

NHS Forth Valley

2016/17 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the board of NHS Forth Valley and the Auditor General for Scotland

16 June 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2016/17 annual report and accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, regularity of transactions, remuneration and staff report, performance report and governance statement.

Financial management

- 2 NHS Forth Valley has effective arrangements in place for managing its finances and the use of resources, although a prior year adjustment was required in 2016/17 relating to its PFI accounting treatment. NHS Forth Valley met all of its financial targets for 2016/17 and achieved an underspend of £1.534 million against its revenue resource limit (RRL).
- 3 The two Integration Joint Boards (IJB) in the Forth Valley boundary incurred underspends of £6.752 million on services commissioned from NHS Forth Valley in 2016/17. Relevant adjustments were processed in the board's accounts and the balances are held as earmarked reserves in the IJBs' unaudited accounts.
- 4 NHS Forth Valley achieved 89.3% of its savings target of £26.614 million for the year. This was a significant achievement given the unprecedented level of savings required in 2016/17 (6% of RRL).
- 5 The efficiency savings not achieved in 2016/17 of £2.856 million, together with the non recurring element of savings achieved in 2016/17 (£1.757 million) have been incorporated into future years' efficiency savings targets.

Financial sustainability

- 6 We concluded that NHS Forth Valley has effective financial management arrangements in place. While the board achieved financial balance in 2016/17 it is facing an extremely challenging position in future. The board estimates that it will need to make efficiency savings of £24 - £25 million in each of the next three financial years to meet its financial targets.
- 7 Efficiency savings will continue to be crucial to maintaining financial balance over the medium term. The board have assessed that some £10-£12 million of the efficiency savings required to deliver a balanced financial position in 2017/18 are at risk of not being achieved.

Governance and transparency

- 8 NHS Forth Valley has appropriate governance arrangements in place that support scrutiny of decisions made by the board.

Value for money

- 9** NHS Forth Valley has an effective performance management framework in place which supports continuous improvement. However, the board faces ongoing challenges in meeting some key national performance targets.
- 10** Priority has been given to protecting and maintaining services while operating within the board's financial settlement which, based on current assumptions, is forecast to reduce in real terms in future years.

Introduction

1. This report summarises the findings from our 2016/17 audit of Forth Valley Health Board, commonly known as NHS Forth Valley.

2. The scope of our audit was set out in our Annual Audit Plan presented to the January 2017 meeting of the Audit Committee. This report comprises:

- an audit of the annual report and accounts
- consideration of the wider dimensions set out in the [Code of Audit Practice \(2016\)](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:

- an interim audit of the board's main financial systems and governance arrangements
- an audit of the board's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- a review of the board's performance monitoring and reporting arrangements.

- 4.** NHS Forth Valley is responsible for preparing the annual report and accounts. It must also put arrangements in place for governance, propriety and regularity that enable them to successfully deliver their objectives.
- 5.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice \(2016\)](#), and guided by the auditing profession's ethical guidance.
- 6.** As public sector auditors we give independent opinions on the annual report and accounts. We also review and report on the arrangements within NHS Forth Valley to manage its performance, regularity and use of resources such as money, staff and assets. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice \(2016\)](#).
- 8.** This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- 9.** Our annual audit report contains an action plan at [Appendix 1 \(page 32\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** This report is addressed to both the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
- 12.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2016/17 annual report and accounts



Main judgements

Unqualified audit opinions on the annual report and accounts.

The working papers in support of the annual report and accounts were of a good standard.

There are satisfactory arrangements in place to agree the year end balances between the board and its two Integration Joint Board (IJB) partners.

Unqualified audit opinions

13. The annual report and accounts for the year ended 31 March 2017 were approved by the board on 16 June 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- unqualified opinions on the remuneration and staff report, performance report and governance statement.

14. Additionally, we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

Submission of annual report and accounts for audit

15. We received most of the unaudited annual accounts on 1 May 2017, in line with our agreed audit timetable. The narrative sections of the annual accounts were received later than planned although this did not impact on the timely conclusion of the audit.

16. In 2016/17, for the first time, the board's group accounts included the financial results of the two Integration Joint Boards (IJB) within its boundary. The group accounts include the board's share of the IJBs surplus for 2016/17 although these have no impact on the board's reported outturn. The IJBs annual accounts have yet to be audited, however, we are satisfied that the board had good arrangements in place to agree year end balances between itself and its partners, although these were agreed later than the 30 April statutory deadline. Our audit testing confirmed that the board properly identifies transactions that relate to work commissioned by its IJBs.

17. The working papers provided with the unaudited financial statements were of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

The board's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

18. Also, the accounts reflect good practice as set out in the Audit Scotland publication '[Improving the Quality of the NHS Annual Report and Accounts' \(December 2014\)](#).

Risks of material misstatement

19. [Appendix 2 \(page 34\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider dimension risks, how we addressed these and conclusions.

Materiality

20. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

21. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically with regard to the annual report and accounts, we assess the materiality of uncorrected misstatements, both individually and collectively.

22. On receipt of the annual report and accounts we reviewed our materiality calculations. Minor changes were made to the materiality levels we reported in our annual audit plan as reported in exhibit 2. This had no impact on our audit approach.

Exhibit 2

Materiality values

Materiality level	As stated in our annual audit plan	Amount finally determined
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£6.261 million	£6.477 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.	£3.131 million	£3.239 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the reporting threshold amount. This has been calculated at 1% of overall materiality.	£0.063 million	£0.065 million

Source: Audit Scotland

How we evaluate misstatements

23. It is our responsibility to request that all misstatements in excess of the clearly trivial reporting threshold are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality.

24. There was one material adjustment to the unaudited financial statements which had an impact on the Board's performance in relation to its core revenue resource limit target. This was in connection with the board's arrangements for accounting for the PFI at Forth Valley Royal Hospital. This is explained at [exhibit 3](#) below. This had an impact of increasing the reported underspend from £0.204 million to £1.534 million. The other audit adjustment of £4.520 million to FHS accruals noted in exhibit 3 below did not impact the board's reported financial outturn for the year.

25. There are no unadjusted errors in excess of the clearly trivial reporting threshold.

Significant findings

26. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to those charged with governance. These 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 \(page 32\)](#) has been included.

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Family Health Services (FHS) accrual</p> <p>Our audit testing identified that the FHS accrual was understated by £4.520 million and has been for several years. This is due to the FHS accrual being offset by an internal debtor between Forth Valley Primary Care Trust and the board which originated at the time a previous re-organisation of the NHS. This should have been integrated and therefore written off to reserves when health boards and trusts were unified in 2004/05.</p>	<p>An adjustment of £4.520 million has been charged to the general fund in the consolidated statement of changes in taxpayers' equity. This does not impact the current year's outturn or the board meeting its 2016/17 RRL target as the FHS accrual understatement relates specifically to a prior year. This does, however, reduce the general fund balance and increases trade payables by £4.520 million. The Board have informed the Scottish Government of this adjustment to the accounts.</p>
<p>2. General fund deficit</p> <p>The general fund balance increased from being in credit by £3.422 million at the beginning of the year to a deficit of £18.894 million at 31 March 2017. This is partly due to issue 1 noted above, but mainly arises due to the increase in non cash expenditure during the year such as impairment and the increase in the CNORIS provision. We requested that the Board draw this to the attention of the Scottish Government in the context of what this may mean for the Board's overall financial health.</p>	<p>The board obtained assurance from the Scottish Government that they are aware of and are comfortable with this position.</p>

Issue	Resolution
<p>3. PFI Balances</p> <p>The PFI payment model for Forth Valley Royal Hospital was set up in 2011 for a 34 year period to 2044/45. However, the period of the PFI payments according to the PFI agreement is for 30 years from the practical completion to the end of the financial year in which the 30th anniversary occurs (i.e. it covers 31 financial years to 2041/42). The PFI payment model is therefore overstated by three years.</p> <p>The board has confirmed that the correct unitary charge has been applied since inception in 2011 and that payments will cease in March 2042. Since repayments to date have been processed over a longer period than stated in the agreement, the element allocated to repay the lease creditor has been understated by £6.276 million since inception, and the cumulative amount charged to the income and expenditure account to cover lease creditor interest has been overstated by £6.276 million since inception. The impact on the 2016/17 accounts is a reduction in operating costs of £1.330 million. This also means that the reported underspend for 2015/16 of £0.201 million has been understated by £1.292 million. The 2015/16 figures have been restated to reflect this and is incorporated within the prior year adjustment note in the accounts.</p>	<p>The accounts have been adjusted to reflect the £1.330 million impact on the current year's RRL and a prior year adjustment has been processed in the accounts for the residual £4.946 million.</p> <p>Action Plan (Appendix 1, point 1)</p>

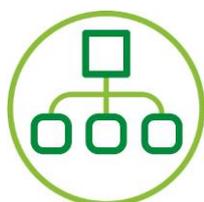
Source: NHS Forth Valley Annual Accounts 2016/17

Other findings

Our audit identified a number of minor presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

Part 2

Financial management



Main judgements

NHS Forth Valley has effective financial management arrangements in place, including budgetary control, that help Board members scrutinise the board's finances.

NHS Forth Valley had adequate systems of internal control in place during 2016/17 and our testing of the key controls confirmed that they operated effectively.

The board had good arrangements in place to identify and monitor efficiency savings. Efficiency savings sought in 2016/17 were almost double that of each of the three previous financial years. The board achieved 89% of its targeted efficiencies and 7% of the savings achieved were on a non recurring basis.

Financial performance in 2016/17

27. NHS Forth Valley, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD) annually. As illustrated in [Exhibit 4](#), the board operated within all limits during 2016/17.

Exhibit 4

Performance against resource limits in 2016/17

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	534.006	532.472	1.534
Non-core revenue resource limit	34.955	34.955	0
Core capital resource limit	3.409	3.409	0
Cash requirement	573.800	573.796	0.004

Source: NHS Forth Valley Annual Accounts 2016/17

Underspend against Revenue Resource Limit (RRL)

28. NHS Forth Valley achieved an underspend of £1.534 million against its 2016/17 total revenue resource limit of £568.961 million. This arose mainly due to the PFI audit adjustment of £1.330 million highlighted in [exhibit 3](#) above. Prior to this, the reported outturn was an underspend of £0.204 million, which was consistent with the board's monthly financial reporting. For example, the February 2017 finance report projected a £0.200 million underspend for the year. This reflects the board's focus on sound financial management.

29. The reported underspend incorporates deferred income of £6.732 million relating to funding received by the board on behalf of Clackmannanshire & Stirling IJB and Falkirk IJB which had not been utilised in 2016/17. This has been accrued in the board's annual accounts and transferred to the IJBs. The unaudited accounts of the two IJBs demonstrate that this unspent funding is held as a general fund balance of which £0.663 million is un-earmarked and £6.069 million is earmarked for projects that relate to funding provided in 2016/17 and will be utilised in 2017/18.

30. The National Resource Allocation Committee (NRAC) formula is used to calculate the share of funding each NHS board should receive based on population and demography. The Scottish Government made a commitment that all boards would be within one per cent of the target allocations by 2016/17. This was achieved in the funding provided to NHS Forth Valley in 2016/17. Additional NRAC funding of £2.000 million has been allocated to NHS Forth Valley in 2017/18 to ensure it remains within 1% below parity.

Efficiency savings

31. The 2016/17 budget for NHS Forth Valley required efficiency savings of £26.614 million in order to break even. This was equivalent to a savings target of around 6% of non fixed costs and was almost double the savings that have been sought in each of the three previous financial years. £23.760 million (89%) of the targeted savings were achieved in the year, of which £22.003 million (93% of savings achieved) were on a recurring basis. The remaining £1.757 million (7%) were achieved on a non-recurring basis.

32. Recurring savings are those that, once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing (recurring) savings in future years. The combination of non-recurring savings (£1.757 million) and savings not achieved in 2016/17 (£2.856 million) means that an additional £4.613 million of savings require to be factored into 2017/18. This is not sustainable over the longer term and has been included by the board in the 2017/18 savings target of £24 million.

33. NHS Forth Valley achieved its small underspend in 2016/17 despite missing their savings target. This was achieved through a combination of available contingency budget and some improvement in cost base towards the year end.

34. This is the first time in the last four years that NHS Forth Valley has not achieved its savings target. Also, as illustrated in [Exhibit 5](#), with the exception of minor instances this is the first time that NHS Forth Valley has required to rely on non-recurrent savings. Short term measures are not sustainable and only provide the board some breathing space in stabilising its financial position. In future, the board will find it extremely challenging to maintain financial balance and there is a risk that it will not achieve its financial targets in 2017/18.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Exhibit 5

Savings – recurring and non-recurring



Source: NHS Forth Valley Annual Accounts 2013/14 to 2016/17

Capital allocation

35. NHS Forth Valley received a total capital allocation of £3.409 million in 2016/17. This was all core funding. An additional £4.322 million of cash was generated from the sale of assets giving an overall £7.731 million available for capital expenditure. This was fully utilised.

36. This amount was less than the original planned capital expenditure of £9.249 million. The board obtained agreement from the Scottish Government to carry forward £2.292 million of capital expenditure into future years and the board plan to draw on this in 2017/18 and 2018/19 in accordance with the five year capital plan. This mainly related to Doune Health Centre, which was delayed pending agreement of the business case with the Scottish Government.

37. Capital expenditure on primary care premises upgrades were delayed due to tenders being higher than expected. This was offset by bringing forward approved capital projects from future year's capital plans relating to replacement medical equipment and IT projects.

Budgetary processes

38. We also reviewed NHS Forth Valley's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular, timely and up to date financial information on the board's financial position.

39. We concluded that NHS Forth Valley has sound budgetary monitoring and control arrangements that allow both members and officers to carry out scrutiny of the board's finances.

Internal controls

40. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that NHS Forth Valley has

systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

41. Our findings were included in an audit progress report presented to the Audit Committee on 24 March 2017. We concluded that the controls put in place by management are adequate and are operating effectively. No significant internal control weaknesses were identified during the audit which could affect NHS Forth Valley's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Prevention and detection of fraud and irregularity

42. We have a responsibility for reviewing the board's arrangements for the prevention and detection of fraud. Our audit work, in this area, covered a number of areas such as whistleblowing and liaison with Counter Fraud Services.

43. We concluded that NHS Forth Valley is proactive in promoting fraud awareness and has adequate arrangements in place for fraud detection and prevention during 2016/17.

National Fraud Initiative

44. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

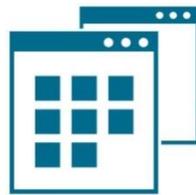
Exhibit 6

Total number of matches



2,273

Number recommended for investigation



246

Completed/closed investigations



Nil

Source: NHS Forth Valley

45. NFI activity is summarised in [Exhibit 6](#). The total number of matches identified for the 2016/17 exercise was 2,273 with 246 of the matches recommended for further investigation. The 2016/17 NFI exercise is at an early stage throughout Scotland and the board have just commenced the process of investigating these recommended matches. Officers provided an update on NFI progress to the Audit Committee in March 2017 which informed members of the number of matches recommended for investigation and that they would be informed of any frauds identified from the process.

46. As in prior years, the board appear to be pro-active in investigating matches and the process is still on-going for the 2016/17 NFI investigation work. There are no issues of concerns at the current time which we would require to highlight in this report. We will report further progress to the audit committee when appropriate.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

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

48. Based on our review of the evidence, we concluded that the board has adequate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

Part 3

Financial sustainability



Main judgements

NHS Forth Valley has adequate financial planning arrangements in place based on the Local Delivery Plan and the Healthcare Strategy 2016-21.

The financial plan contains sound bases for estimating future increases in the board's cost base and expected future financing. However, the savings required to achieve break even in the next three financial years have still to be identified. It will be very challenging for the board to achieve future savings targets while continuing to maintain levels of service.

The workforce plan is aligned to the NHS Forth Valley Healthcare Strategy 2016-21 "Shaping the Future". There will be a challenge in implementing changes to deliver future models of care.

The board have taken reasonable steps to reduce non core staff costs.

Financial planning

49. NHS Forth Valley's Local Delivery Plan (LDP) for 2017/18 sets out how the board's financial, workforce and services plans implement its strategic priorities. The LDP was approved by the Board in March 2017 and was submitted to the Scottish Government in line with the required timescales. The board's three year strategic financial plan for 2017/18 to 2019/20 and its five year capital plan for 2017/18 to 2021/22 are aligned to the key issues highlighted in the LDP, and set out how the board plans to achieve financial balance over the three-year period.

50. There are significant funding pressures over the period of the financial plan. The basic funding uplift for 2017/18 is 1.5% inclusive of Social Care funding, and no funding uplift has been assumed for the following two financial years. A range of assumptions regarding cost pressures and increases have been built into the three year financial plan.

51. The financial plan forecasts the requirement to make recurrent savings of £24.000 million in 2017/18. Each directorate has been tasked with identifying cash savings on the basis of a requirement of a 5% reduction in budget following pay and price additions.

52. To date, potential savings options of £20.265 million have been identified and are currently being assessed. The remaining £3.735 million still require to be identified. The board consider that there is a risk to identifying between £10 million and £12 million of the required savings required to break even in 2017/18.

Financial sustainability looks forward to the medium and long term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Medium to long term efficiency savings

53. The financial plan forecasts the requirement to make recurrent savings of £24.000 million, £24.445 million, and £24.382 million respectively over the next three years to break even. This is equivalent to savings of 5% of baseline RRL (excluding fixed costs) in 2017/18 and each of the subsequent two financial years.

54. This is a very challenging position for the board. Rising costs which are in excess of the increases in funding will make it difficult to achieve financial balance in 2017/18 and the foreseeable future. The achievement of efficiency savings targets will play a crucial element in bridging this gap next year and in future years.

55. The NHS Forth Valley Healthcare Strategy 2016-21 “Shaping the Future” sets out the vision and shape of healthcare services over the next five years. The board recognises that transformational plans for this strategy, together with the development of regional delivery plans need to change the financial profile of spend and release resources to ensure on-going service provision is financially sustainable and meet the projected cash efficiency savings.

Recommendation 2

The board should ensure that savings plans are developed which identify how the remainder of the required £24 million of savings in 2017/18 will be made, together with the savings requirements for 2018/19 and 2019/20 of £24.445 million and £24.382 million respectively.

Asset management

56. NHS Forth Valley is required to manage its hospitals, community buildings and other assets, such as medical equipment, in an effective way to ensure patients receive high quality care. The board’s annual Property and Asset Management Strategy (PAMS) provides information on the condition of the board’s estate (i.e., buildings), together with an assessment of the current condition and performance of the estate.

57. The interim PAMS update for 2016 shows that the board has a maintenance backlog, the most significant elements of which relate to a requirement of £12.921 million at Falkirk Community Hospital and £2.502 million at Stirling Community Hospital. Funding available to address this is limited, and this is being gradually addressed through refurbishment and upgrade at each of these sites. The five year capital plan incorporates £8.026 million in respect of this.

58. The board commissioned a review and survey of the 26 board owned primary care premises. This covered six aspects: the condition of the properties; statutory compliance; space utilisation; functional suitability; quality of environment; and environmental management. This identified total costs required to address these aspects, which was £5.504 million at the time of the survey. The five year capital plan incorporates proposed funding of £6.578 million to address this.

59. Regular finance reports are submitted to the board and the Performance and Resources Committee. These include a section dedicated to capital expenditure and progress against the capital plan.

Workforce planning

60. In February 2017, the Auditor General for Scotland published a data briefing on Scotland’s NHS Workforce. It highlighted that NHS staff numbers are at their highest ever level, but there are key issues relating to the workforce. These include an ageing workforce, vacancy rates, increased spending on agency staff and sickness absence levels.

61. NHS Forth Valley is facing a number of workforce challenges. For example, the board's workforce plan 2016/17 recognises that 36% of the workforce is aged 50 or over and this is set to rise to 41.7% by 2025.

62. The board's workforce plan aims to ensure the board's workforce has the skills and competencies required to take on new roles which deliver future models of care that are consistent with the Scottish Government's aims to deliver public sector collaboration and ambitions. The workforce plan is linked to the ensuring the workforce has the skills and competencies to deliver the ten key priorities contained in the board's vision "Shaping the Future", NHS Forth Valley's Healthcare Strategy 2016-21. This will pose a significant challenge to implement. Workforce plans have therefore been developed for all services and staff groups.

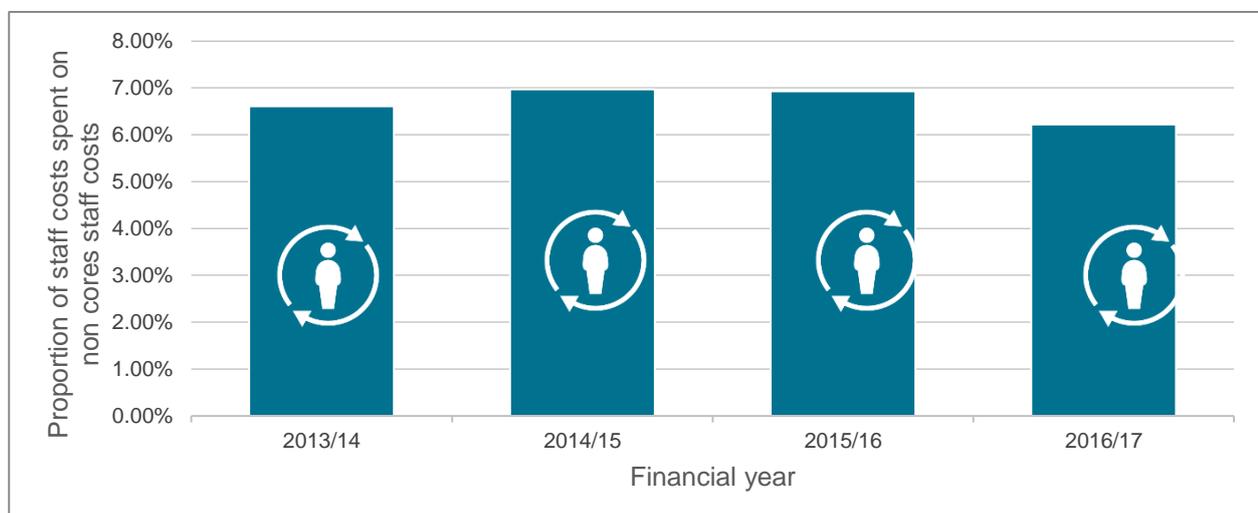
63. The board's corporate risk register identifies the sustainability of GP services as one of the highest risks facing the board due to difficulties in recruiting and retaining. The board monitors the situation closely through the GP Sustainability Group chaired by the Medical Director. The Director of Finance also provides regular reports to the board on primary care workforce challenges and the actions being taken to address them.

64. The board is committed to maintaining GP services in Forth Valley. It already directly manages three practices (Slammanan, Kersiebank and Bannockburn) because of the difficulty in recruiting GPs. While this has presented a number of challenges, it has also provided opportunities to develop new ways of working. At Kersiebank, for example, a multidisciplinary team of professionals works closely with local GPs and practice nurses to meet the needs of the local population. These teams include advanced nurse practitioners, mental health workers and pharmacists. This takes pressure off GPs while ensuring the sustainability of local practices.

65. Temporary staff provide flexibility in the short term by providing cover for sickness absence and vacancies but that comes at a cost. As a result of recruitment retention problems, and pressures to meet waiting time targets, we reported in 2015/16 that the amount spent on temporary staff increased. As illustrated in [Exhibit 7](#), spending on non core staff costs (i.e. bank, agency, locum and overtime) as a proportion of total staff costs decreased from around 6.9% in 2014/15 and 2015/16 to 6.2% in 2016/17.

Exhibit 7

Temporary staff costs



Source: Annual Audit Reports 2013/14 to 2015/16; Reports to Performance and Resources Committee 2016/17

66. The reduction in the use of non core staff costs is commended and has been achieved by introducing more stringent authorisation controls, regular monitoring of the costs incurred and through the filling of a few key vacancies.

67. NHS Forth Valley like most NHS boards is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence despite measures to maximise attendance at work. The annual sickness absence rate for the year to March 2017 was 5.11%. This is marginally better than the Scotland average of 5.2% and virtually unchanged from the NHS Forth Valley figure for 2015/16 of 5.1%.

Part 4

Governance and transparency



Main judgements

NHS Forth Valley has appropriate governance arrangements in place that support scrutiny of decisions made by the board.

NHS Forth Valley is open and transparent in the way it conducts its business but with some scope for improvement.

The board provides information and assistance to help the two IJBs develop their financial and performance reporting arrangements.

The board is well sighted on the 2020 Vision and the challenges it presents.

Governance arrangements

68. Our review of the board's governance and accountability arrangements considered areas that were based on the recommendations in the Auditor General 2010 report on the "Role of Boards", tailored to include all public sector bodies.

69. As part of this work we reviewed a range of governance documents, minutes and agenda papers. We also attended all Audit Committee meetings and selected Board meetings and Performance and Resource Committee meetings during the year to see how they perform, and interviewed one of the Board members.

70. The board and accountable officer are responsible for establishing arrangements for ensuring the proper conduct of affairs of NHS Forth Valley and for monitoring the adequacy of these arrangements.

71. We concluded that the board has appropriate governance arrangements in place and they provide a framework for effective decision making. This includes:

- Standing Orders, including committee remits and SFIs are regularly updated
- there is a good level of scrutiny and challenge by members.
- policy decisions, service performance, and programme management are subject to a good level of scrutiny and review
- the quality of papers provided to members is satisfactory. There is a good balance between narrative summary and further detail of content.
- there is a good working relationship between members and officers. Both appear to fully understand their roles, which are performed in a professional manner with an appropriate level of scrutiny and discussion of key issues.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

- Each of the main committees prepare an annual report. These summarise the main items of business considered during the year, and the main outcomes presented or approved by the committee during the year. A statement of assurance is provided by the Chairperson to confirm that adequate scrutiny of performance was in place throughout the year.

72. The Audit Committee has six members and meetings are quorate provided two members attend. We note, however, that the council appointed representative members of the committee did not attend any meetings during the year. This increased the risk of meetings not being quorate if any other member was unable to attend the Audit Committee meeting. This may also restrict the level of discussion and scrutiny being carried out.

Recommendation 3

Steps should be taken to encourage all members to attend audit committee meetings.

Internal audit

73. Internal audit provides the board and Accountable Officer with independent assurance on NHS Forth Valley's overall risk management, internal control and corporate governance processes such as the roles and responsibilities of committees.

74. The internal audit function is carried out by Fife, Tayside and Forth Valley Internal Audit Services. We carried out a review of the adequacy of the internal audit function and concluded that it generally operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place.

75. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we took cognisance of aspects of internal audit's review of the health board's financial process compliance within a range of systems and reviewed internal audit's arrangements for supporting the annual governance statement reported in the annual accounts. We also considered internal audit report findings as part of our wider dimension work.

76. The internal audit progress report submitted to the Audit Committee in March 2017 identified assignments either carried forward to 2017/18 or scaled down in 2016/17. This is a repeat of a similar situation that occurred in the previous financial year. Following discussions with internal audit we concluded that the assignments carried forward did not impact the Chief Internal Auditor's ability to sign off the annual internal audit report for 2016/17. The situation should be monitored to ensure that work carried forward does not impact on the delivery of the 2017/18 audit plan.

ICT risks

77. NHS Forth Valley's Information Governance Strategy details their approach for ensuring that they continue to monitor and improve its level of compliance with legislative and contractual requirements relating to Information Governance. The strategy is monitored quarterly and includes a number of points relating to operational controls, such as information security, physical security, malware detection and information back-up.

78. The board's cyber security protection controls in place prevented any significant impact for NHS Forth Valley following the international ransomware attack that occurred in May 2017. This includes ensuring back up controls are in place and installing patches to prevent unrecognised appliances being able to operate on the board's systems.

Transparency

79. Transparency means that the public, in particular, local residents have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

80. There is evidence from a number of sources which demonstrate the board's commitment to transparency including the annual accountability review (where members of the public can attend). Also, Board meetings are open to the public.

81. While committee meetings are held in private, the minutes of these meetings are publicly available on the board's website. We would recommend that committee meetings are held in public with sensitive or confidential items held in private session. Alternatively, the board should enhance transparency by making public non confidential papers submitted to standing committees.

82. Overall, we concluded that the board conducts its business in an open and transparent manner but that there are some areas where the board could improve current arrangements.

Health and social care

83. Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force from April 1 2016. This brings together NHS and local council care services under one partnership arrangement for each area.

84. Integration will mean a greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends, doing the things that give life meaning and value.

85. There are two IJBs within NHS Forth Valley's catchment area and both became fully operational on 1 April 2016. The board and its partners have continued to assist the IJBs to develop their governance arrangements.

86. The board has good arrangements in place to identify all financial transactions that relate to both of the IJBs. There are also proper arrangements in place to agree the board's share of the IJB budgets and to provide each of them with appropriate financial information to enable each of the IJBs to monitor their financial budget. The board have notified the IJBs of their funding for 2017/18, which incorporates their share of the board's efficiency requirements. The 2017/18 IJB budgets have been approved and formal directions have been passed back to NHS Forth Valley from both IJBs.

87. During the year, the board provided the performance management framework arrangements and information necessary to enable the IJBs to define and measure progress in connection with their strategic plans and against the national health and wellbeing outcomes. The board has assisted the IJBs produce a strategy map which details the partnerships' visions and then maps these against local and national indicators. The intended outcomes are in line with the Scottish Government's 2020 Vision and should help enable the IJBs to demonstrate what impact they are having.

88. It is still too early for the board or its partners to demonstrate any significant examples of new ways of working that promote integration or the impact or improvements to services. The board has recently set up an Unscheduled Care Group, which will determine targets and baselines for IJB related services. The annual performance report for each IJB will be presented in July and it is expected that these will summarise progress against the strategic plan.

89. Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. This is not due

until spring 2018. We plan to use this to assess progress once the work on this report has been completed.

2020 Vision

90. In 2011 the Scottish Government set out an ambitious vision for health and social care that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. In August 2015 the Cabinet Secretary for Health, Well-being and Sport opened a national conversation on creating a healthier Scotland which aimed to increase the pace of progress towards the 2020 vision.

91. The board's local delivery plan has explicit reference to and reflects the outcomes of the 2020 vision. These incorporate standards which are intended to provide assurance on sustaining delivery which are in line with the 2020 Vision and the health and social care delivery plan.

92. The local healthcare strategy 2016-21 also reflects how the 2020 Vision will be taken forward. This highlights the transformational service changes over the next five years to meet population demographic changes, expected financial constraints, and the need to provide more joined up services including more care at home and in communities. It emphasises that this will be implemented with a range of other strategic partners.

93. The board's performance management framework is reviewed and updated on a biannual basis. The latest update, in March 2017, takes cognisance of the changing health and social care environment and the requirements of the 2020 vision. As national requirements develop, the performance framework is kept under review.

94. The board's regular performance monitoring arrangements are core to the board's principle that performance management is integral to the delivery of quality improvement and core to sound management, prioritisation and decision making. This also helps to demonstrate that the objectives within the Scottish Government's 2020 Vision are being met. The board appears well sighted on the 2020 Vision and the challenges it presents.

Equalities

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

96. The board's Equality and Diversity Mainstreaming and Progress Report was approved and published in March 2017, in accordance with the requirements of the Act. This reflects on the actions completed to meet the board's 2013-2017 commitments, together with those to be implemented during 2017-21. The new equality outcomes contained in the report are based on the NHS Healthcare Strategy 2016-21 work stream recommendations as well as local and national priorities in relation to equality issues.

97. We reviewed the current equalities report and concluded the board has met its statutory duty to:

- publish information on progress made in mainstreaming equality within the board
- report on progress made towards achieving equality outcomes published in 2013

- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay-gap information.

98. We concluded, on the basis of evidence reviewed, that the board is proactive in ensuring that equality is mainstreamed. Equalities outcomes for the next four years (2017-21) have been determined and progress will be reported on in 2019.

Part 5

Value for money



Main judgements

NHS Forth Valley has an effective performance management framework in place. This helps support the board in its drive to achieve value for money and where it needs to focus improvements in how it delivers services.

The Board has taken effective steps to improve the referral to treatment period for Child and Adolescent Mental Health Services. However, steps require to be taken to stop the decline in the 12 week Treatment Time Guarantee and the proportion of Psychological Therapies patients seen within 18 weeks.

Performance management

99. The Scottish Government monitors how NHS Forth Valley performs against targets it set in its national performance framework. These include targets and their trajectories (plans) as set out in the board's Local Delivery Plan (LDP). Examples include waiting times for accessing treatment such as the proportion of patients that were seen within 12 weeks otherwise known as the Treatment Time Guarantee (TTG).

100. The board is kept well informed of performance across all areas. Performance reports are reported alternatively on a bimonthly basis to either the board or the Performance and Resources Committee. The detailed review and scrutiny of performance has been delegated to the Performance and Resources Committee which meets every two months. We regularly attend committee meetings and review papers received by members to find out how well the committee is scrutinising performance.

101. Members are provided with an integrated core performance report and balanced scorecard. This reflects both the LDP and local Annual Plan measures and targets. Performance is reported using 72 key indicators (including the 20 LDP Standards and 18 National Requirements). Performance reports contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance.

102. Monthly performance reports are presented to the Corporate Management Team. These provide more detail on steps being taken to address performance issues. In addition, weekly performance reports are provided to the CEO Operational Group which is represented by each directorate. These provide a more detailed breakdown of the figures behind some of the performance outcomes such as the number of theatre cancellations in each of the specialities and the breakdown of A&E waiting time over target timeframes.

Value for money is concerned with using resources effectively and continually improving services.

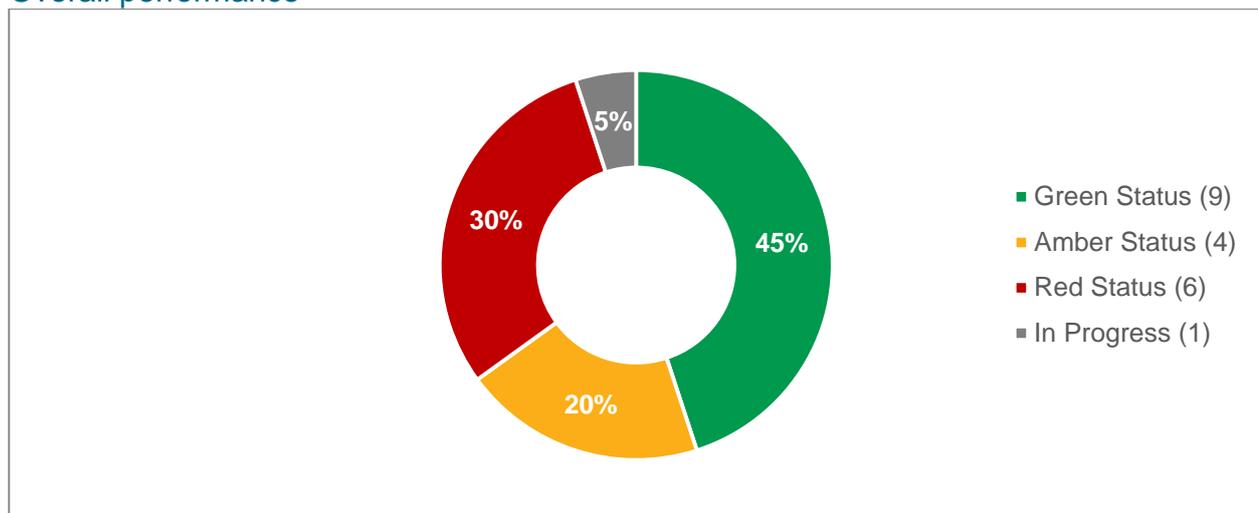
103. The regular finance reporting arrangements provide members with reports on performance information against budget analysed by directorate and also analysed by major costs such as employee costs and drug costs. The reports also provide details of savings and whether these are on track to be delivered. Additionally, they also highlight the main risks which could impact on the board's ability to remain in financial balance as well as the actions being taken to manage and reduce spending.

104. We concluded that the NHS Forth Valley has an effective performance management framework in place. This helps it determine where value for money can be best achieved and where it can make improvements to how it delivers services.

Overview of service performance

105. The board's performance against its 20 LDP Standards as reported in the 2016/17 annual accounts, and based on the most up-to-date position at the end of March 2017 is summarised in [Exhibit 9](#).

Exhibit 9 Overall performance



Source: NHS Forth Valley performance report

106. Of the 20 Local Delivery Plan Standards, 9 were categorised as green, 4 amber, 6 red and 1 in progress, where:

- green means targets being met or exceeded
- amber means performance is within 5% of target
- red means targets outwith acceptable standards (more than 5% below target)
- grey means in progress (no data yet available).

107. Overall, NHS Forth Valley performs well with the majority of targets categorised as green or amber. However, there are six targets that are outwith acceptable standards and more details on these are provided in [Exhibit 10](#).

Exhibit 10

Performance against key LDP standards

Target/standard		Performance at March 2017 ¹	Action being taken by Board
Treatment Time Guarantee (TTG) Proportion of patients that were seen within 12 weeks TTG	100%	● 79.4%	Most of the breaches were in ENT, Orthopaedics and General Surgery with specific action underway in each speciality to address challenges.
Staphylococcus Aureus Bacteraemia (SAB) Number of infections per acute occupied bed days	Less than 0.24 per 1,000	● 0.33	Due to the low acute bed base in Forth Valley this target will continue to be a challenge to fully deliver however there is focus on improving the overall position.
18 Week Referral to Treatment Proportion of patients that commence treatment within 18 weeks of referral	90%	● 79.4%	Recovery of the RTT is linked with the on-going work in respect of improving the 12 week outpatient wait. The longest waiting patients are treated in date order unless otherwise clinically indicated.
12 Week Outpatient Wait Proportion of patients that had a first outpatient appointment within 12 weeks of referral	95%	● 82.9%	Detailed capacity and sustainability plans are being completed and there is a comprehensive speciality level action plan in place to support an improvement in performance against this standard.
Psychological Therapies Proportion of patients that were seen within 18 weeks of referral	90%	● 39.1%	A number of key actions are being taken forward to support the achievement of the target, with two sub-specialities currently achieving the target.
Sickness Absence Rate Proportion of staff unable to work due to illness	Less than 4%	● 5.11%	The focus for 2017/18 is be at or below 5% each month, match or be below the Scottish average and continue to work to achieve the HEAT standard of 4%.

Source: NHS Forth Valley performance report

108. It is a challenge for the board to meet all LDP targets while operating within very challenging financial settlements. We have concluded that the board's arrangements for addressing targeted performance issues are reasonable and are geared towards addressing the 'red' risks. In some cases, though, maintaining

rather than improving primary care services is a priority and meeting waiting time targets is a significant challenge.

109. We have highlighted the board’s deteriorating performance in 2016/17 in [Exhibit 11](#) below in connection with meeting the 12 week treatment time guarantee (TTG). Under the Patient’s Rights (Scotland) Act 2011, all eligible patients must start to receive their day case or inpatient treatment within 12 weeks of the agreement to treat. Performance in relation to this target has deteriorated throughout the year. [Exhibit 12](#) highlights the Board’s deteriorating performance in 2016/17 in connection with the target to deliver 18 weeks referral to treatment for Psychological Therapies.

110. The board acknowledges that meeting Scottish Government waiting time targets is very challenging in the current financial and demographic environment.

Exhibit 11

12 week referral to treatment guarantee performance in 2016/17

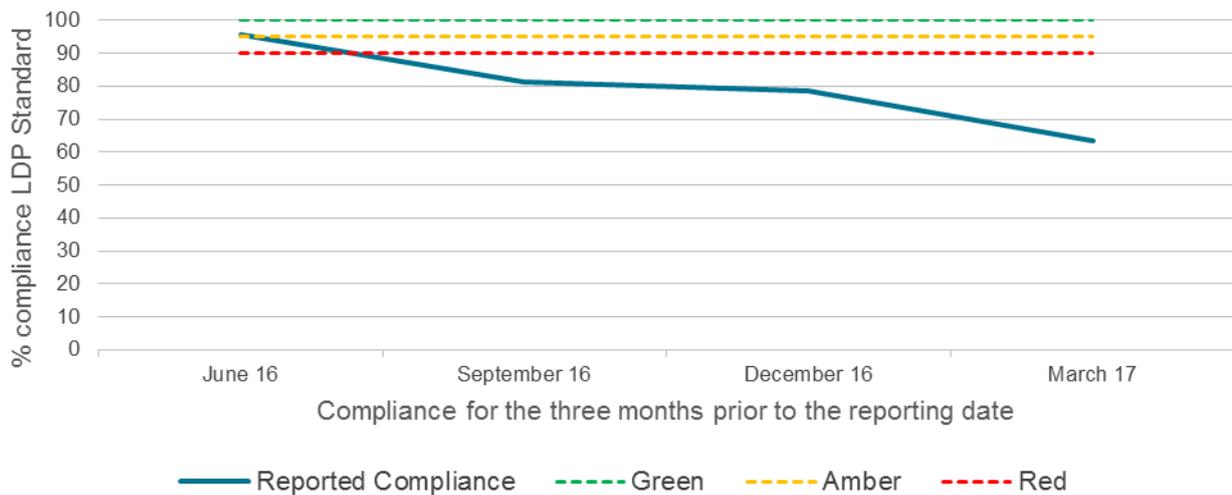
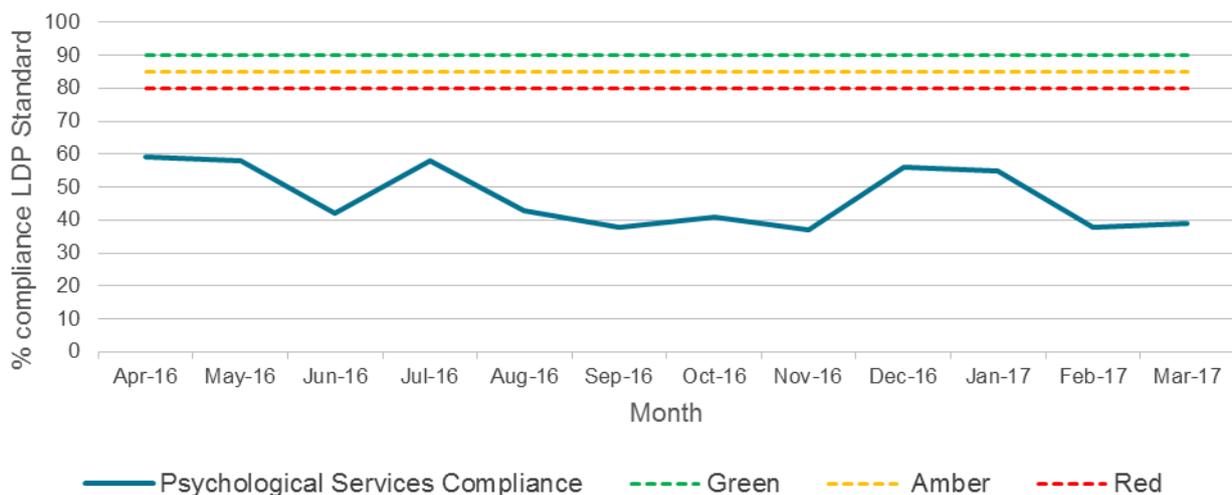


Exhibit 12

Psychological services performance in 2016/17



Recommendation 4

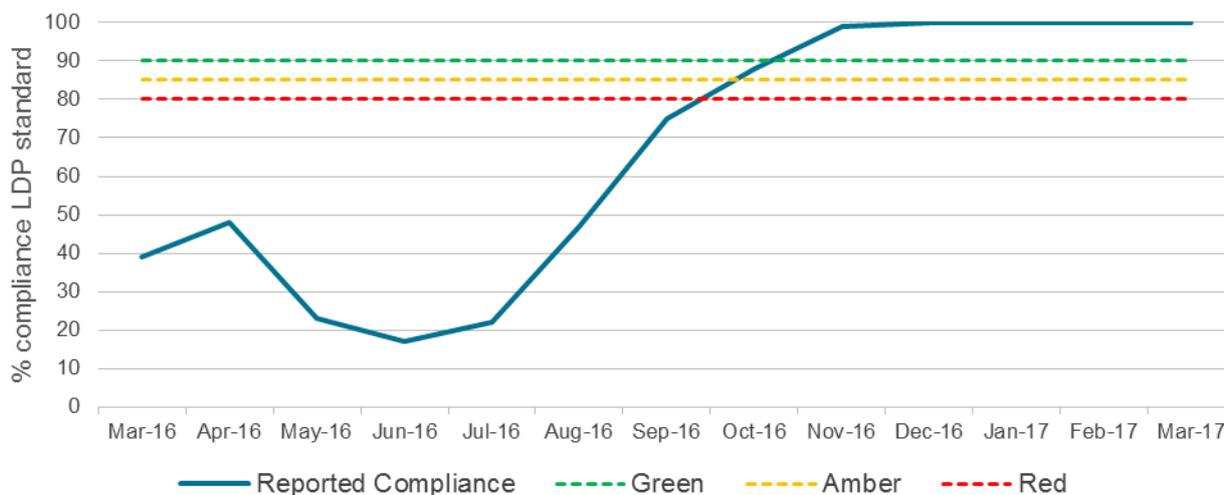
The board should review its current measures for achieving the 12 week treatment time guarantee and the target to deliver 18 weeks referral to treatment for Psychological Therapies.

111. The LDP target for child and adolescent mental health services (CAMHS) states that 90% of patients should have a referral to treatment period of less than 18 weeks. NHS Forth Valley's performance against the CAMHS target was rated as "red" in 2015/16, which a compliance of 39.3% reported in March 2016. As a result of focussed efforts in 2016/17 there has been a significant improvement, with 100% of patients starting treatment within the standard from November 2016 onwards as shown in [Exhibit 13](#).

112. The improvement has been obtained through various means including further investment in the service, a redesign of service delivery, and a change in categorisation regarding referrals which enables alternative methods of treatment to be taken which are quicker or more appropriate. The board intends to use the lessons learned improving the CAMHS service to help address the target to deliver 18 week referral to treatment for Psychological Therapies.

Exhibit 13

CAMHS performance in 2016/17



National performance audit reports

113. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which are of direct interest to the board. These are outlined in [Appendix 4](#) accompanying this report.

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

115. In addition, the Director of Finance prepares a covering report for the Audit Committee highlighting the key findings in Audit Scotland's performance reports and their relevance in the local context.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Page no.	 Issue/risk	 Recommendation	 Agreed management action/timing
11	<p>1. PFI Contract</p> <p>The PFI model for Forth Valley Hospital has been set up for a period that is longer than that which is stated in the agreement.</p> <p>Risk</p> <p>Annual charges are incorrectly allocated between repayment of the lease creditor and interest.</p>	<p>The PFI model for Forth Valley Hospital should be reviewed to ensure it fully aligns with the agreement.</p>	<p>Agreed management action: Accounting entries have been reviewed in line with the contract term and updated within 2016/17 Annual Accounts. Future period transactions will be based on the revised calculations.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: Immediate</p>
18	<p>2. Efficiency savings</p> <p>The board requires to deliver 5% (£24.000 million) savings in 2017/18. The board has yet to identify £3.735 million of the savings required. Of those savings identified to date, some £10 to £12 million are considered at risk of not being achieved. Savings requirements of £24.445 million and £24.382 million for 2018/19 and 2019/20 respectively have still to be identified</p> <p>Risk</p> <p>The board may not be able to deliver the targeted savings in 2017/18 and future years.</p>	<p>The board should ensure that savings plans are developed which identify how the remainder of the required £24 million of savings in 2017/18 will be made, together with the savings requirements for 2018/19 and 2019/20 of £24.445 million and £24.382 million respectively.</p>	<p>Agreed management action: Work will continue throughout the year to identify further savings opportunities and to deliver those savings which have been identified.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: Ongoing</p>
22	<p>3. Attendance at Audit Committee Meetings</p> <p>The council appointed representative members of the audit committee did not attend any meetings during the year.</p>	<p>Steps should be taken to encourage all members to attend audit committee meetings.</p>	<p>Agreed management action: Prior to the recent local elections, the Chairman wrote to each of the Local Authorities clearly outlining the expectation placed upon elected members if nominated</p>

Page no.			
	Issue/risk	Recommendation	Agreed management action/timing
	<p>Risk</p> <p>Meetings were at a higher risk of not being quorate. This may also inhibit the level of discussion and scrutiny being carried out</p>		<p>to the Board. Once nominated the Chairman will meet with individuals prior to requesting Cabinet Secretary approval.</p> <p>Responsible officer: Head of Performance & Governance</p> <p>Agreed date: July 2017</p>
30	<p>4. Local Delivery Plan (LDP) targets</p> <p>There was a deterioration in performance during the year relating to the LDP targets in connection with meeting the 12 week treatment time guarantee (TTG), and in connection with the target to deliver 18 weeks referral to treatment for Psychological Therapies</p> <p>Risk</p> <p>Performance could continue to deteriorate if not addressed.</p>	<p>The board should review its current measures for achieving the 12 week treatment time guarantee and the target to deliver 18 weeks referral to treatment for Psychological Therapies.</p>	<p>Agreed management action: The position regarding TTG is routinely reviewed by the Board. Three specialties pose the biggest challenge in terms of the TTG with specific plans in place for reviewing capacity. Orthopaedics and General Surgery will continue to pose challenge moving forward with service reviews underway. The position within ENT is expected to improve further to the successful recruitment of two Consultants.</p> <p>Trajectories have been agreed to meet the psychological therapies RTT target when the department is fully staffed subsequent to significant Board investment.</p> <p>Responsible officer: Head of Performance & Governance</p> <p>Agreed date: Ongoing</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Management override of controls (example)</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>No unusual or inappropriate transactions were identified as part of detailed testing of journal entries.</p> <p>A review of accounting estimates did not show any instance of bias.</p> <p>Focussed testing of regularity and cut-off assertions showed controls were operating effectively.</p> <p>No significant transactions outside the normal course of council business were identified.</p> <p>Our conclusion is that there is no evidence of management override of controls at the board.</p>
<p>2 Risk of fraud over income/expenditure</p> <p>NHS Forth Valley receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure</p>	<p>Analytical procedures on income/expenditure streams.</p> <p>Detailed testing of revenue/expenditure transactions focusing on the areas of greatest risk.</p> <p>Audit work on the National Fraud Initiative matches.</p> <p>Obtain assurances from the NHS Scotland Counter Fraud Service.</p>	<p>Sample testing of income and expenditure confirmed that these were in the normal course of business.</p> <p>We obtained satisfactory reasons for any significant increases or decreases in income or expenditure.</p> <p>Our sample cut off testing confirmed that transactions are processed in the correct accounting year.</p> <p>NFI work is on-going, but at a relatively early stage.</p> <p>The board has adequate counter fraud arrangements.</p> <p>Our conclusion is that the board has arrangements in place to minimise the risk of fraud over income and</p>

Audit risk	Assurance procedure	Results and conclusions expenditure.
<p>3 Integration Joint Boards (IJBs)</p> <p>The Clackmannanshire & Stirling IJB and the Falkirk IJB will be consolidated into NHS Forth Valley accounts in 2016/17.</p> <p>The production of the NHS Forth Valley group accounts is dependant on all income, expenditure, and year end balances between partners being accurate and being agreed by 31 May 2017 at the very latest to meet the NHS financial reporting timetable.</p> <p>A significant proportion of the Board's budget is managed by the IJBs. There is a risk that overspends by the IJB could impact the Board's ability to break even.</p>	<p>Consideration of the consolidation process.</p> <p>Testing that the allocation of transactions is in line with the integration scheme.</p> <p>Confirmation that year end balances have been agreed by the partner IJBs.</p> <p>Monitoring of IJB financial position against target and ensure that underspends or overspends are accounted for in accordance with the integration scheme.</p>	<p>IJB figures were accurately incorporated into the consolidated accounts.</p> <p>The year end IJB spending report was reconciled to the general ledger.</p> <p>Sample testing of income and expenditure transactions confirmed they were accurately recorded as IJB or non-IJB.</p> <p>Sample testing of allocations across the two IJBs confirmed they were in line with the integration scheme.</p> <p>IJB position against budget was monitored throughout the audit and the treatment for year end results considered in line with NHS accounting guidelines.</p> <p>Confirmation of year end balances were received from each party of the IJB.</p> <p>Our conclusion is that transactions and balances of the IJB were correctly classified within the health board ledger. Balances between the board and its partners were agreed, and the health board was able to provide full financial details to audit within the required timescales.</p>
<p>4 Estimation and Judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Focused substantive testing of provisions and accruals.</p> <p>Review of accounting policies.</p>	<p>A number of estimations and judgements in the accounts were based on the opinion of experts. We assessed the reliability of these experts and reviewed their work.</p> <p>We tested samples of accruals and provisions and confirmed them to appropriate back up evidence.</p> <p>The board's accounting policies are appropriate.</p> <p>We concluded that estimations and judgements included in the accounts are supported by audit evidence.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>5 Financial sustainability</p> <p>NHS Forth Valley has developed a 5 year financial plan to 2020/21 which outlines the need to identify and achieve recurring efficiency savings to deliver a break even outturn position.</p> <p>In the short term, recurring savings of 6% and 5% are required in 2016/17 and 2017/18 respectively to achieve break even. These are proving difficult to achieve. Delivering recurring efficiency savings while striving to sustain primary care services and meet the Scottish Government's waiting time targets is increasingly challenging and represents a risk to the financial sustainability of the health board.</p>	<p>Undertake audit work on financial management including reviewing financial monitoring reports and delivery of savings plans.</p> <p>Attendance at committee meetings and review of papers to assess progress and impact in delivering savings planned to date.</p>	<p>The board prepared a financial plan which provides the savings requirements for 2017/18 and the following two financial years.</p> <p>The board requires to achieve savings of around £24 million for each of the next three years.</p> <p>This, together with progress in meeting existing efficiency requirements is reported regularly to the Board.</p> <p>Concurrent to this, the board continues to face the existing challenge of sustaining primary care services and meeting the Scottish Government's waiting time targets.</p> <p>Our conclusion is that the board will find it extremely challenging to deliver the efficiency savings it requires to achieve over the next three years while continuing to sustain the existing levels of service.</p>
<p>6 Workforce planning</p> <p>Spending on non-core staff costs increased in 2015/16. Continued reliance on bank and agency staff is not sustainable and there is a risk that this could have a significant impact on the board's plans to achieve the savings required for longer term financial sustainability.</p> <p>The board continues to encounter difficulty in achieving the sickness absence target of 4%, which has an impact on the cost of non core staff.</p>	<p>Monitor non core staff costs and obtain reasons for any increases.</p> <p>Assess whether non core staff savings which were incorporated into the 2016/17 budget were met.</p>	<p>The proportion of payroll spend on non core costs reduced from 6.9% to 6.2% in 2016/17.</p> <p>Sickness absence rates were above the national target of 4%, but were lower than the Scottish average of 5.2%.</p> <p>Our conclusion is that the board is taking adequate steps to monitor and reduce its spending on non core staff; and to contain its sickness absence.</p>
<p>7 Performance Targets</p> <p>In common with all other NHS boards, performance in relation to the eight key waiting time targets and the target to minimise delayed discharges are proving difficult to achieve alongside ongoing financial challenges.</p> <p>The Board is close to meeting many of these targets but is significantly adrift in two covering: Child and Adolescent Mental Health Services</p>	<p>Review core performance reports to assess progress in achieving standards and targets, and actions being taken to improve performance.</p> <p>Attendance at committee meetings and review of papers to assess progress.</p>	<p>Progress against KPIs was tracked throughout the year. Members are kept abreast of all LDP targets, and any that are not within an acceptable tolerance are highlighted.</p> <p>The CAMHS performance improved in 2016/17 and is no longer in the "red" category. The board continues to be adrift of meeting the 12 week TTG target.</p> <p>We concluded that the board has good arrangements for reporting and monitoring</p>

Audit risk	Assurance procedure	Results and conclusions
<p>(CAMHS) waiting times; and 12 week outpatients –percentage of patients seen for outpatient appointment earlier than 12 weeks following referral. It is also significantly adrift of the target for Psychological therapy based treatment waiting times.</p> <p>There is a continued risk that performance standards and key targets are not being achieved and the delivery of quality affordable services is not sustained.</p>		<p>performance targets. There continues to be a risk performance standards and key targets are not being achieved and the delivery of quality affordable services is not sustained.</p>

Appendix 3

Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

NHS relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[NHS in Scotland 2016](#) – October 2016

[Social work in Scotland](#) – September 2016

[Scotland's NHS workforce](#) – February 2017

NHS Forth Valley

2016/17 Annual Audit Report

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