the 2008/09 National Fraud Initiative (NFI) in Scotland. The NFI in Scotland is a counter-fraud exercise led by Audit Scotland, assisted by the Audit Commission. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.

97. NFI allows public bodies to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

98. As part of our local audit work we carried out a high level assessment of NHS Lothian's approach to the NFI. The Board has shown commitment to the 2008/09 NFI process. An NFI group which was set up included key officers from Internal Audit, Human Resources and Payroll to plan, coordinate and progress the work. Progress was reported through the Audit Committee. Specific areas, such as payroll to payroll within and between bodies and payroll to pensions, were allocated to members to follow up. In total the Board investigated 654 cases and the work is largely complete.



99. The Audit Scotland report *The National Fraud Initiative in Scotland; making an impact*, which was published on 20 May 2010 set out the results of the 2008/09 NFI exercise. It involved 74 bodies, including councils, police forces, fire and rescue services, health Boards, the Scottish Public Pension Agency and the Student Award Agency for Scotland.
100. Overall, the outcome of the 2008/09 exercise was worth £21.1 million to the public purse. The report also highlights that while the NFI has been successful, much of the information used in this exercise was collected before the recession really took hold. An economic downturn is commonly linked to a heightened risk of fraud, and public bodies need to remain vigilant.
101. The cumulative outcome of the current and previous NFI exercises in Scotland is now around £58 million and there have been at least 80 successful prosecutions since the last NFI report in 2008. Audit Scotland will require data for the next NFI exercise in October. This is expected to be carried out under new powers currently before the Scottish Parliament. These will provide for more collaboration with other UK agencies to detect 'cross border' fraud, extend the range of public sector bodies that may be involved, and allow data matching to be used to detect other crime as well as fraud.
102. The national report *The National Fraud Initiative in Scotland; making an impact* includes a self-appraisal checklist. We recommend that officers involved in the NFI should use the checklist as part of their preparations for the NFI 2010/11.

Risk area 7



Performance

103. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:

- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery
- a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes for citizens.

Vision and strategic direction

104. NHS Lothian has recently approved its 5 year plan Planning for the Future, NHS Lothian's Five Year Plan 2009-2014. This is an ambitious plan setting out the Board's key goals over the next five years and outlines how it hopes to achieve them. It aims to continue to improve the quality of services and help the Board move towards being in the top 25 healthcare organisations in the world. To achieve these goals in the face of a likely budget reduction and continuing pressure from demographic change over the next 5 years will be challenging.

105. NHS Lothian is committed to developing a sustainable health service through its *Improving Care, Investing in Change* (ICIC) programme. ICIC sets out NHS Lothian's vision and strategic direction for acute health services for older people and mental health and well being services. This programme, supplemented by further initiatives within the Children and Young People's health strategy and the Primary Care Modernisation Strategy brings together plans to deliver a better balance between in-patient care and community based care to the population of the Lothians.

106. The Local Delivery Plan (LDP) sets out NHS Lothian's agreement with the Scottish Government to deliver HEAT (**H**ealth improvement, **E**fficiency, **A**ccess to services, **T**reatment) targets. The targets are designed to help NHS Lothian tackle local health issues such as waiting times and life expectancy, and they demonstrate a commitment to identifying where the greatest need lies.

107. The 2009/10 corporate objectives were developed to meet the LDP commitments but also to drive forward the agenda for tackling health inequalities, taking into account cost versus quality, patient experience and safety. The corporate objectives link downwards into executive members' personal development plans. These objectives have been further developed for 2010/11 and take account of issues identified at the Planning for the Future event in April 2010 (for all senior managers) and the 5 year vision document.



Managing risk

108. The Healthcare Governance and Risk Management Committee (HGRMC) is responsible for ensuring that there are effective clinical governance and risk management processes. The Board has put in place robust systems for the identification and management of risk. These corporate risk arrangements are supported by local departmental risk registers and arrangements. An annual risk management report is presented to the Audit Committee which provides assurances that adequate and effective risk management procedures are in place for the year. The Audit Committee also reviews the risk register on a quarterly basis.
109. We are pleased to note the progress made to date in standardising risk management systems and procedures within NHS Lothian. NHS QIS highlight the strong risk management framework and the expansion and adaptation of the risk management information system (DATIX) system for local use as being a strength.
110. The Risk Register module on the DATIX system has now been fully developed. As part of the systematic review process the risk registers are updated on DATIX on a quarterly basis at a corporate level and at an operational level. Each of the risks is reviewed by the 'risk handler', updates are made to the controls, action plans and the risk rating/grade changed if appropriate. The new system should provide greater assurance to the Board that risks are being managed and systematically reviewed at all levels in the organisation.
111. The main risk areas identified by the Board are securing financial stability, service redesign and sustainability, working in partnership, maintaining robust performance reporting frameworks and workforce planning.

Service Development

112. In December 2007, the Cabinet Secretary for Health and Wellbeing launched the *Better Health, Better Care* Action Plan, which has the stated aim to "help people to sustain and improve their health, especially in disadvantaged communities, ensuring better, local and faster access to health care." In order to achieve this health Boards must provide accessible and sustainable services. The NHS faces a number of key challenges in developing and redesigning its services to ensure they are both accessible and sustainable in the short, medium and long term.
113. *Improving Care, Investing in Change* (ICIC) programme includes a significant capital investment, for example the Re-provision of the Royal Hospital for Sick Children (£159 million), the Royal Victoria Hospital (£44 million) and the Musselburgh Primary Care Centre (£21 million). Due to delays, the ICIC initial agreement (which was approved by ministers in 2005) was updated for progress and revised



timelines and approved in April 2009. The challenge for NHS Lothian continues to be to ensure it has sufficient resources and capacity to deliver the projects in line with the plans.

114. As noted in paragraph 38, the five year capital plan includes capital investments of some £292 million. The current economic climate has impacted on the plan in terms of realisation of receipts from assets sales. As in previous years the challenge to NHS Lothian will be to ensure completion of its major projects within an agreed timescale.

Performance Overview

115. There is now an expectation that all public sector bodies including the NHS should be able to demonstrate how their activities are aligned with the Government's overarching purpose through the National Performance Framework (2008). This introduced Single Outcome Agreements (SOAs) for local government bodies in 2008/09. In 2009/10 this was extended to the health sector through the mechanism of Community Planning Partnerships (CPPs).
116. The Finance and Performance Review Committee (FPRC) conducts the overview of the performance management process on behalf of the Board and in particular the delivery of HEAT and other targets. NHS QIS noted that there has been a recent focus on strengthening all aspects of performance management within NHS Lothian and there was now an embedded culture of performance improvement. A consistent approach to monitoring performance across the organisation is now being taken. The format of the performance reports reviewed by the FPRC has recently been revised and a 'dashboard' style of report for each element of the HEAT performance framework introduced. This has provided senior management with an improved picture of performance across the whole organisation.
117. The Lean in Lothian Programme was established in 2006 with the support of GE Healthcare. The programme offered a proven set of tools and techniques to support process improvement and involve and engage front line staff to identify waste within their current working processes and agree, and then implement service improvements. The programme continues to provide significant real impact on efficiency and the patient experience without the need for significant funding. Projects undertaken during 2009/10 included a review of Community Day Hospitals, St John's theatre utilisation, substance misuse services within West Lothian and administrative processes in the East Lothian and Midlothian Community Mental Health teams.
118. The Lean in Lothian annual report is currently in draft form and will be presented to the July Board meeting. The programme continues to evolve and is now wholly delivered by NHS Lothian staff in terms of both training and delivery of projects. Its principles are being embedded into everyday working through the inclusion of basic Lean principles at induction training. The main focus of the programme for 2010/11 will be to review and implement improved patient pathways in older people's services which has been agreed as a key redesign priority by NHS Lothian.



Performance Management

119. NHS Lothian has a sound performance management framework in place which provides the information required to effectively manage and monitor the local health system. These systems capture and record information against key measures and indicators contained in the HEAT targets. Local targets are also measured against and presented to Committee. We noted that an NHS Lothian Core Group has been set up to develop 'stretched' targets.
120. The Board was successful in achieving a number of very challenging targets by the end of March 2010. Waiting times have been falling over recent years in an effort to meet the Government's targets and by March 2010 most of the national waiting times standards had been met in full. Through close working between hospital, community and social work staff the Board had progressively reduced the number of delayed discharges. By March 2010 the Board had achieved the national standard with no patients delayed over 6 weeks. In addition, good progress was made in achieving the healthcare and associated infections targets.
121. Significant progress also was made in other areas including alcohol intervention and smoking cessation, reduction in carbon emissions, and %'s of people aged 65+ with high levels of care needs receiving care at home.
122. There were, however, some areas of performance where targets were not fully met. These included some 'referral to treatment' measures, attendance per 100,000 population across a number of hospitals and response times to complaints.
123. There remains a continued issue around maintaining targets over the course of each year. However we noted that action continues to be taken to address problem areas and the Board considers it is well placed to meet targets in due course.

Risk area 5

Improving public sector efficiency

124. The Audit Scotland report '*Improving public sector efficiency*' was published on 25 February 2010. It provided a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report about the previous efficiency programme.
125. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. But there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult.



126. The report recommended that to deal with reduced future funding and increase savings public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.
127. The drive to improve efficiency and productivity is not just an exercise for managers and service providers. It requires strong leadership and engagement from the very top of public bodies. Leaders and senior decision-makers within an organisation have a responsibility to check, challenge, monitor and support their organisations in delivering efficiency and productivity improvements. The report's recommendations highlighted areas that public bodies' key decision makers should look at to assess their organisation's development and to challenge existing arrangements. These included considering alternative providers of service, extending shared services, and continuing to improve collaboration and joint working.
128. To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work should consider assessing themselves against each question.

Risk area 7

129. The report was presented to the Operational Audit Sub-Committee by the Director of Finance in March 2010. The contents of the report were noted together with the approach being taken to efficiency and productivity both nationally and within NHS Lothian.

National Studies

130. Audit Scotland's Public Reporting Group undertakes a programme of national studies each year in consultation with key stakeholders. The findings and key messages of these studies are published in national reports which are publicised and widely distributed. In addition they are also available on Audit Scotland's website.
131. At the local level, a protocol has been agreed whereby national reports which are specific to NHS Lothian are considered in detail by officers, with action to be taken discussed at the Board's Operational Audit Sub-Committee. Relevant senior managers are invited to attend to outline the impact of the national report and the Board's progress in addressing recommendations locally. This level of Non-Executive scrutiny of local actions taken against national reports is commendable and consistent with good practice. However as noted in paragraph 69 some over-arching reports are not being dealt with in the same manner. The most recent reports considered are summarised at Appendix B.



Looking Forward

132. NHS Lothian faces a number of challenges in 2010/11, which include:

- **Capital investment** – There are significant developments planned for the delivery of future healthcare services by NHS Lothian. The five year capital plan includes significant capital investment of approximately £292 million on projects. Funding of some £252 million has been identified but the Board will need to consider how to fund the remainder of the capital programme. The Board will also need to plan to fund a sustainable level of service while implementing these major service developments.
- **Financial management and affordability** – The financial settlement in 2010/11 provides an uplift of 3.14% (including NRAC allocation). There is a risk this may reduce in 2010/11 given the current economic situation. This will have a significant impact on long term financial planning and the control of non pay costs. NHS Lothian have also identified that during 2010/11, some £40 million of recurrent efficiency savings are required to be achieved to remove the Board's reliance on non-recurring funding and to achieve recurring balance. Delivering these efficiency savings without impacting on services presents a significant challenge for the Board.
- **Efficiency, future funding and the wider economy** – Budgets for 2010/11 and the immediate future will need to be managed within a tighter funding regime. This includes the impact of the introduction of International Financial Reporting Standards (IFRS), particularly on PFI, leases and infrastructure accounting. The recent UK Government budget in June 2010 referred to a 25% reduction in public sector spending over the next four years, the details of which will become more apparent with the publication of the Autumn spending review. The challenge for NHS Lothian is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives. This will be even more challenging in the context of the current economic downturn which may impact on a number of elements of the Board's operations including both its resources and the demand for its services.
- **Equal Pay** – The Equal Pay Directive has made it clear that pay discrimination should be eliminated from all aspects of remuneration. NHS Lothian has received 1,792 of the 11,000 claims received nationally on this matter. Significant ongoing uncertainties have been identified by the CLO resulting in an unquantified contingent liability disclosure in 2009/10. Board management, working with the Scottish Government Health Directorates and other NHS Boards, will have to form a view of the potential liabilities as soon as practicable, taking into account the progress of cases in Scotland and in England.



- **VAT increase** – The Chancellor’s emergency budget on 22 June included an increase in VAT from 17.5% to 20% from January 2011. This increase will have an immediate impact on the cost of the capital programme. In addition it has been reported that the VAT increase will increase the cost of supplies across the NHS in Scotland by £26 million and NHS Lothian will bear a significant proportion of the increase. The increase in VAT poses a significant risk to the Board’s financial position
- **Best Value** – The concept of Best Value is seen as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place, particularly in the area of Use of Resources. NHS Lothian will wish to respond to this important initiative as it develops.
- **Sustainable development** – The carbon reduction commitment (CRC) energy efficiency scheme is a mandatory carbon emissions trading scheme for large public and private sector organisations in the UK and commenced in April 2010. This scheme is part of a package of measures within the Climate Change Act which aims to reduce carbon emissions. NHS Lothian participates in the scheme and will have to monitor emissions and purchase allowances initially sold by the Government for each tonne of CO₂ they emit. There may be additional costs if targets are not met. In addition, the Scottish Government has issued a sustainable procurement action plan for Scotland which is intended to assist the public sector to take proper account of sustainability in procurement activity. A number of steps are set out with timescales, and bodies are expected to produce their own delivery plans, sign up to the Suppliers charter and develop awareness raising and training on sustainability in procurement.

133. The Board recognises these challenges and is taking steps through its planning processes to address them. We will continue to monitor the progress that the Board is making on these key issues.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1.	NHS Lothian as with other Boards has not been able to quantify the extent of its liability for Equal Pay claims. There is a risk that these liabilities will have a significant impact on the Board's financial position.	These risks will be taken into account in the forward financial plan, in the context of all demands on resources. Ongoing dialogue with SGHD and CLO will be maintained.	Director of Finance	Ongoing
2.	All outstanding issues raised following the review of the IFRS opening balance sheet should be followed up and concluded.	Substantial progress has been made on material issues. Work will continue as part of annual accounts and asset management operations.	Director of Finance	March 2011
3.	The Board faces a wide range of financial challenges and there is a risk that it may not be able to make its savings targets in 2010/11. The longer term financial plan remains at risk of not being affordable and is a significant challenge to the Board moving forward.	The financial plan is a key mechanism underpinning the overall financial control of the organisation. The process will continue to include a review of all areas of planned investment, will link with the efficiency programme both nationally and locally, and will recognise the impact of in year costs and benefits on future years	Director of Finance	Ongoing
4.	NHS Lothian should complete all outstanding Agenda for Change reviews and finalise all payments.	Confirmed complete at Staff Governance Committee	Employee Director	N/a
5.	A number of the performance targets were not achieved by 31 March. In addition, performance can fluctuate from period to period. There is a danger that the service experienced by NHS Lothian residents is not provided at the expected standard.	Performance against targets is monitored routinely by the Executive Management Team and by the Finance & Performance Review Committee. Actions to address fluctuations in performance are agreed and followed up.	Director of Finance/EMT	Ongoing
6.	Both IA and the IC raised matters arising in relation to information governance within NHS Lothian. Action should be taken to address the issues raised.	The Accountable Officer's Statement on Internal Control acknowledges the work required and the timeline in addressing these issues.	Medical Director	July 2010
7.	A process should be introduced to ensure members are advised of the action being taken by officers to address issues raised in Audit Scotland cross-sectoral reports which are not routinely taken to the Audit Committee. Where applicable, the self appraisal checklists should be completed.	Audit Scotland NHS reports are taken to the Operational Audit Committee and Audit Committee routinely and a discussion of the issues for NHS Lothian recorded as part of normal business. Cross-sectoral reports will be considered for inclusion in respective agendas.	Director of Finance	Ongoing



Appendix B: National Reports

Managing the use of medicines in hospitals: follow-up review

This review followed up the key recommendations from Audit Scotland's 2005 report on 'Managing the use of medicines in hospitals.' It also provided an overview of national developments since 2005 such as the launch of the Scottish Patient Safety Programme and the new legislation on controlled drugs. The report recommended that NHS Boards should ensure that pharmacy workforce plans are based on an assessment of need, which considers the appropriate numbers, skill mix and other resources such as automation, to meet future needs for dispensary, clinical and other work.

The report was presented to Committee in September 2009. An action plan and an analysis of the report was presented by the Associate Director of Pharmacy, Managed Services (Acute). The action plan was informed by the findings of the original report, and the review and a self-assessment checklist compared against report recommendations. The report was actively received by NHS Lothian with a multi-professional group created to deliver the action plan, chaired by the Associate Director of Pharmacy.

Drug and alcohol services in Scotland

The aim of this study was to identify how much of the public sector spend is on 'labelled' drug and alcohol services as well as the impact the money has had.

The report was presented to Committee in September 2009. The Committee noted that progress had been made against the recommendations on local needs assessments, establishing formal contracts and achieving outcomes. A self assessment framework was completed by NHS Lothian and Alcohol and Drug Partnerships (ADPs) and this demonstrated that further work is required across the NHS Lothian area to strengthen partnership arrangements.

Overview of mental health services in Scotland

This report provided an overview of mental health services and its main aim was to highlight areas for improvement and identify priorities for future audit work. The study covered mental health services provided by the NHS, councils, prisons, the police and the voluntary sector and examined the accessibility, availability and cost of services.

The report was presented to Committee in September 2009. We noted that recommendations were to be taken forward by the Strategic Programme Manager, Mental Health and Wellbeing. The report was received positively by NHS Lothian with a self assessment checklist drawn up to be completed by chairs of local joint planning groups and from this a pan-Lothian position statement would be produced.



Overview of the NHS in Scotland's performance 2008/09

This report provided an overview of the performance of the NHS in Scotland in 2008/09 and examined the financial challenges and risk for 2009/10 and beyond. It was presented to the Audit Committee in February 2010.

The key messages included the need for the NHS to do more to identify efficiencies, improve levels of productivity and review how services are delivered working more effectively with its partners and patients.

The report contained some specific detail relating to NHS Lothian. It highlighted that there were a number of NHS Boards, including NHS Lothian, which should receive improved funding through the new NRAC formula. The size of the Board's future capital projects with 3 in excess of £50 million was also highlighted. The report noted that the SGHD's Improvement Support Team was sponsoring a national efficiency programme aimed at delivering service redesign and sustainability while improving performance, quality of care and job satisfaction. Lothian was highlighted as having made the most progress in advancing this approach through its 'Lean in Lothian' programme.

Review of Orthopaedic Services

The report considered how effectively and efficiently the NHS in Scotland manages orthopaedic services, how much is spent and whether this represents value for money. It also considered whether there is scope to improve the efficiency of services, focusing on orthopaedic services provided in hospitals.

Major recommendations for the Scottish Government and NHS Boards were to develop better information on costs, quality and activity to plan and deliver efficient services to a high quality; ensure benchmarking information on cost and activity is collected to deliver efficiencies; and improve tariff information to support accurate costing and financial planning. A number of other recommendations were made for NHS Boards to take forward.

The report was presented to Committee in May 2010. The Director of Operations completed the checklist and action plan. Management is of the view that NHS Lothian is in a strong position to meet the challenges presented by this national report.



Managing NHS Waiting Lists

The review considered whether NHS boards are complying with the New Ways of Managing Waiting guidance for managing patients and recording information. The review focused on the impact on patients and whether they were being disadvantaged by the new arrangements.

The report made a number of recommendations for the Scottish Government, NHS Boards and ISD Scotland. In particular, the recommendations for NHS Boards included: the need to record all New Ways data, including information on patient reviews and transfers, to improve systems for recording patients' additional needs and put appropriate support in place for those who need it, and to ensure that communication with patients takes account of any need for additional support and information tailored to meet those needs.

The report was presented to Committee in May 2010. NHS Lothian received the report positively with a self assessment exercise undertaken in Acute Services against the recommendations in the report. From the self assessment exercise an action plan was produced.