

# NHS Lothian

## Annual Report on the 2010/11 Audit



Prepared for the NHS Lothian Board and the Auditor General for Scotland  
July 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds

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# Key Messages

## 2010/11

In 2010/11 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 2010/11. 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 £0.146 million. This together with the surplus achieved during 2010/11 of £0.152 has resulted in a cumulative surplus of £0.298 million relative to a Revenue Resource Limit (RRL) of £1.192 billion. The outturn position against the RRL has been achieved through the delivery of a cash efficiency savings programme including, workforce reductions, slippage of developments, a reassessment of provisions and slippage on new allocations.

NHS Lothian's 2010/11 financial plan included a £37.2 million efficiency savings target. At the year end, all planned savings were achieved. However, of the total savings achieved, some £4.1 million were non-recurrent savings and will have to be re-provided in the 2011/12 financial plan.

Capital expenditure during the year amounted to £90.5 million which equalled the capital resource limit. Key areas of the programme included the completion and bringing into operation the new Public Private Partnership funded Midlothian Community Hospital in September 2010 (£18 million) and the re-provision of the Royal Victoria Hospital (£11.2 million).

Scotland's economy continues to be adversely affected by the economic downturn. The pressure on the public sector has intensified as a result of the measures announced in the UK Comprehensive Spending Review in October 2010 and the Scottish Government's budget in February 2011. In the current economic climate difficult decisions will have to be made across the public sector to determine priorities. There will be significant challenges to prioritise spending, identify efficiencies and review commitments to ensure delivery of key targets and objectives and manage financial pressure.

## Performance and best value

Sound processes and systems are in place for monitoring against the Local Delivery Plan targets and internal standards. The board achieved many 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 2010/11 the Lean in Lothian programme has focused on the delivery of improved patient pathways in older people's services. To date, management have estimated that the Lean in Lothian programme has supported achievement of £6.5 million in increased productivity/cost avoidance/cost savings. The programme continues to provide significant positive impact on efficiency and the patient experience without the need for significant funding.

## 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 high level 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.

## Outlook

The position going forward is becoming even more challenging than previous years with limited increases in funding, increasing cost pressures and challenging savings targets. For 2011/12 the board is depending on achieving savings of £50.1 million, which is the fourth year in succession that the board has been required to make efficiency savings in order to maintain its financial position. This is particularly challenging given cost pressures arising from the effects of pay growth, increasing prescribing costs and volatile energy costs. In addition there continues to be difference between actual funding levels and the recommendations from the National Resource Allocation Committee (NRAC) report (currently estimated to be circa £55 million).

The significant financial challenges that the board will face in 2011/12 and beyond will require the board to prioritise its use of resources. This will make maintaining or improving on the performance targets set by the Scottish Government even more challenging.

The achievement of the board's 2011/12 cost savings plan will require a further reduction in staff numbers of approximately 734 Whole Time Equivalents (WTEs). It is important that this process is well managed and aligned with business and financial plans. In particular, the board should ensure appropriate knowledge and experience is retained among key officers to maintain the board's capacity to deliver its services.

From April 2013 endowment funds may require to be consolidated within NHS Scotland boards' financial statements. This means that the board may need to ensure that audited endowment fund figures are available for inclusion in the 2013/14 financial statements, with comparatives required for 2012/13.

# Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of NHS Lothian. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of NHS Lothian.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that NHS Lothian understands its risks and has arrangements in place to manage these risks. The board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to the board and the Auditor General for Scotland and should form a key part of discussions with the audit committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public as audit is an essential element of accountability and public reporting.
5. This report will be published on our website after consideration by the board. The information in this report may be used for the Auditor General's annual overview of the NHS in Scotland's performance later this year. The overview report is published and presented to the Public Audit Committee of the Scottish Parliament.
6. The management of the board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

# Financial Statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
  - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
  - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
  - the regularity of the expenditure and income.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the Director's Report, statement on internal control and the remuneration report. This section summarises the results of our audit of the financial statements.

## Audit opinion

10. We have given an unqualified opinion that the financial statements of NHS Lothian for 2010/11 give a true and fair view of the state of the body's affairs and of its net operating cost for the year.
11. NHS Lothian is required to follow the 2010/11 Government Financial Reporting Manual (the FReM) and we confirm that financial statements have been properly prepared in accordance with the FReM.
12. We have also reviewed the board's statement on internal control and concluded that it complies with Scottish Government guidance.

## Regularity

13. 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 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.



## Accounting Issues

14. A full set of accounts was due to be presented for audit on 9 May 2011. While a set of draft template accounts were provided for audit on 11 May, these contained some outstanding issues. A full version of the draft accounts was presented on 16 May. There were some challenges for the board in providing a complete and balanced set of accounts; this was partly due to the requirement to complete the review of asset lives. As a consequence, some working papers were not always available for audit review when required. This led to delays in the audit process. However, 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 2011 as outlined in our Annual Audit Plan.
15. Several items were identified during the audit, where if adjustments were made these would decrease the net operating costs and increase the saving against the Core Revenue Resource Limit by £2.131 million. The net impact on the balance sheet would be that net assets would increase by £2.131 million. While our preference would have been for these items to be adjusted for, it was agreed with management and the audit committee that no amendment would be processed in the financial statements.
16. As required by auditing standards we reported to the audit committee on 21 June 2011 the main issues arising from our audit of the financial statements. The key issues reported were as follows.

## Trade Payables

17. During 2010/11 NHS Lothian received funding from the Scottish Government Health Directorate (SGHD) for specific projects which would largely require working with partners. Due to the nature of those projects the funding had not been spent by the year end. NHS Lothian has returned £1.9 million to the SGHD and has accrued expenditure to match the remaining income (£2.1 million) as a commitment to spend on specific projects in 2011/12. We considered this to be an over-accrual and included this amount within the summary of unadjusted differences.
18. Since 2008 an accrual of £167k has been rolled forward which relates to a building works legal dispute. There is a possibility that this accrual is no longer required and could be released for application to NHS Lothian services. In the absence of further information we are satisfied that NHS Lothian has adopted a prudent approach, retaining the accrual. We recommend however that management consider further during 2011/12 as to whether this accrual should be retained.

## Trade Receivables

19. After many years of pursuit, in conjunction with the Practitioner Services Division (PSD), Central Legal Office and NHS Counter Fraud Service, NHS Lothian has received settlement of £450k for reimbursement of payments from an orthodontist practitioner. Dental payments fall into the category: Non Cash Limited and do not relate to the Revenue Resource Limit of NHS

Lothian. Management have advised us that previous overpayments have been retained by the relevant NHS board, in view of the efforts that an NHS board has to make to recover the monies. Management have provided assurances in their letter of representation that they can retain the £450k.

20. A number of receivables from NHS bodies are in dispute. These total £1.365 million, the most significant of which are NHS Fife £0.308 million, NHS Borders £0.490 million, NHS Ayrshire and Arran £0.308 million and NHS Lanarkshire £0.135 million. In view of the disputes there is a risk of non-recovery. We are advised that this relates to the phased implementation of the 'East Coast Costing Model' and discussions are continuing with board Directors of Finance to resolve any outstanding matters. There is a risk that trade receivables and income are overstated. Management have provided assurances on this matter.
21. There is an aggregate debt of £385k from GP practices, of which £115k is older than two years. The dispute relates to assigning responsibility for old VAT invoices. In 2009/10 a provision of £135k was considered to be appropriate by management. No provision for bad debt has been made in 2010/11. We consider this to be an under provision for bad debts and have therefore included this amount within the summary of unadjusted differences.
22. There are a number of trade receivables due from Consort, the PFI partner. One of these (£1.3 million) relates to car park and retail unit income. In 2009/10 there was a matching creditor as the debt was considered irrecoverable. However, there is no matching creditor in 2010/11 and management advise that agreement has been reached with Consort for £1.3 million to be paid over to NHS Lothian. Management have provided assurance in their letter of representation that the £1.3 million will be recovered.

### Pay and Conditions Accrual

23. This was formerly known as the Agenda for Change accrual. The liability figure included in NHS Lothian's financial statements at the year end is £12.5 million. There have been a number of significant movements in the accrual in 2010/11 and the overall impact is a net reduction of £9.1 million. The most significant movement, £10.9 million, relates to the reversal of accruals for Leavers' Arrears and Review Arrears which the board has had in place for a number of years. Management has advised that additional pay costs have been borne in 2010/11 as a result of settling a number of cases. So whilst it is difficult to match the detail of the movement in the provision to additional pay spend in 2010/11, management are satisfied that the overall movement is in line with expectations. Management have provided assurances in their letter of representation to the completeness and robustness of the estimated accrual at 31 March 2011.

### Inventories

24. Stockholdings of £14.3 million are recorded in the accounts. We reported in 2008/09 and 2009/10 that two stock areas (£0.9 million) were included in the accounts where validity test checks had not been undertaken in order to provide assurance as to their value. In 2010/11 no test counts were carried out of pharmacy stock (£450k) at the year end and management

decided to omit the figures from the balance sheet, and consequently recognise them fully through revenue. Other stock, for example, HSDU (which is subject to similar test count processes) continues to be recognised in the balance sheet. Management's treatment of the pharmacy stock is inconsistent relative to previous years and not in line with expectations, relative to the board's accounting policy in this area. We recommend management ensure processes are put in place to comply with the accounting policy for this area.

### Cash Target

25. NHS Lothian achieved its cash target at 31 March 2011. However it was only achieved due to a number of late actions that had to be undertaken, including the acceleration of two payment runs, and return of a substantial figure of cash (not income) to the SGHD. The issue arose due to different interpretations of the monthly monitoring return (MMR) between the SGHD and NHS Lothian. We note that management have already take steps to ensure consistent interpretation of the MMR.

### Workforce reduction plan

26. We noted that NHS Lothian's workforce reduction plan took effect in 2010/11, with a 762 WTE reduction. 48 members of staff have accepted voluntary severance at a cost of £1.9 million, of which £1 million was included as a provision in the financial statements.

### Equal pay claims

27. NHS Trusts in England have settled equal pay claims for employees in traditionally female roles and similar claims have been received by boards in Scotland. NHS bodies should evaluate the financial impact of any potential equal pay claims and make appropriate disclosure. By the end of March 2011, there were 1,665 grievances registered against NHS Lothian. Discussions have been held between Audit Scotland, the SGHD and the Central Legal Office (CLO). Due to the lack of movement in any cases, there is no additional information which would enable NHS Scotland to estimate the probability and value of the liability associated with these claims. Consequently these claims continue to be disclosed as an unquantifiable contingent liability in the notes to the accounts of NHS Lothian.
28. 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. As with other boards, NHS Lothian is unable to quantify the extent of its liability for equal pay claims. There is a risk that these liabilities could have an impact on the board's financial position.

**Risk Area 1**

### FHS income / expenditure

29. FHS income and expenditure accruals were compared to the outturn figures reported to NHS Lothian by NHS NSS after the statement of accounts had closed. The net impact on cash

limited and non cash limited expenditure was an under accrual of expenditure of £283k and £53k respectively, both of which were taken to the summary of unadjusted differences.

### Related party transactions

30. In line with the NHS Manual, related party transactions must be disclosed in the accounts. At the time the draft accounts were passed to external audit the Register of Interests was not up to date and therefore there was no assurance over the completeness of the related party transaction note. The Register was updated on 10 June 2011 and following management review, the financial statements were amended to take account of disclosures made by officers.

### Prior year adjustments - cost of capital

31. The 2010/11 FreM removed the requirement for boards to charge a notional cost of capital in their accounts. This was a change in accounting policy which was reflected in the financial statements of NHS Lothian with appropriate amendments made to prior year statements and to the 2010/11 funding allocation. As a consequence, £12.8 million cost of capital expenditure was no longer chargeable to the 2009/10 Revenue Resource Limit.

### Change in estimation of asset lives

32. As a consequence of SGHD direction, the board conducted a review of the methodology for determining the useful life of assets. The exercise was carried out with the assistance of consultants appointed by the SGHD (PricewaterhouseCoopers LLP). The revised methodology takes account of patterns of consumption and maintenance and preservation spending. This approach aligns the lives of the less significant elements with the overall life of the building so that they can be depreciated over that period. As a result, the annual depreciation charge should reflect the pattern of consumption of the asset.
33. As noted in paragraph 14 above, the late notification from the SGHD to change the methodology led to a delay in completing the financial statements. NHS Lothian finance staff faced a significant challenge in commissioning, reviewing and accounting for the revised valuations. (The valuations were supplied by an independent valuer). The revised methodology resulted in a reduction in the board's annual depreciation charge of £2.1 million. However, a further consequence of this change was that expenditure amounting to £3.4 million which had previously been capitalised as refurbishment or enhancement expenditure had to be reclassified as revenue expenditure because, in accounting terms, the acceptability of increased asset lives had to be accompanied by an increase in revenue maintenance costs.
34. Therefore, the net effect for NHS Lothian of asset re-living was an increase in revenue costs of £1.3 million. While we are satisfied as to the process followed by NHS Lothian working with the independent valuers, we note the impact on revenue costs and its potential impact on future expenditure. (Most other boards are reporting an overall decrease in costs). We have been advised by management that among the relevant factors are the condition of the estate and the nature of NHS Lothian's capital refurbishment programme prior to the asset re-living

exercise. We have therefore recommended that NHS Lothian continue to keep this area under review until accounting on this new basis becomes embedded in the ongoing capital accounting arrangements. While it has been agreed with the SGHD that these increased revenue costs will be funded from a transfer from capital resources in 2011/12, going forward, it will be a challenge for NHS Lothian to absorb these increased revenue costs.

## PFI/PPP schemes

35. NHS Lothian has a number of PFI commitments which are disclosed in Note 23 in the accounts. Seven contracts are now reported on balance sheet including the Midlothian Community Hospital PFI project which was completed in September 2010 at a value of £18.170 million. The largest PFI scheme is the Royal Infirmary of Edinburgh (RIE) which has a capital value of £173 million with the remaining five projects (units for frail elderly and dementia patients and a primary care centre) ranging in capital value from £2.3 million to £3.6 million. The associated recurrent revenue cost of these schemes is £51 million with a total future commitment recorded in the balance sheet of £205 million.

## Other issues

36. Our review of the Remuneration Report included within the financial statements highlighted one instance where the Remuneration Committee, which is responsible for reviewing the pay arrangements for senior managers within NHS Lothian, was provided late information on one matter.

### Risk Area 2

37. We have raised in previous years with officers the need to improve the process for providing external audit with the accounts for certification. This year the board meeting to approve the financial statements was held on 22 June but the accounts were not passed to us for final audit review until 29 June; we are required to undertake a number of checks on these accounts prior to being certified by no later than 30 June. Due to errors being identified as part of this checking process, the financial statements were not actually certified until after 4pm on 30 June. This places unnecessary pressure on all parties.

### Risk Area 3

## Outlook

### Endowments

38. As a result of an agreed derogation from the FReM NHS Scotland boards were not required to consolidate endowment funds within their 2010/11 financial statements. It is likely however, that from 2013/14, this derogation will no longer apply. If this is the case the board will require to have audited endowment fund figures available for inclusion in their financial statements.

### Risk Area 4

## Heritage assets

39. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. We are aware that the board has a number of potentially valuable art works which may be classified as heritage assets. From 2011/12 the board will be required to separately disclose such heritage assets. The board should conduct a review to identify and value any such assets.

**Risk Area 5**

## Audit appointment for 2011/12

40. Audit appointments are made by the Auditor General, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the auditor for NHS Lothian will be Audit Scotland. As Audit Scotland has again been appointed as the auditor for NHS Lothian, we look forward to continuing the good working relationship that exists and thank officers and members of the board and committees for their assistance during the last five years.

# Financial position

41. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
42. Auditors consider whether audited bodies have established adequate arrangements and examine:
  - financial performance in the period under audit
  - compliance with any statutory financial requirements and financial targets
  - ability to meet known or contingent, statutory and other financial obligations
  - responses to developments which may have an impact on the financial position
  - financial plans for future periods.
43. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## The board's financial position as at 31 March 2011

44. NHS Lothian is required to work within the resource limits and cash requirement set by the SGHD. In 2010/11, the SGHD required NHS boards to differentiate between core and non-core expenditure for both revenue and capital
45. The board achieved all of its financial targets in 2010/11 as outlined in in Table 1 below.

**Table 1: 2010/11 Financial Targets Performance £'000**

Financial Target	Target	Actual	Variance	%
<b>Revenue Resource</b>				
Core	1,099,302	1,099,003	299	0.03
Non-Core	91,895	91,896	(1)	0
<b>Capital Resource</b>				
Core Capital Resource Limit	72,328	72,328	-	
Non-core Capital Resource Limit	18,170	18,170	-	
<b>Cash Position</b>				
Cash Requirement	1,330,000	1,327,302	2,698	0.20

46. The board has achieved a cumulative surplus of £0.298 million. Historically, boards have relied upon a measure of non recurring funding to achieve financial targets. However, with the tighter financial settlement compared to the past and reduced flexibility within expenditure

budgets, there is less scope for reliance on non recurring income to achieve financial balance as NHS boards seek to rationalise their cost base.

47. In 2010/11 the board recorded an underlying recurring deficit of £4.1 million which was met by a non-recurring surplus. However the challenge will be to ensure that in 2011/12 recurring expenditure is met through recurring funding.
48. NHS Lothian's 2010/11 financial plan included a £37.2 million savings target to achieve financial balance. By the end of 2010/11, all required savings were achieved. However, of the total efficiency savings achieved, as noted above, £4.1 million represented non-recurrent savings and this has been re-provided in the 2011/12 financial plan.
49. The board's plans to significantly reduce staff numbers, primarily through natural wastage, took effect in 2010/11 with a 762 WTE reduction. 48 members of staff accepted voluntary severance at a cost of £1.9m. The following workforce efficiencies were achieved during 2010/11:
  - in-post workforce reduction of 762 WTE against a target of 734 WTE (1,000 headcount)
  - an overtime reduction of £1m, the lowest figure since NHS Lothian became a single system
  - a supplementary staffing cost reduction of £4m
  - achievement of nearly half of the Scottish Government five year target in relation to the 25% reduction in Senior Managers, a 20 WTE reduction against the 43 WTE target.
50. Capital expenditure during the year amounted to £90.5 million which equalled the capital resource limit. Key areas of the programme included the completion and bringing into operation the new Public Private Partnership funded Midlothian Community Hospital in September 2010 at a fair value of £18 million. Other significant completed capital projects in 2010/11 include the Elective Short Stay Surgical Centre at St Johns Hospital (£4.5 million), the refurbished sexual health centre at Chalmers Hospital (£5.6 million) and expenditure of £2.8 million fitting out administrative accommodation at Waverley Gate and Pentland House thereby releasing clinical accommodation.
51. Expenditure was also incurred on a number of continuing capital projects including the re-provision of the Royal Victoria Hospital (£11.2 million) the new Primary Care Centre in Musselburgh (£4.8 million) and medical equipment (£15 million).
52. Some progress was made on the new Royal Hospital for Sick Children/Department of Clinical Neurosciences joint build which, following on from the decision taken by the Scottish Government, is now to be funded through the revenue funded 'non profit distributing' model. Development costs of £10 million which included enabling works, land purchase and design costs were incurred during 2010/11.
53. The change in the arrangements for the management of NHS Scotland capital resources is having an impact on NHS Lothian's planned capital programme. The 5 year capital plan (2011/12 - 2015/16) anticipates expenditure of £380 million. However a number of projects,



over the delegated limit but not yet approved, totalling £56 million, are at particular risk and alternative funding routes may have to be explored.

## Financial sustainability and the 2011/12 budget

54. Uplifts in financial settlements have been reducing in recent years. In 2009/10 there was a general uplift of 3.15%, in 2010/11 the corresponding figure was 2.55% (inclusive of a supplementary uplift of 0.4%) while the general funding uplift for 2011/12 is 2.1%. After taking account of earmarked recurring funding and an element of National Resource Allocation Committee (NRAC) funding, NHS Lothian has received an above average settlement of 4.2% for 2011/12. SGHD have advised that an element of the additional funding is to be used for the ongoing development costs of the Royal Hospital for Sick Children and Department of Clinical Neurosciences (RHSC/DCN).
55. Following advice from the SGHD, NHS Lothian's five year financial plan (2011/12 - 2015/16) assumes that additional funding will be received in order to bring the board closer to its NRAC calculated level. The plan assumes that some £10 million will be received in each of the four years (2012/13 - 2015/16) in addition to the agreed £13.85 million to be received in 2011/12. However, it is unclear as to whether this additional funding will actually be received going forwards. 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.
56. The board's 2011/12 local reinvestment plan (LRP) is crucial to the board achieving financial balance. There is currently a funding shortfall of some £50.1 million (including the 2010/11 carry forward) which will require to be met through the achievement of efficiency 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.
57. The board plans to break even in 2011/12 although it is facing significant cost pressures with projected expenditure growth of £77.2 million. These cost pressures include:
  - **Growth in prescribing costs.** For 2011/12 prescribing growth and inflation costs increases are likely to be in the order of £12.8 million. The board expects to achieve costs savings of £5.9 million in 2011/12 through a wide range of initiatives thereby containing net overall prescribing expenditure growth within £6.9 million. The scale of the cost savings and the initiatives which require to be successfully implemented present a high level of risk for the board.
  - **Pay growth.** The board anticipates that pay growth in 2011/12 will be £4.9 million as a result of the provision for a living wage, incremental pay progression, changes to National Insurance Contribution thresholds and Agenda for Change (AfC) low pay bands.
  - **Supplies inflation and VAT increase.** This reflects the increased impact of inflation on supplies and payments to Consort, NHS Lothian's partner on the RIE (£9.6 million).
  - **Impact of capital investments.** Management have estimated that the revenue implications for projects recently completed and the ongoing costs to support the RHSC/DCN re-provision are likely to be in the region of £4.8 million.

- **Other costs.** The board considers that certain costs are unavoidable. These include clinical supplies (£5.1 million), rates (£4.4 million) clinical negligence and other risks (£3 million) and waiting time costs (£4 million).
- **Nurse staffing review.** Additional costs have been identified following a review of the nurse staffing budget. This is as a consequence of incremental drift which has been exacerbated by a decrease in turnover in higher graded posts and Agenda for Change enhancements. The financial plan recognises that £11 million is required on a recurring basis to fund these costs.

58. The cost challenges facing the board are significant and there is an element of uncertainty about further potential increases in costs. The board plans to maintain close monitoring and scrutiny of costs in order to take remedial action through supplementary cost savings schemes. In this context, it is essential that the board has robust management accounting information.

### Workforce planning

59. Staff costs account for over 60% of board expenditure and therefore any significant cost savings are likely to have some staffing impact.
60. The board is looking to further reduce the workforce by 734 WTE during 2011/12 and once again it anticipates the majority of manpower savings will be achieved through natural wastage and redeployment. However as part of the financial planning and review process, the mid-year review may indicate that these measures alone may not be sufficient to generate sufficient savings and a provision may be required to cover the cost of voluntary retirement.

### Financial Overview of the NHS in Scotland 2009/10

61. This Audit Scotland National Report considers the current financial health of the NHS and also considers the challenges for the NHS in a tighter financial challenge and was presented to the board's audit committee in February 2011.
62. The key messages were that despite the slowdown of funding increases, the NHS continues to face growing demand for its services. Budgets will come under pressure as costs associated with pay, energy, prescribing and demographic changes rise at a faster rate than funding increases. This leaves NHS bodies with a major challenge to find significant savings so that they can continue to provide the same level and quality of services within their available budgets.

## Outlook

### Financial forecasts beyond 2011/12

63. The board's financial plan provides indicative figures for the level of cost savings needed over the 4 year period (2012/13 - 2015/16) in order to achieve financial balance. The plan notes that cost savings, on a recurring basis, of £40 million per annum will be required in order to

fund planned services. This level of savings will be extremely challenging because in the previous four years many of the readily achievable savings initiatives will have been identified.

64. Furthermore the financial plan assumes that future funding uplifts will be of the order of 1%. This combined with growing cost pressures and the risk involved by building in an assumption that the SGHD will provide an £10 million NRAC funding over each of the years, will make the delivery of cost savings even more important.

#### **Risk Area 6**

65. Following the advice of the Scottish Government, Note 24: Pension Costs reflects a net liability of £370 million for the NHS Superannuation Scheme arising from the most recent actuarial valuation. Note 1 of the accounts, Accounting Policies, states that the most recent actuarial valuation was for the year 31 March 2004. Given that the Scheme ought to be subject to a full actuarial valuation every four years, a more up to date valuation would have been expected to have been reflected in the 2010/11 accounts.
66. While there was a more recent actuarial valuation carried out at 31 March 2008, the publication of this valuation has been placed on hold by HM Treasury pending the outcome of public sector pension reforms. Given periodic actuarial valuations are key to determining the adequacy of employer and employee contributions to the Scheme, publication of the latest actuarial valuation will bring clarity as to their adequacy of current contributions to meet the future commitments of the Scheme.
67. The net liability figure for the Scheme, as disclosed in Note 24 is therefore out of date. There is a risk that, as the level of contributions from employers and employees have not been recently reviewed there is uncertainty as to their adequacy to meet the future commitments of the Scheme.

#### **Risk Area 7**

# Governance and Accountability

68. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
69. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
70. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
- corporate governance and systems of internal control
  - the prevention and detection of fraud and irregularity
  - standards of conduct and arrangements for the prevention and detection of corruption.
71. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

72. The corporate governance framework within NHS Lothian is centred on the board which is supported by a number of standing committees that are accountable to it. These standing committees include:
- Audit
  - Healthcare Governance and Risk Management (HGRM)
  - Finance and Performance Review (FPR)
  - Ethics
  - Remuneration
  - Staff Governance
  - Service Redesign
  - Primary and Community Partnership
  - Mutuality and Equality Governance
  - Joint Board of Governance
73. The following paragraphs provide a brief comment on some of the main standing committees of the board, including their roles and responsibilities.
- **Audit Committee.** Its purpose is to assist the board to deliver its responsibilities for the conduct of its business, including the stewardship of funds under its control. In particular,

the Committee provides assurance to the board that an appropriate system of internal control has been in place throughout the year. The Committee is supported by an Operational Audit Sub-Committee. Both committees are attended by both internal and external audit and senior officials are invited to attend to respond to auditors' reports.

- **HGRM Committee.** It assists the board in delivering its statutory responsibility for the provision of quality healthcare and provides assurance to the board that the quality of care in NHS Lothian is person-centred, safe, effective, equitable and maintained to a high standard. In particular, the Committee seeks to ensure that clinical governance mechanisms are effective; that appropriate principles and standards are applied to health improvement activities; and it oversees the delivery of healthcare to the local population.
- **Staff Governance Committee.** Its role is to provide assurance to the board that NHS Lothian meets its obligations in relation to staff governance under the National Health Service Reform (Scotland) Act 2004 and the Staff Governance Standard. In particular, the Committee seeks to ensure that workforce policies are consistent and that there is equity of treatment of staff in relation to remuneration.
- **FPR committee.** The FPR committee informs board decisions through the detailed consideration and discussion of financial and performance targets, the achievement of value for money, and the detailed review of business cases.

74. Our overall conclusion is that the high level governance arrangements within NHS Lothian at board and committee level are satisfactory and have operated throughout 2010/11. We have however noted that at an operational level there were instances where arrangements were not as effective. Internal Audit noted that, for example, staff awareness of policies and procedures and associated training was not sound and we noted that financial operating procedures were not always being followed by staff. This has been recognised by the board and action is being progressed.

#### Risk Area 8

75. We have also noted instances where management have been unable to commit to agreed external audit reviews within a pre-determined timescale. For example, we advised the audit committee in our annual audit plan (February 2011) of a follow up review of external consultants. Despite requesting and obtaining contact details, this exercise has not been progressed by NHS Lothian. In addition, areas of work are submitted for audit review without consideration of our role, for example, we were given less than one week to conclude on the review of salaries in excess of £100k and the financial statements were not submitted for the final review until the day before certification (refer to paragraph 37).

#### Risk Area 9

### Patient safety and clinical governance

76. Following on from the launch of the NHS Scotland Quality Strategy in May 2010, NHS Lothian approved the NHS Lothian Quality Improvement Strategy 2011 - 2014. The aim of the strategy is to improve patients' experiences and outcome of care while systematically identifying and eliminating waste. A comprehensive measurement plan supports the monitoring of the above

outcomes and will be progressed through current management structures and reported to the HGRM Committee at the board.

77. The Scottish Patient Safety Programme (SPSP) was launched in 2007 by the Scottish Patient Safety Alliance which brings together the Scottish Government, NHS Quality Improvement Scotland (NHSQIS) (now Healthcare Improvement Scotland) and NHS boards. NHS Lothian is making progress in implementing the tools and techniques of the SPSP to ensure the risk of harm to patients in hospital settings is reduced. NHS Lothian is continuing to roll out the SPSP across all sites including primary care. It aims to reduce adverse events by 30% and mortality by 15% by the end of December 2011. In order to achieve these targets the board has set up 5 key workstreams which have clearly defined measurement plans and improvement goals in place. This should ensure the systematic improvement in the safety and reliability of hospital care.
78. NHS QIS has lead responsibility for reviewing boards' performance in relation to patient safety, and for working with boards to improve patient safety. During 2010/11 the board has worked towards achieving the highest level, level 4 (reviewing), in each standard and has internally assessed compliance and introduced action plans where appropriate.
79. The Healthcare Environment Inspectorate (HEI) carried out a number of planned and unplanned inspections to several hospital sites during 2010/11. The inspections found evidence that NHS Lothian is complying with the majority of Healthcare Associated Infection (HAI) standards to protect patients, staff and visitors from the risk of acquiring an infection, with the overall standard of cleanliness in departments and wards noted as being satisfactory.
80. The Local HEI Action Group/Site Group Meeting are responsible for ensuring that all actions are completed and that follow up updates are returned to the HEI. This group in turn reports to the NHS Lothian's HEI Steering Group which meets bi-monthly.
81. NHS Lothian continues to manage and reduce HAI through the implementation of its MRSA screening programme; continued communication to staff, patients and the public about the importance of hand hygiene; and increased compliance with best practice. The Staphylococcal Bacteraemia target was 254 instances or less in 2010/11; the actual number recorded was 316. Although performance is below target it continues to improve and is a reduction on the figure for 2009/10 (360 instances). The Clostridium Difficile target was 557 or less. This target has been exceeded with 358 incidences recorded in the year, again a further reduction on the previous year.
82. Patients' records are not held centrally by NHS Lothian with specialties continuing to hold separate electronic and paper records. In a report to the HGRM Committee, it was highlighted that inadequate clinical documentation has been implicated in complaints, critical incidents and fatal accident inquiries. It is of paramount importance therefore that a patient's full medical history is readily available and complete in order that no errors may be made in the patient's treatment. NHS Lothian undertook a clinical documentation re-audit during the year following the launch in June 2010 of the Clinical Documentation Standards. The result of the re-audit indicated improvements in the overall condition of the clinical documents. A number of

improvement actions have been identified to develop further compliance with the standards. Plans to locate patients' records centrally remain under development.

83. During 2009/10 we noted 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. A report to the HGRM Committee in February 2011 provided detail of the type and volume of incidents recorded on DATIX. The committee noted that the board was continuing to see a rising trend in the number of incidents being reported and this was due to improvements in the incident reporting system and an increasing awareness of safety culture.

## Partnership working

84. 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 an established Community Health Care Partnership (with West Lothian Council) and Community Health Partnerships with Edinburgh, East Lothian and Midlothian Councils. These partnerships provide care and public health services in a local setting to meet the needs of the local population. NHS Lothian is committed to the delivery of shared outcomes with its community planning partners. Public Partnership Forums are established in each CH(C)P area with relevant committees meeting during the year. These 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.
85. The Audit Scotland Review of Community Health Partnerships issued in June 2011, identified that the Scottish Government, NHS and councils need to show stronger shared leadership and support for community health partnerships to improve people's health and move more services into the community. Our local review of partnership working arrangements, which is currently being finalised, indicates that NHS Lothian demonstrates a commitment to effective partnership working.
86. During the financial year 2010/11 the board acquired 11.11% of the share capital of Hub South East Scotland Limited (hubCo) and holds its shares together with 9 public and private sector partners including the Scottish Futures Trust. Funding will be made available to the hubCo to develop a number of community infrastructure facilities. These include Gullane Surgery, a joint development between NHS Lothian and East Lothian Council, and Wester Hailes Healthy Living Centre.
87. NHS Lothian continues to be a key partner in the South East and Tayside (SEAT) regional planning group which works to implement services across NHS boundaries. NHS Lothian promotes this partnership to the benefit of patients across Scotland. Recent agreement has been reached to develop 5 workstreams where a shared service approach across the region is expected to bring quality and efficiency /productivity benefits.

## Internal control

88. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. The extent of this work should also be informed by their assessment of risk and the activities of internal audit.
89. 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 2010/11 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 in place throughout the year. During the year no reports were issued with an 'unsatisfactory' rating, although, 8 audit reports (40%) were concluded as requiring improvement. We noted that 4 critical related issues were raised in 2 reports and these have been highlighted within the Statement of Internal Control.
90. 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 the register of interests and the register of gifts and hospitality. 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.
91. 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 services. NHS National Services Scotland (NSS) provides the following services:
- practitioner services
  - national procurement
  - logistics
  - national IM&T
  - shared services consortium: financial ledger services.
92. 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 2010/11.

## Internal Audit

93. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit). We carried out a review of the internal audit function in November



2010 and concluded that the internal audit service operates generally in accordance with Government Internal Audit Standards and has sound documentation standards and reporting procedures in place. We are pleased to record that we were able to rely on the work undertaken by internal audit, as planned.

### Statement on internal control

94. 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.
95. The SIC highlighted issues identified by Internal Audit as requiring to be addressed during 2011/12. These were capacity planning and staff awareness in relation to policies and procedures. Action plans have been developed with management to address the identified weaknesses.
96. The SIC also drew attention to a follow up audit undertaken by the Information Commissioner's Office (ICO) which is discussed further at paragraphs 100 and 101 below.

### Review of staff earning over £100,000 per annum

97. The Cabinet Secretary asked NHS boards for assurance that earnings paid to those staff earning over £100,000 complied with relevant national pay policies and guidance. Auditors were also requested to sample check earnings over £100,000 to give additional assurance on the validity of the figures. We reported our findings to the chairman of the board, in two letters (dated 1 April and 21 April 2011). We did not identify any matters that in principle indicated that the board had been in breach of relevant national policies and guidance relating to pay matters. However, we referred to work undertaken by the Associate Director, Pay and Workforce Modernisation who drew our attention to one payroll error (£26,000) that was identified as part of the review: one clinician has been in receipt of a 5% availability supplement to which they were not entitled. We have been advised that recovery proceedings have been instigated.

### eHealth Service Delivery

98. eHealth is a key service within NHS Lothian. The information and communications technology (ICT) based systems provided and supported by the eHealth department underpin all aspects of healthcare delivery throughout Lothian. Over recent years the department has grown in line with the range of supported systems and the increasing reliance that healthcare staff place on these systems to ensure that required service levels are achieved. However the financial pressures currently facing all public sector organisations are reversing this trend.
99. The main focus of this review was to assess how the eHealth department continues to provide the expected level of ICT service to its users, against this background of reducing budgets.

Our findings have been reported in draft and a response and completed action plan is expected from management in due course.

**100.** We noted the following:

- Provision of a customer-focused, responsive eHealth Service Desk is recognised as a key departmental objective within the eHealth Strategy.
- Service performance is regularly reviewed by eHealth management; however routine review of the eHealth performance indicators by NHS Lothian's operational management teams has been discontinued.
- Investment in staff training is recognised as important and ensures that staff are able to support new systems and technologies as they are implemented; however, a department-wide training needs analysis has not been performed and no central record of eHealth staff training is maintained.
- Individual system disaster recovery plans are tested on a regular basis to verify that they are correct; however these plans do not address specific resource requirements (e.g. specialised knowledge).
- There is no over-arching service continuity plan that considers the potential staff resourcing and accommodation issues following a major incident (e.g. simultaneous loss of many systems).

### ICT data handling and security

**101.** 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 Act (DPA) audit during 2009. Their report, published in April 2010, could only provide 'limited assurance' regarding procedures in place to assure DPA compliance.

**102.** In their follow-up report, published in December 2010, the ICO reviewed NHS Lothian's progress towards implementing the agreed actions from their original report, concluding that the arrangements in place now provided a 'reasonable assurance' regarding the procedures to assure DPA compliance. ICO noted specifically the introduction of the new senior role of Information Governance Manager, and the implementation of the FairWarning audit tool as key factors in this improved rating. The SIC records that a set of agreed follow up actions will be reviewed by the HGRM Committee in August 2011.

### Data management – progress update

**103.** As part of our 2010/11 audit we have reviewed progress taken towards reducing the risks identified on our 2009/10 data management report. As an aspect of this work we took assurance from the audit action tracking system used to inform audit committees of progress. Overall we found that good progress has been made with most actions now fully addressed. However, the greatest challenge identified in this report was the requirement to implement a detailed Information Asset Register (IAR). We note that although progress continues towards this goal, there is still some way to go before a fully implemented IAR is in place.

## Prevention and detection of fraud and irregularities

104. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements
105. 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 also entered into a formal partnership agreement with NHSScotland Counter Fraud Services (CFS).
106. 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. The board also has in place a formal protocol covering a programme of regular payment verification checks with the Practitioner Services Division of NHS National Services Scotland. In 2010/11 these checks included verification against patient records, requesting patients to confirm treatment, visits to practices and examination of patients.

### NFI in Scotland

107. In 2010/11 NHS Lothian took part in the National Fraud Initiative (NFI) in Scotland. It uses computerised techniques to compare information held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error. The SGHD and NHS Counter Fraud Services have strongly supported the involvement of health bodies in the exercise, which is undertaken as part of the audits of the participating bodies.
108. 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.
109. As part of our local audit work we carried out a high level assessment of NHS Lothian's approach to the NFI and monitored the board's clearance of cases. We are pleased to note the commitment shown by NHS Lothian to the 2010/11 NFI process. The Audit Scotland report 'The National Fraud Initiative in Scotland; making an impact' (May 2010) included a self-appraisal checklist which informed NHS Lothian's approach to this work. Internal audit are working with payroll, HR and finance staff to review the data matches and regular updates are being provided to the audit committee.
110. 125 recommended matches were identified of which 115 have already been fully investigated. In consultation with CFS the thresholds were adjusted in specific areas and further cases identified for investigation; this work is being progressed. The overall position currently is that 46 cases have been found with errors and 31 of these are potential recoveries worth £36,000.

111. The Audit Scotland report mentioned above highlighted that much of the information used in the last NFI round 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.
112. The current NFI round is being carried out under new powers approved by the Scottish Parliament in terms of the Public Finance and Accountability (Scotland) Act (as amended) and which came into force from 20 December 2010. These provide for more collaboration with other UK agencies to detect 'cross border' fraud, extend the range of public sector bodies involved, and allow data matching to be used to detect other crime as well as fraud.

## **Standards of conduct and arrangements for the prevention / detection of corruption**

113. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in NHS Lothian are satisfactory and we are not aware of any specific issues that we need to identify in this report. We did however advise officers of the need to regularly update and review the register of interests. We are also aware that the register of gifts and hospitality requires updating to take account of recent acceptances of gifts hospitality.

**Risk Area 10**

## **Outlook**

114. 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. We note that the new government intends to release a new manifesto on policy regarding primary and community care. A key challenge moving forward will be more integrated working and working more efficiently with local authorities. We are aware that early discussions have been held with a number of neighbouring Councils on shared services.
115. In terms of progressing the Royal Hospital for Sick Children and Department of Clinical Neurosciences Re-provision project, NHS Lothian requires to obtain Consort's agreement to all key requirements in order to satisfy Scottish Futures Trust / Scottish Government Health Directorates Outline Business Case criteria. This is fundamental to the project's development and will allow the public procurement process to move forward. Good working relationships are essential as any delays in this process may impact on the completion of the project.

# Best value, use of resources and performance

116. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.
117. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.
118. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
  - an examination of the implications of a particular topic or performance audit for an audited body at local level
  - a review of a body's response to national recommendations.
119. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. Audit Scotland has prepared a series of best value toolkits to facilitate its reviews in these areas.
120. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
121. This section includes a commentary on the best value / performance management arrangements within NHS Lothian. We also note any headline performance outcomes / measures used by NHS Lothian and any comment on any relevant national reports and the board's response to these.

## Management arrangements

### Best value

122. In March 2011, the Scottish Government issued new guidance for accountable officers on best value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
123. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

124. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:
- vision and leadership
  - effective partnership
  - governance and accountability
  - use of resources
  - performance management
  - equality (cross-cutting)
  - sustainability (cross-cutting).
125. NHS Lothian is committed to best value and has arrangements in place to help ensure continuing performance improvement. The audit committee receives an annual report which confirms that the board has arrangements in place to deliver the duty of best value. The Best Value Assurance Statement sets out each of the 7 themes of best value and summarises for each one the sources of assurance that NHS Lothian has received. These assurances include audit opinions and a summary of key developments within each theme. These demonstrate NHS Lothian's commitment to continuous improvement.
126. The board also has arrangements in place to develop systems in response to relevant reviews and developments, including consideration of Audit Scotland national reports. We have however noted that there is no process in place to apply the findings from our reviews using Audit Scotland's best value toolkits nor are actions identified for follow-up by management. The use of these toolkits could further assist NHS Lothian to demonstrate good practice and deliver best value.

## Risk area 11

### Managing risk

127. 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. 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 reviews the risk register on a quarterly basis. During 2010/11 the quarterly reports have been subject to review and revision to ensure there is more clarity around the reporting of risk.
128. As reported by Internal Audit in November 2010 the board's updated Quality Improvement Strategy did not cover risk management responsibilities, risk registers and risk reporting. In the absence of an overarching strategy it is not clear if risk management is owned at a corporate level. An NHS Lothian Risk Management Policy to expand on existing risk management guidance is now being developed to comply with the NHS Quality Strategy.
129. The Risk Register module on the DATIX system has now been fully developed. There is an agreed process in place for monitoring risks in the divisions, and during 2010/11

improvements have been made to the risk register review process at a corporate level. Corporate risk registers have been mapped, areas of omission identified and risk registers put in place as required. Risk register workshops have been held at an operational level to further embed the process and a revision to the board's risk management key performance indicators has also been carried out.

## Service Development

130. NHS Lothian continues its commitment to developing a sustainable health service through its Improving Care, Investing in Change (ICIC) programme. This includes significant capital investment, for example the Royal Victoria Hospital (£44 million), and the Musselburgh Primary Care Centre (£21 million). These major projects are now underway. As noted above the Royal Hospital for Sick Children and the Department of Clinical Neurosciences is to proceed on the basis of a combined build and will be taken forward under the revenue funded not for profit distributing model. The new capital funding regime is likely to impact on the overall programme of work and the current economic climate continues to impact on the capital plan in terms of realisation of receipts from assets sales. The challenge for NHS Lothian continues to be to ensure it has sufficient resources and capacity to deliver the projects in line with plans.
131. As at 31 March 2011, 42 projects from the original ICIC programme have been delivered and the reports to the Service Redesign Committee indicate that action plans are in place to progress the remaining 22. However, of the remaining projects, 13 are likely to be subject to delay; these include the Forensic Service Redesign, two Care of the Elderly projects and the RHSC/DCN.
132. NHS Lothian is making good progress towards the 18 week referral to treatment time target, although the board has highlighted that it will be a significant challenge to meet this target. Further service development/redesign together with appropriate funding may be necessary in order to deliver the projects and attain national targets.
133. Demographic forecasts for the Lothians predict a rise at 3 times the rate of elsewhere in Scotland with a 53% rise in the elderly population between 2009 and 2028. This highlights the potential for a corresponding rise in the demand for services which are already nearing a capacity. This issue presents a continuing challenge to NHS Lothian to ensure that its long term service provision will meet the needs of Lothian's population.

## Performance Management

134. NHS Lothian has a sound performance management framework in place which provides the information required to effectively manage and monitor the local health system. The main elements of this framework included:
  - A consistent approach to monitoring performance across the organisation.
  - Bi-monthly reporting to the FPRC.
  - Monthly reports to the board on waiting times and access targets.

- Performance is linked into individual performance appraisal of directors and senior managers.
135. 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 Lean in Lothian programme over the 5 year period has supported services to deliver £6.5 million of efficiency and productivity benefits.
136. Projects undertaken during 2010/11 included support to implement improved patient pathways in older people's services. This was agreed as a key redesign priority by NHS Lothian. The Lean in Lothian programme continues to evolve and in 2010/11 has used the skills of a wide group of staff trained in lean improvement to benefit patients and support delivery of NHS Lothian's vision for the future.
137. NHS Lothian is subject to an annual review which is chaired by the Cabinet Secretary for Health and Wellbeing. The annual review highlights good performance and identifies areas where specific action would be required to improve health and treatment

## People management

138. Plans to reduce and restructure the workforce further during 2010/12 by 734 WTE staff will place added demands on medical and other staff. Without well thought-out plans there is a risk to clinical care and patient safety. Furthermore, uncertainty can be detrimental to staff morale. However it is also important that the board retains the right staff with the right skills and effective succession planning arrangements in place to maintain its capacity to deliver.

### Risk area 12

139. NHS Lothian continues to face a challenge in working to achieve the sickness absence target of 4% set for all Scottish Health Boards. The sickness absence rate for the board has fluctuated during the year but at 31 March 2011 was at 4.19%. This was a significant achievement in relation to other major Scottish Boards. An intensive review of cases continues in NHS Lothian to reduce the occurrence of short term absence.
140. The board achieved the assimilation of all key staff under Agenda for Change by December 2008 and during 2009/10 the majority of employees received payment of the arrears. A review process during 2009/10 and 2010/11 ensured a significant reduction in the number of cases requiring to be settled. The review process is now largely complete.
141. 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. As at 31 March 2011 NHS Lothian recorded 69% of staff receiving e-KSF annual reviews against an interim target of 80%, a significant improvement on previous years; however this is the lowest figure recorded by a Scottish board.



## Improving public sector purchasing – follow-up audit

142. A follow-up audit was carried out in 2010/11 to assess whether local procurement arrangements in NHS Lothian were consistent with good practice and addressed the key issues identified in Audit Scotland's national performance report 'Improving public sector purchasing (July 2009)'.  

143. In carrying out the study we used a checklist based on the key issues identified in the national report. We have prepared an early draft report but this has yet to be issued to management. We noted that the board's Performance Capacity Assessment (PCA) rose from 66% to 82% (superior practice) and that the board is committed to sustainable procurement. We have identified a small number of areas for improvement which will be subject to agreement with management.

## Overview of performance in 2010/11

144. As noted above, the board receives regular reports on progress towards achieving the key performance targets set by the Scottish Government (HEAT targets and standards).
145. Of the 50 HEAT measures against which standards/targets were set; 28 standards or milestones are being or have been met, 10 measures were behind the milestone but the standards were yet to apply and 12 measures were short of the standard/milestone. The board was successful in achieving a number of challenging targets by the end of March 2011. These included a number of the health improvement targets, day patient /outpatient waiting times targets, 48 hour access to GPs and a reduction in energy consumption.
146. Waiting times have been falling over recent years in an effort to meet the Government's targets and by March 2011 a number of targets had been successfully met or bettered. These included the target from referral to treatment for those with suspicion of cancer and the time to operation following hip fracture. The SGHD has introduced a new standard that patients will wait no longer than 18 weeks from referral to treatment. The target of 90% will come into force in December 2011 and a number of milestones have been set to make sure boards are on track to achieve it. NHS Lothian is reporting achievement at 84% as at March 2011.
147. However, severe weather from November through to January affected waiting time performance and it was acknowledged that it would take time to bring performance back to normal levels. Specific areas where performance requires improvement includes waiting time for diagnostic testing, Accident & Emergency waits and audiology.
148. Significant other areas where targets have been difficult to achieve are Healthcare Associated Infection (see paragraph 80 above) and delayed discharge. Through close working between hospital, community and social work staff the average length of stay continues to reduce, however, with the exception of April 2010, the Lothian Partnership has not managed to achieve the National Standard of having no delays over 6 weeks. Other areas where targets have been missed are smoking cessation numbers, Did Not Attend (DNA) numbers, % of staff covered by AfC with e-KSF reviews in place and rate of attendance at A&E.

149. There continues to be a challenge to maintain the 6 week delayed discharge standard throughout the course of the year. For example delayed discharges fluctuated from a high of 118 in May 2010 to a low of 63 in January 2011 with the figure at 85 in March 2011. We are aware that Lothian partnerships remain committed to reducing the number of individuals delayed in hospital and the board considers it is well placed to meet targets in due course.

**Risk area 13**

## National performance reports

150. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. The findings and key messages of these studies are published in national reports.

151. All Audit Scotland reports are considered for their applicability to NHS Lothian by the Corporate Governance team. Those national reports which are considered to be of specific interest to NHS Lothian are considered in detail by officers, with action to be taken discussed at the board's Operational Audit Sub-Committee (OASC). Relevant senior managers are invited to attend to outline the impact of the findings and the board's response and progress in addressing recommendations locally. In respect of other national reports which have been considered to be non-applicable or more over-arching in nature, a record of decisions taken by officers following review are then presented to the OASC for approval. NHS Lothian has a robust system for reviewing Audit Scotland's national reports and implementing improvement actions, as appropriate.

152. National reports issued during the year include:

**Table 2: A selection of National performance reports issued 2010/11**

<ul style="list-style-type: none"> <li>Using locum doctors in hospitals (June 2010)</li> </ul>	<ul style="list-style-type: none"> <li>Role of boards (Dec 2010)</li> </ul>
<ul style="list-style-type: none"> <li>Emergency departments (Aug 2010)</li> </ul>	<ul style="list-style-type: none"> <li>Management of the Scottish Government's capital investment programme (Jan 2011)</li> </ul>
<ul style="list-style-type: none"> <li>Financial overview of the NHS in Scotland 2009/10 (Dec 2010)</li> </ul>	<ul style="list-style-type: none"> <li>Community health partnerships (June 2011)</li> </ul>
<ul style="list-style-type: none"> <li>Getting it right for children in residential care (September 2010)</li> </ul>	<ul style="list-style-type: none"> <li>Improving energy efficiency - follow-up (December 2010)</li> </ul>

## Using locum doctors in hospitals

153. Scottish health boards spent around £47 million a year on locum doctors in hospitals in 2008/09. This spending has doubled in the past decade but, in many cases, health boards are not always clear about why locum doctors are being hired and how long they are using them for. The NHS in Scotland could save almost 15% of the money it spends on locum doctors in hospitals, or about £6m a year, through better planning and procurement.

- 154.** The report also says the NHS needs to improve at managing the potential risks to patient safety of using locum doctors. This is particularly important for locum doctors who are hired through private agencies as they may be unknown to the board and unfamiliar with the hospital in which they are working. Health boards across Scotland need to be consistent in the way they screen and induct locum doctors and the way they manage their performance. There are no formal systems for sharing information about individual locum doctors between boards.
- 155.** The report was presented to the OASC in November 2010. A number of recommendations were considered for action and are to be resourced through the Local Reinvestment Plan.

### **Emergency departments**

- 156.** Patient satisfaction with emergency care services is high. However there is widespread variation in the services provided at hospital emergency departments and a lack of clarity about where best to treat different patients. Attendances, costs and workforce pressures are rising, and the NHS in Scotland can do more to manage these services more efficiently. The report highlights that attempts to reduce attendances at emergency departments are not underpinned by an assessment of what works or how much it would cost to have people treated in another setting, such as a minor injuries clinic, where this is appropriate. Closer working across the whole health and social care system is needed to make further improvements.
- 157.** The report was presented to the OASC in September 2010. NHS Lothian developed an action plan to take forward the report's recommendations. Officers highlighted to the committee that many of the recommendations in the report linked to work currently underway through the Emergency Access Support Team (EAST) and a review of the workforce model in relation to Modernising Medical Careers.

### **Getting it right for children in residential care**

- 158.** The report examined how effectively councils use their resources on residential placements for looked after children and identified areas for improvement. It is important that this vulnerable group of children can have the best possible start in life along with improved life opportunities. This can be achieved through effective joint working but also ensuring value for money in the residential child care services that are being provided.
- 159.** The report was primarily aimed towards local authorities for them to improve their joint management of services to help children in residential care realise their potential. However a number of recommendations were identified as being relevant to NHS boards. These included working in partnership with councils to develop and use formal contracts for commissioning residential child care services and also implement with councils joint budgeting in order to develop an approach that avoids negotiating residential school placements on an individual case by case basis. A number of actions from this report are being progressed by the NHS Lothian Child Commissioner.

## The role of boards

- 160.** The report examines the role of boards in the Scottish public sector. The key issues highlighted in the report included the need for boards to demonstrate strong leadership in order to make difficult decisions about their funding, the requirement for roles of Chairs and Chief Executives to be clear, the need for the appointment process for non executives to be further developed and the lack of consistency in providing scrutiny.
- 161.** The recommendations in the report have been considered against what is in place in NHS Lothian. Two broad areas were highlighted for further action. These were the appointment of board members and addressing the financial challenge.

## Improving energy efficiency - follow-up

- 162.** Scotland's public bodies need to cut their energy use to minimise the impact of predicted price rises and to reduce carbon emissions. The public sector faces significant financial pressures over the next few years and needs to reduce its spending. Reducing energy use will be an important element of this. The report considered the change in energy use and CO<sub>2</sub> emissions between 2006/07 and 2008/09, provided an assessment of progress made in implementation of the recommendations in the 2008 report and examined the CRC Energy Efficiency Scheme and how prepared the public bodies are for the scheme.
- 163.** NHS Lothian has responded positively to the report and has an action plan in place to meet the requirements of Government legislation highlighted in the report. The Sustainable Development Management Group will take the actions forward for further consideration.

## Outlook

### Performance

- 164.** Over recent years the board has invested substantial resources in order to achieve challenging performance targets set by the Scottish Government. The board's 2011/12 Financial Plan assumes that it will require to allocate £4 million to meet the national access targets. The significant financial challenges that will be faced in 2011/12 and beyond may force the board to prioritise its resources. This will make maintaining or improving performance even more challenging.

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Internal Audit Reliance Letter	29 November 2010	6 December 2010
Annual Audit Plan	4 February 2011 4 March 2011	8 February 2011 12 April 2011
Review of staff earning over £100,000	1 April 2011 21 April 2011	12 April 2011
Internal Controls Management Letter	17 June 2011	21 June 2011
ICT review of service delivery	July 2011 (draft)	11 October 2011 (proposed)
Report to Audit Committee in terms of ISA 260	17 June 2011	21 June 2011
Independent auditor's report on the financial statements	17 June 2011	21 June 2011
Improving Public Sector Purchasing – Follow-up audit	July 2011 (draft)	11 October 2011 (proposed)
Annual report to members and AGS	29 July 2011	11 October 2011 (proposed)

# Appendix B: action plan

## Key Risk Areas and Planned Management Action

Action Point	Refer para no	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	28	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.	The board continues to work with HR and the Central Legal Office in managing this risk. Any liabilities subsequently identifiable as having to be provided for will be initially classified as Annually Managed Expenditure and subsequent calls on the board's Revenue Resource Limit will be discussed in full on a national basis with the SGHD.	Director of Finance	Ongoing
2.	36	There is a risk that if the Remuneration Committee and chief officers are not provided with the necessary information on a timely basis, they are unable to carry out an effective review of pay arrangements including consideration of the impact on budgets.	Chief Officers of the board handled this matter in accordance with individual contractual terms and normal procedures in that no individual received anything to which they were not entitled to. This was reported and accepted by the Remuneration Committee of the board, and as such no further action is required.	Director of HR	N/A

Action Point	Refer para no	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3.	37	A process should be introduced to ensure that certification of the accounts is addressed according to pre-determined timings. This will ensure that undue pressure is avoided.	The board's certification process will be reviewed and agreed timings developed as part of accounts planning for 2011/12.	Director of Finance	February 2012
4.	38	Audited endowments accounts may be required to be consolidated into the NHS Lothian's financial statements.	The board are aware that consolidation requires to be planned for in the event that the governance arrangements for Endowment funds remain as they are. The commencement date for consolidation is 1 April 2013 and comparative data for 2012/13 will be required. The process is being initially reviewed by TAG during 2011/12 as it raises technical and governance issues in relation to capital scheme management.	Director of Finance	Autumn 2012
5.	39	NHS Lothian will be required to identify whether any heritage assets exist and, if so, they will require to be valued and separately disclosed.	Management have already undertaken a cataloguing exercise on art and heritage collection and a small number of potentially valuable items have been identified in the inventory. These items are not deemed material to the accounts of the board but the	Director of Finance	September 2011

Action Point	Refer para no	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			overall disclosure requirements will be discussed with both internal and external audit, and (as required) with the Trustees of the Edinburgh & Lothians Health Foundations.		
6.	63/64	The longer term financial plan remains at risk of not being affordable due to the wide range of financial challenges and pressures being faced by the board. Savings targets may not be achieved.	The board's formal quarterly and mid year financial review process is an important element of the risk management approach to this financial challenge. The Efficiency and Productivity group reviews proposals and progress with savings schemes; this is reported to the EMT and the board through the Financial and Performance Review Committee.	Director of Finance	Ongoing
7.	67	There is a risk that, as the 2008 actuarial valuation has not been completed, the current level of contributions from employers and employees will not meet the future commitments of the Scheme. NHS Lothian should work with the SGHD to ensure that the Scheme is subject to timely evaluation in compliance with the requirements of the Scheme, and that the adequacy of the employer and employee contributions has been reviewed.	This a national issue. The scheme contributions are set in accordance with the recommendations of the actuary and costs to the boards and from employees advised through communications from the SGHD.	Director of Finance	Ongoing



Action Point	Refer para no	Risk Identified	Planned Management Action	Responsible Officer	Target Date
8.	73	NHS Lothian should review its processes for ensuring that staff comply with agreed policies and procedures.	A comprehensive action plan is in place to address the subject of policy compliance. The Audit Committee and Staff Governance Committee have received this action plan, and the Healthcare Governance & Risk Management Committee will receive it on 2 August. Progress has already been made on the action plan.	Director of Human Resources	December 2011
9.	74	There is a risk that the external auditors are unable to complete their agreed audit plan leading to additional input and cost.	As part of accounts planning for 2011/12, all aspects of timing and communications will be discussed and agreed, with clarity on expectations of both parties. This will include information to and from the External Audit team.	Director of Finance	February 2012
10.	112	The register of interests should be updated regularly and reviewed by management to ensure no conflict of interests exists. In addition the register of gifts and hospitality should be kept up to date.	The register is updated at least annually through the offices of the secretariat.	Board Secretary	Ongoing
11.	125	The board should review the Audit Scotland best value toolkits and any associated reports to identify areas where practice can be improved and best value delivered	Where Best Value toolkits have been used as part of the external audit programme, the outcome shall be	Director of Finance	Immediate

Action Point	Refer para no	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			treated in the same way as the existing process for Audit Scotland national performance reports. The Operational Audit Sub-Committee shall receive the report, along with a paper from management to highlight what (if any action) is going to be taken. The Sub-Committee will receive periodic high level updates on how any agreed actions are progressing.		
12.	137	As the board reduces its workforce, effective succession planning needs to be in place to ensure the right skills are in the right job.	The Workforce Modernisation Team / Group, work in partnership across NHS Lothian, to ensure reductions to staff take account of key issues and risks to service provision and staffing levels. The Group meet fortnightly.	Director of Human Resources	Ongoing
13.	148	There is a risk that in a climate of reducing funding, performance targets are not achieved or maintained.	Performance targets are subject of regular review and monitoring through the Finance & Performance Review Committee of the board.	Director of Planning/EMT	Ongoing