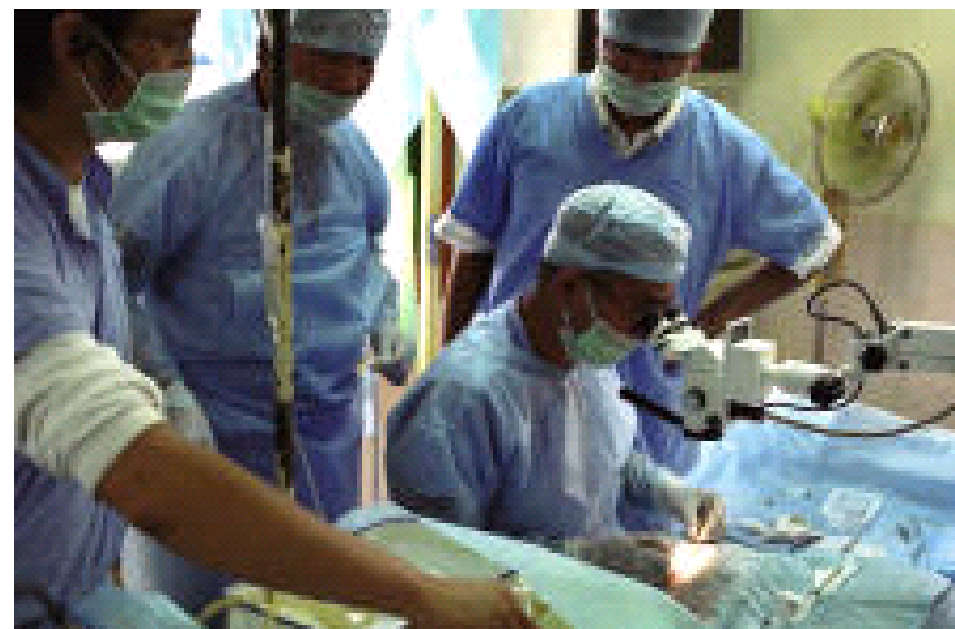
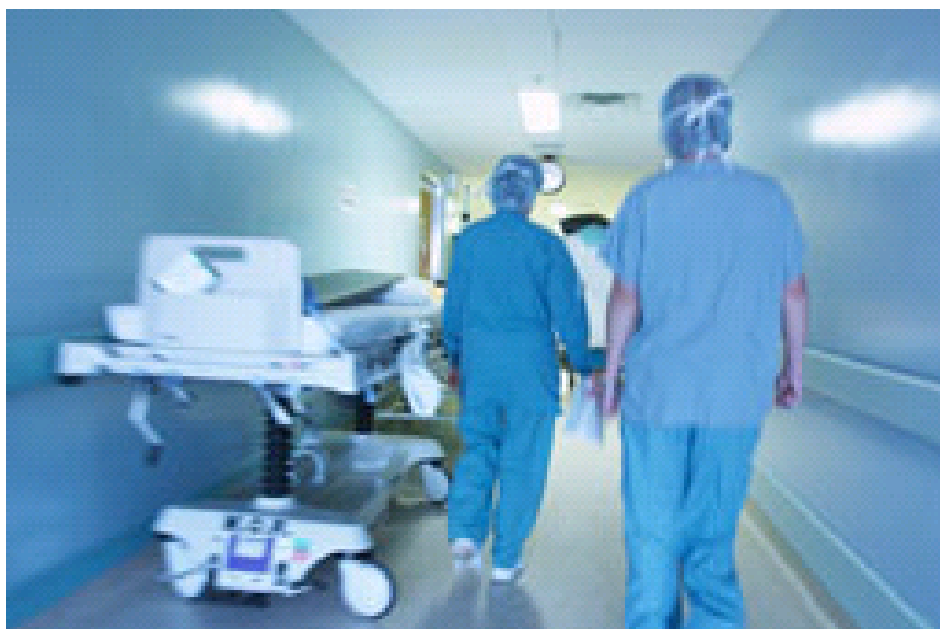


# NHS Lanarkshire

## Annual Report to Members and the Auditor General for Scotland 2008/09



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The principal objective of our audit procedures is to enable us to express our opinion, in line with the requirements of the Audit Scotland Code of Audit Practice, on the financial statements as a whole. Our audit opinion does not guarantee that the financial statements are free from misstatement.

Any oral comments made in discussions with you relating to this report are not intended to have any greater significance than explanations of matters contained in the report. Any oral comments that we make do not constitute oral advice unless we confirm any such advice formally in writing.

The matters raised in this and other reports that flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks at NHS Lanarkshire or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

# 1. Introduction

## Purpose of this report

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2008/09 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

## Scope of the Audit

Our overall responsibility as external auditor of NHS Lanarkshire (or 'the Board') is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007.

In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources.

It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the "appointed auditor", the Auditor General for Scotland and other auditors such as Audit Scotland's Health Performance and Public Reporting Group.

Our audit has been planned and conducted to take account of these wider perspectives.

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "*Communication of audit matters to those charged with governance*", we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This Annual Report to Members, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.

## Acknowledgment

We would like to formally extend our thanks to all NHS Lanarkshire managers and staff for the assistance they have given us during the audit process.

PricewaterhouseCoopers LLP  
Kintyre House  
209 West George Street  
Glasgow

24 June 2009

## 2. Executive Summary

### Audit Opinion and Accounting Issues (Section 3)

Our audit opinion addresses both the true and fair statement of the Board's financial results and balances for the year ended 31 March 2009 (2008/09) and the regularity of its income and expenditure in the year.

We are pleased to report that our opinion on the true and fair view on the financial statements is **unqualified**.

Our regularity opinion on income and expenditure is also **unqualified**.

We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is **unqualified**.

Our audit opinion does not extend to any other part of the Directors' Report.

A number of accounting issues were discussed with management during the audit. The most significant of these are set out below:

- The accounting treatment for the Law Hospital debtor in light of the ongoing negotiations with the contractors;
- The re-instatement of the Stonehouse Hospital site as a fixed asset on the balance sheet;
- The contingent liability disclosure in respect of Equal Pay Claims; and

- The recognition of provisions on the balance sheet that satisfy the criteria of Financial Reporting Standard (FRS) 12.

### Financial Management and Performance (Section 4)

The Board reports a surplus for the year of £3.1 million. This resulted from a total expenditure of £978.5 million (after efficiency savings have been accounted for), against income of £981.6 million. The Board achieved all 3 of its key financial targets. Financial performance is discussed in further detail with Section 4.

### Financial Forecasts for 2009/10 (Section 5)

The Board has prepared detailed financial forecasts for 2009/10 which budget for an in year deficit of £2.8 million after taking into account the achievement of recurring savings totalling £3.9 million. Further details are included in Section 5.

### Governance and Business Risks (Section 6)

The findings from our consideration of the Board's governance arrangements were reported in our 2008/09 Interim Management Letter. In overall terms, the Board has robust arrangements in place for the governance of the organisation which have remained substantially unchanged during 2008/09.

## Systems of Internal Control (Section 7)

The Code of Audit Practice requires us to review and report on the Board's Statement on Internal Control. Based on our normal audit procedures, we do not disagree with the disclosures contained within the Statement on Internal Control.

We are required by Audit Scotland to review progress being made and systems in place regarding the National Fraud Initiative (NFI). A review of progress made to the year end 31 March 2009 revealed that payroll matches are all being investigated and good progress has been made.

## Recommendations

Where appropriate, we have made recommendations for improvement. These are summarised in Appendix A, including management's responses.

# 3. Audit Opinion and Accounting Issues

## Audit opinion

Our audit opinion addresses both the true and fair statement of the Board's financial results for the year ended 31 March 2009 and the regularity of its income and expenditure for the year.

We are pleased to report that our opinion of the true and fair view on the financial statements is **unqualified**.

Our regularity opinion on income and expenditure is also **unqualified**.

We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is **unqualified**.

Our audit opinion does not extend to any other part of the Directors' Report.

## Audit Process

The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided by management was of a good standard. However some issues did arise regarding version control during the audit process, with instances noted where the incorrect version of supporting audit evidence was provided.

Overall an efficient audit process was achieved through an effective working relationship with your staff. In particular we would commend management for engaging in early discussions with us regarding the status of the Law Hospital disposal and year end provisions. Being sighted early in these

matters assisted the smooth progression of the audit in relation to these judgemental areas.

## Preparation and Approval

The financial statements were prepared in accordance with the accounting requirements contained in the NHS Board Accounts Manual for Directors' Report and Accounts of NHS Boards and for Scottish Financial Returns, and supplementary guidance, as issued by the Scottish Government Health Directorates (SGHD) and approved by the Scottish Ministers.

The Financial Statements were considered by the Board's Audit Committee on 24 June 2009 and were approved and adopted at the Board meeting later that day.

## Unadjusted misstatements

Under ISA 260 - "Communication of audit matters to those charged with governance" - we are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those which we deem to be of a trivial nature.

As a result of our work we proposed a number of audit adjustments. With the exception of one adjustment, all have been processed by management in the finalised version of the 2008/09 financial statements. The remaining unadjusted difference is reported in **Appendix B** to this report.

## Accounting Issues

A number of accounting issues were discussed with management during the audit. The most significant of these are set out below:

### Law Hospital debtor

NHS Lanarkshire recorded the sale of the Law Hospital site in the 2006/07 financial statements as all material conditions of the sale had been met; missives had been signed with the House-building Consortium (the "Consortium") and North Lanarkshire Council had granted detailed planning consent for the house building programme to go ahead following the resolution of a number of objections to the proposal.

The Board agreed that due to the significant value of the sales proceeds, the Consortium could make staged payments, with an initial payment for £1 million on the date of entry, followed by four equal annual payments of a quarter of the outstanding balance.

The steep decline of the housing market and the current economic conditions have led to a delay in the completion of the sale albeit management is confident that the sale will go ahead following ongoing discussions with the Consortium.

### Provision for reduced sale value

The original sales proceeds were based on the value of the land in 2006/07. Since then there has been a marked deterioration in the market and a recent valuation of the land estimated that its current value is significantly lower than it was in 2006/07. There is now a risk that the sale proceeds of £17.8 million may not materialise as the Consortium seeks to re-negotiate the sale price. In light of these developments, management has made a provision against the debtor in line with professional advice from the Board's valuers.

### Discounting the long term debtor

The estimated completion of the sale is now early 2011, which with the current payment profile, will mean that the final payment made to NHS Lanarkshire will be in 2015. All NHS Boards must now comply with Financial Reporting Standard (FRS 26) which requires, "*all loans and receivables held as assets and all financial assets that are being held to maturity to be initially recognised at fair value.*" This means the Board was required to discount the long term debtor to current fair value. This resulted in a reduction of the debtor value by £1 million.

### Classification

There were a number of issues to address around the classification of the debtor. These are as follows:

- Management had included the initial £1 million payment upon completion of the sale as a short term debtor, but given that this payment is not now due until 2011, it has been reclassified as a long term debtor;
- Discounting of the debtor – the discount should be applied to the residual debtor figure, which is the gross debtor of £17.8 million less the provision for the reduced sale value; and
- The debtor should be disclosed net of both the provision for the reduced sale value and the discounting of the debtor.

Management has agreed to all of these classification points.

### Re-instatement of the Stonehouse Hospital site

NHS Lanarkshire recorded the sale of Stonehouse Hospital in the 2006/07 financial statements. However, the sale was halted by the Board following lengthy negotiations with the purchaser regarding issues affecting the final sales value. In our Annual Report last year we commented that the sale should be reversed. This was subsequently actioned by management during 2008/09.

The reversal of the transaction results in the reinstatement of the net book value of the asset to £7,250,000. This eliminates the debtor balance of £6,650,000 and the non-refundable cash payment of £850,000 is released to income, less the previously recognised profit of £250,000. There was also a transfer of £7,250,000 from the General Fund to the Revaluation Reserve, in order to bring the Board back to the pre-sale position.

Following our audit procedures, we are satisfied that the reversal of this sale has been accounted for correctly by management.

### Equal Pay claims

NHS Lanarkshire has received 1,712 claims under the Equal Pay Act 1970 mainly from women seeking compensation for past inequalities with male colleagues, in relation to their pay arrangements. The basis of those claims is as follows:

- The claimant's job has been rated as being of equivalent to that of his/her comparator using a valid Job Evaluation Study and/or is of equal value to that of his/her comparator;
- The comparator is currently paid or has been paid more than the claimant; and
- The claimant is entitled to equal pay, back pay and interest, with back pay being claimed for the statutory maximum of five years.

Equal pay claims are a UK wide issue with claims having been made against a large number of public sector organisations across the country.

The Board believes it does not currently have enough information from the appellants in order to make an estimation as to the quantification of the potential financial liability. As a result, NHS Lanarkshire has disclosed the claims as a Contingent Liability which is a narrative disclosure of the potential liability. This does not result in a balance sheet liability. This treatment is in line with the practice adopted at other Health Boards, and management has adopted the narrative disclosure as approved by Audit Scotland.

As the Board has received a significant number of equal pay claims, our audit opinion will include an 'emphasis of matter'. This is not an audit qualification, rather it is only intended to draw attention to the note where further information is disclosed.

### Provisions

NHS Lanarkshire has an 'Other Provisions' balance totalling £44.5 million (2008: £31.8million). Provisions are an area of audit focus due to judgement required to assess whether the criteria of FRS 12 have been met. Per FRS 12, "a provision (a liability that is of uncertain timing or amount) is recognised only when it actually exists at the balance sheet date. A provision should be recognised therefore only when:

- an entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation."

A number of issues were identified during the completion of our audit work which can be categorised as follows:

1. Failure to satisfy conditions of FRS 12 – a number of provisions were identified as not meeting the criteria of FRS 12 and therefore should not be provided for in the financial statements. The reversal of these provisions totalling £2.1 million has resulted in a net increase in the surplus for the year; and
2. Misclassification of accruals – there was £8.5 million of ring-fenced late allocations which were deferred into 2009/10 as there was insufficient time to complete the specific project in 2008/09. This deferred income is an accrual and therefore should be transferred from provisions. This has no impact on the Operating Cost Statement.

Management has corrected these matters in the final report.



## **NHS Lanarkshire should assess the year-end provisions and accruals against appropriate accounting standards. ACTION 1**

### Agenda for Change

The implementation of Agenda for Change has now been completed by the Board, with all staff assimilated and all pay backdated to October 2004 has now been paid. However, the Board has 1,243 remaining staff appeals against their current grading. Every successful appeal where the staff member is moved up a grade will result in a further backdated arrears payment to October 2004 for the difference between their existing salary and the salary of their new grade. At present the national success rate of appeals currently stands at 37.3%. If a similar success rate materialises at NHS Lanarkshire the Board will be face a financial liability of approximately £13.4 million. In order to exercise prudence, management have fully provided for this amount at 31 March 2009.

Management agreed to these changes, and this has been reflected in the final set of accounts.

### International Financial Reporting Standards (IFRS)

Government bodies, including NHS Boards, are required to adopt IFRS for 2009/10, including the restatement of 2008/09 comparatives. The objective is to bring the public sector into line with the private sector, and to introduce greater comparability and consistency across public sector accounting.

In order to prepare IFRS compliant accounts in 2009/10, NHS Lanarkshire will need to revise its accounting policies, change the format of its financial statements and include a significant number of additional disclosures. It will need to restate its 2008/09 comparative figures and report these together with its 2009/10 figures on an IFRS basis.

In order to restate the 2008/09 closing balances under IFRS, NHS Lanarkshire was required to recalculate its opening balance sheet as at 1 April 2008 on an IFRS basis and submit it to the Scottish Government Health Directorates by 28 November 2008.

We were required to report on the processes adopted by management to prepare the IFRS opening balance sheet as at 1 April 2008. The results of our findings have been reported separately in a letter to Audit Scotland. The main findings were:

1. In respect of the ICT Systems, the previous carrying value of £590,000 was written off to the general fund as was required at that time by the Scottish Government. However, the policy on the capitalisation of intangible assets has been subject to further consideration and a revised policy has now been approved. This amendment will permit the Board to continue to capitalise these assets.
2. One error was identified in respect of a reclassification of the PGO account as an 'other receivable' rather than 'cash and cash equivalents'. This reclassification should be reversed.
3. Accounting for PFI projects remains subject to changes in the PFI finance models and are due to be finalised later in 2009.

The next stage of the process is that a full set of IFRS accounts will be provided for 2008/09 by the end of September 2009. These will be subject to audit by end November 2009.

## 4. Financial Management and Performance 2008/09

	£m	£m
Recurring income	809.2	
Recurring expenditure (before savings)	(808.5)	
Recurring savings	<u>3.0</u>	
<b>Underlying recurring surplus</b>		<b>3.7</b>
Non-recurring income	172.1	
Non-recurring expenditure (before savings)	(172.8)	
Non-recurring savings	<u>0.1</u>	
<b>Non-recurring deficit</b>		<b>(0.6)</b>
<b>Financial surplus for the year</b>		<b>3.1</b>
<b>Underlying recurring surplus as a percentage of recurring income</b>		<b>0.46%</b>

Confirmed by NHS Lanarkshire Director of Finance: Laura Ace

### Performance during 2008/09

The Board recorded gross operating expenditure of £986.2 million, offset by £79.3 million of operating income. This resulted in Net Operating Costs of £906.9 million.

A number of adjustments are required in order to arrive at the reported Net Resource Outturn including:

- the need to reflect expenditure that is funded from specific sources outwith the Revenue Resource Limit (FHS Non Discretionary Allocation £59.2 million, Scottish Government funding for accelerated depreciation and impairments £6.5 million and Capital Grants to public bodies of £1.1 million); and
- the profit on disposal of fixed asset (£0.5 million) which is retained by the Scottish Government.

This results in a Net Resource Outturn of £839.7 million, against the Revenue Resource Limit of £854.6 million, and an accumulated saving against Revenue Resource Limit of £14.9 million.

Of the total £14.9 million saving against the Revenue Resource Limit, £11.8 million relates to the surplus carried forward from the previous year, whilst the remaining £3.1 million relates to the 2008/09 in-year surplus.

It is emphasised that we do not express a specific audit opinion on the figures within the tables in this section: these have been extracted in agreement with management from various reports, supporting papers and detailed discussions with management.

## Performance against Budget 2008/09

The table and narrative below set out in summary form, the main under and overspends against budget for the year to 31 March 2009.

Actual Out-turn versus Original Plan	£m	£m
<b>Projected outturn for the year ending 31 March 2009</b>		<b>£3.0</b>
Underspends:		
Financial Plan/Reserves	£3.4	
Divisional Performance	<u>£2.9</u>	
		6.3
Overspends:		
Movement of Provisions	£0.3	
External Healthcare Providers	£0.5	
Additional Non Pay Cost Pressures	£2.6	
CMT Approved Investments	<u>£2.8</u>	
		(6.2)
Actual Surplus Reported 31 March 2009		<u>£3.1</u>
<b>Agreed carry forward to 2009/10</b>		

Confirmed by NHS Lanarkshire Director of Finance: Laura Ace

## Significant under spends

### Financial Plan/Reserves – £3.4 million

There has been slippage in a number of approved commitments and projects such as Keep Well. In addition, slippage in the capital expenditure programme has meant that capital charges were lower than had been budgeted.

### Divisional Performance - £2.9 million

There were underspends in both North and South Lanarkshire CHPs, largely as a result of lower than anticipated expenditure in mental health services. There was also an underspend in the Acute Division resulting from the robust management of reserves.

### In Year Cost Pressures

### Movement of Provisions - £0.3 million

There has been a net increase in the level of provisions required for the year compared with budget. There are a number of factors that have led to this, most significantly the increases in the Clinical and Medical Negligence and Pension/ Injury Benefit provisions. The latter was as a result of the Board receiving information late in the year from the Scottish Government regarding the level of Treasury discount rates.

### External Healthcare Providers - £0.5 million

NHS Greater Glasgow & Clyde requested additional funding to support waiting times investment and fluctuations in activity which was granted by the Board. In addition, the Board has faced an ongoing cost pressure in relation to the provision of eating disorders and forensic medicine services by the independent sector.

### Additional Non Pay Cost Pressure - £2.6 million

The additional cost pressures relate almost entirely to utility costs as a result of the global rise in energy prices.

### CMT Approved Investments - £2.8 million

A number of proposals were approved by CMT during the year that had not been budgeted for. The most notable of these was the investment in the Emergency Response Centre.

### Performance against Key Financial Targets

The Board is required to meet three targets each year as set by the Scottish Government Health Directorates (SGHD) as follows:

	Limit set by SGHD £m	Actual Outturn £m	Variance (over)/under £m
Revenue Resource Limit	854.574	839.679	14.895
Capital Resource Limit	34.186	34.132	0.054
Cash Requirement	913.200	913.115	0.085

The Board has achieved all three of its financial targets in the year.

### Creditors – Creditors Payment Days

The Financial Statements at 31 March 2009 report an increase in creditor payment days to 25, from 21 days in 2007/08.

Government guidance was issued in 2008/09, as a result of the economic downturn, that suppliers should be paid within 10 days. NHS Lanarkshire processes invoices and releases them for payment as soon as they are matched to purchase orders and receipts on the ledger meaning that in the absence of issues, these targets will be achieved. However, problems regarding the delivery of invoices to the accounts payable department has hampered the Board's attempts to meet this target.

In addition, a significant number of invoices are placed on the Invoice Query Register as differences exist between the quantity and/or price on the invoice compared to the Goods Received Not Invoiced (GRNI) accrual. Due to the high volume of creditors invoices processed each month, a queried invoice can considerably slow down the length of time taken to make a payment.

**Management should investigate creditor payment days to identify trends in the processing of invoices. This may involve selecting a sample of GRNI accruals and tracking and recording their progress through to payment to identify any common issues and actions required. ACTION 2.**

# 5. Financial Forecasts for 2009/10

	£m	£m
Recurring income	836.3	
Recurring expenditure (before savings)	(839.8)	
Recurring savings	<u>3.9</u>	
<b>Underlying recurring surplus</b>		<b>0.4</b>
Non-recurring income	155.8	
Non-recurring expenditure (before savings)	(159.0)	
Non-recurring savings	<u>0</u>	
<b>Non-recurring deficit</b>		<b>(3.2)</b>
<b>Financial deficit for the year</b>		<b>(2.8)</b>
<b>Underlying recurring surplus as a percentage of recurring income</b>		<b>0.05%</b>

Confirmed by NHS Lanarkshire Director of Finance: Laura Ace

## 2009/10 Projected Outcome

This table highlights the Board's projected outcome for 2009/10.

The Board is projecting a £2.8 million deficit for 2009/10 with projected expenditure of £998.8 million.

However, within this, the Board is projecting an underlying surplus on recurring activities of £0.4 million with an over-spend of £3.2 million on non-recurring activities. This will result in the brought forward surplus reducing to £12.1 million by the end of 2009/10. This overall deficit is part of the 5 year financial plan to utilise the accumulated surplus, as the Board anticipates funding pressures in the coming years.

## Future Cost Pressures

### Pay Costs – Increment Drift

The assimilation of staff under Agenda for Change was completed during 2008/09. This is a process that has been ongoing for 5 years and, as expected, the Board is starting to see a slowing in staff turnover, as a result of improved pay and conditions. The lower staff turnover will result in increment drift as staff move upward through their pay-scales. It is expected that this cost pressure will be felt more acutely from 2009/10, but as yet this has not been quantified. The impact of this rise is expected to be absorbed within the divisions, with no additional funding allocated for this.

**NHS Lanarkshire should closely monitor staff cost budgets throughout**

**the year in order to manage the effects of increment drift arising from the implementation of Agenda for Change. ACTION 3.**

### Non Pay

Energy costs continue to be a cost pressure and it is expected that NHS Lanarkshire's costs will increase during 2009/10 as a result of an increase in global prices. The Board has budgeted for an increase of £1.5 million for the year. This will continue to be reviewed by management throughout the year.

Following a recent announcement by the Heath Secretary regarding the introduction of a new national uniform for all NHS staff in Scotland, the Board anticipates that the uniform costs will become a cost pressure during the year if the roll out of national uniform procurement process is completed in 2009/10.

### Laboratories

The activity levels in the laboratories has increased significantly in the past four years with the number of tests increasing from 11 million in 2005/06 to over 14 million in 2008/09. This 30% increase in activity has not been matched by budget increases, putting strain on the service. It is expected that laboratories will continue to represent a cost pressure in 2009/10.

### Drugs

There has been an upward trend in spending on drugs across all Health Boards in Scotland and NHS Lanarkshire expects this to continue in 2009/10. In response to this management has budgeted for an increase of £7.6 million for expenditure on drugs in 2009/10.

### Planned Savings

The Board has identified savings required to meet its financial targets for 2009/10. In total these savings will equate to approximately £3.9 million during the year, which will come from delivery of CRES targets, prescribing efficiencies and efficiencies from service redesign.

### Financial Plans

The Board has prepared its revised five year financial plan for 2009/10 to 2013/14. This has been approved by the Board.

### Asset Disposals

During 2008/09 NHS Lanarkshire made only one disposal of fixed assets where the net book value was greater than £1 million. This was the sale of old Birkwood Hospital site in Lesmahagow which had a net book value of £1,600,000. The Board received proceeds of £1,531,000 which resulted in a loss on disposal of £69,000.

## 6. Governance and Business Risks

We comment on the following areas throughout this section of the report:

- Overall Governance Arrangements
- Partnership Working
- Service Sustainability
- Performance Management
- Financial Management and Performance
- People Management
- Information Management

We have also reported in detail on a number of these areas in our Interim Management Letter for 2008/09 which was presented to the Audit Committee on 10 March 2009.

### Overall Governance Arrangements

The Board has a formal framework of governance committees including Health and Clinical Governance, Audit and Staff Governance committees. The Board is also supported by the Corporate Management Team, consisting of all Executive Directors, which meets every Monday informally and every second Thursday on a more formal basis.

In 2006/07 the Board established three Operating Management Committees (two CHP and one Acute) to monitor performance throughout each of the three divisions. The minutes for each of the Operating Management Committees are presented to the Board. These Operating Management Committees appear to be working effectively and make an important contribution to the overall governance arrangements in place.

### Partnership Working

The Board continues to develop its partnership working arrangements, primarily through its two Community Health Partnerships (CHPs). Both North and South Lanarkshire CHPs are now well established with strong links being forged with the two constituent local authorities in Lanarkshire, as well as with other community planning partners.

In particular, the CHPs are developing from the use of shared assessment forms with the local authorities towards having fully integrated service provision in certain areas such as Drugs and Alcohol services. This should bring real benefits to patients through a more streamlined and seamless service which brings together healthcare and social work professionals.

It is, however, becoming apparent both at NHS Lanarkshire and other NHS Boards that integrated budgets are unlikely to materialise largely as a result of the different accountabilities for the funds granted to NHS Boards and local authorities. Instead the CHPs are working with aligned NHS and local authority budgets which allows each organisation to see the budget of the other, with cooperation regarding virements for specific purposes in operation.

No significant issues or areas for development were noted in the area of partnership working.

## Service Sustainability

A key issue impacting upon the Board's provision of services was the requirement by the Scottish Government that it must retain A&E services at Monklands Hospital. The retention of three A&E departments in the Board area has impacted the level of resource that can be put into Primary Care, an area which historically has been underfunded in Lanarkshire.

In addition, Monklands Hospital is approximately 30 years old, and now that a decision has been taken to retain the A&E service, the site requires significant investment, simply to maintain its current state. In the longer term Monklands will require substantial further investment if it is to continue to operate as a Level 3 Hospital. The Board has commissioned a review of the Monklands estate to determine the level of resources required, initially to maintain the existing facilities at Monklands, and then to invest for its longer term future. This is due to be reported to the Board later in 2009.

At an operational level the Board is finding it challenging to staff three A&E departments and this has resulted in senior staff members fulfilling more junior roles simply to ensure service continuity. This clearly has cost implications for the Board.

## Financial Management

The Board has a robust budget monitoring framework in place which has ensured that NHS Lanarkshire has achieved its statutory financial targets for a number of consecutive years, and has managed to reverse an annual deficit position into an annual surplus for the past four years. There is a culture of sound financial management within the organisation, which starts from the Board down.

The Board is anticipating a tightening financial environment and expects difficulties in delivering a break even budget. As a result, it is now likely that the cumulative underspend of £14.9 million will now be used in the coming

years to fund ongoing activities, rather than being used for targeted activities as was originally planned.

With the decision taken to keep the A&E facility open at Monklands Hospital, the Board has affordability issues that will now need to be addressed. The first issue relates to the cost of staffing three A&E facilities within the Board area and the second relates to the investment required to ensure that Monklands Hospital is maintained at a standard suitable to provide healthcare services.

The Board has updated its Financial Plan for the period to 2009/10-2013/14. This is included within the Local Delivery Plan 2009/10 to 2011/12 and has been approved by the Board.

The reporting arrangements were considered in detail during the year and reported in the Interim Management Letter reported to the Audit Committee on 10 March 2009.

## Performance Management

The Board undertook a review of its performance management framework during 2008 and has proposed changes to the reporting framework which have now been approved by the Board.

The changes have reduced duplication and also will enable the Board to take a more holistic view of performance. The revised performance management system has brought together different strands of reporting into a summary report that will allow the Board and CMT to obtain an "at a glance" picture of the performance of NHS Lanarkshire. From 1 April 2009, the Board and CMT will receive an integrated quarterly report that will clearly highlight performance across the organisation, using a traffic light indicator system. There will be no changes to the performance management structure at an OMC level as this framework is clear and has been working effectively.

The CHP Operational Management Groups and the Acute OMG meet on a monthly basis, and Performance Management is an item on the agenda. The minutes of these meetings go to the Board, providing another route for performance information to reach the Board. From review of the



performance information, it appears that the performance management information provided is of a high quality.

## People Management

### Staff Governance

During 2008/09 we undertook a high level review of the Board's staff governance action plan as part of a national Audit Scotland Study. The purpose of the review was to confirm that action plans address issues arising, and they include clear timescales and responsibilities for delivery. The work was performed in April and reported directly to the Director of Human Resources. No action points to enhance the staff governance action plan were identified during this review.

### Pay Modernisation

Based on the ISD headcount figure at March 2009, 89% of staff have a Knowledge and Skills Framework (KSF) Personal Development Plan (PDP) in place. However, when adjustments were made to the baseline figure to allow for long term sickness absence, maternity leave, staff on redeployment and turnover, the percentage of staff with a PDP at 31st March 2009 was 100%.

A training programme was launched in January 2008 to train the three levels of e-KSF users: Managers, Reviewers and Staff. The e-KSF training has been delivered to around 68% of staff covered by Agenda for Change having attended e-KSF training. The percentage of PDPs recorded electronically by the end of 2008/2009 was 28%.

A new implementation plan for 2009 – 2011 is currently being developed in support of the new KSF HEAT target which requires the electronic completion of personal development reviews on e-KSF for at least 80% of staff by March 2011. This will include the ongoing provision of training and refresher training.

**NHS Lanarkshire should provide the necessary resources to ensure that the new HEAT target on the completion of electronic PDPs is**

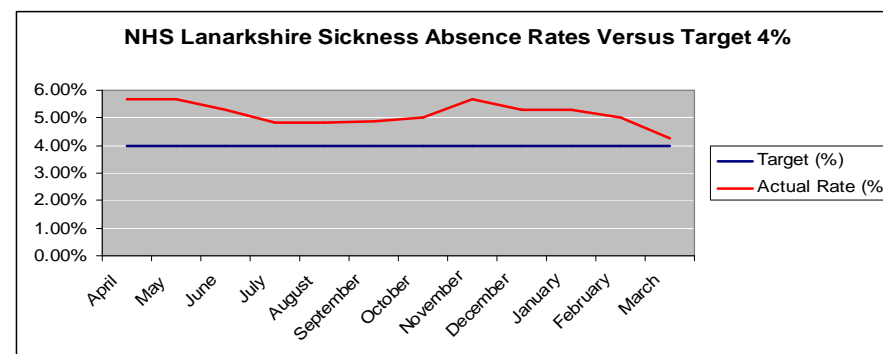
**achieved by the deadline of March 2011. ACTION 4.**

### Sickness Absence

The Board continues to be proactive in addressing sickness absence and a range of actions are included in the Staff Governance Action Plan to help reduce the levels arising. In particular SALUS has committed to the following action points:

- Offering management full Occupational Health support to staff on long-term sickness with a commitment to promote the earliest return to work for absent staff;
- Taking pro-active steps to promote health and wellbeing in the workplace to minimise sickness absence occurring; and
- Running stress management and absence management training courses for service managers.

However, sickness absence, while showing a downward trend, remains above the target level at NHS Lanarkshire. The HEAT target was to reduce sickness absence to 4% by 31 March 2009; this was not achieved by the Board, with sickness levels averaging over 5% during 2008/09. The table below shows the trend in sickness absence levels throughout 2008/09. It would appear that there is a downward trend towards the target 4%.



However, it will take a number of months to assess whether the lower sickness rate will be sustained by the Board.

**NHS Lanarkshire should continue to rigorously monitor sickness absence and manage it robustly in order to drive down the levels of absence within the Health Board. ACTION 5.**

### Information Management Best Value Audit

Best Value audits are being carried out across the public sector to help protect taxpayers interests by examining the use of resources and to report on the delivery of outcomes for people who use services. The Best Value audits are being carried out in a cycle focusing on distinct areas each year. In 2008/09 the Use of Resources Best Value audit focused on Information Management.

The Information Management Best Value Audit involved the completion of a toolkit prepared by Audit Scotland, covering areas such as: Information Governance and Leadership; Information for Decision Making; Service Delivery; Compliance and Control; and Knowledge Management. The conclusions from the toolkit provide an assessment of current performance as well as assisting a judgement on the capacity of the service to improve.

A summary of the Board's assessment against the 5 key areas of the toolkit is given below:

Information Management Toolkit Module	Evaluation
Information Governance and Leadership	Better Practice
Information for Decision Making	Better Practice
Service Delivery	Basic Practice
Compliance and Control	Basic Practice
Knowledge Management	Basic Practice

The key findings from the review were:

- NHS Lanarkshire was judged to have achieved better practices in respect of Information Governance and Leadership, reflecting the Board's clear governance and strategy with the appropriate skills and clarity of responsibilities.
- The Board was also judged to have achieved better practices in respect of Information for Decision Making, reflecting the clear reporting lines and the development of tactical action plans from the Information Strategy.
- NHS Lanarkshire was judged to have achieved basic practices in respect of Service Delivery. This reflects the limited knowledge of the information sets held and understanding of all information flows across the Board, and the fact that there are no processes in place to capture the costs of providing information.
- The Board was also judged to have achieved basic practices in place in respect of Compliance and Control, reflecting the informal or ad hoc nature of processes in place.
- NHS Lanarkshire was judged to have achieved basic practices in respect of Knowledge Management. This reflects lack of formal training for staff in respect of responsibilities for capturing, handling and communicating information and lack of monitoring in respect of information management processes.

# 7. Systems of Internal Control

## Statement on Internal Control

The Code of Audit Practice requires us to review and report on the Board's Statement on Internal Control.

The Board has used the correct format for its Statement and has outlined the processes it has employed to identify and evaluate risks. In addition, key elements of the Board's control framework have been highlighted.

Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

## Systems of Internal Control

We are required under ISA 260 to report to you any material weaknesses in the accounting and internal control systems, including general computer controls identified during the audit. The results of our work on systems of internal control were communicated to Audit Committee in our Interim Management Letter on 10 March 2009.

The report contained 17 recommendations to improve controls. However, there were no risks identified that could be considered material in nature.

NHS Lanarkshire management has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. We will follow up this action plan during our 2009/10 audit.

## Follow up of outstanding recommendations

We followed up the Board's progress in implementing recommendations made in the prior year. Our Follow Up Report was considered at the Audit Committee meeting on 10 March 2009.

At the time of reporting, of the 98 agreed actions, progress was as follows:

Status	2007/08 Follow Up Report	Interim Management Report 2007/08	Annual Report to Members 2007/08	Final Management Letter 2007/08	Total
Action Implemented	51	8	4	1	64
Action in Progress	7	3	3	2	15
Limited/Little Progress to Date	3	2	1	1	7
No Longer Applicable	8	1	3	-	12
<b>Total</b>	<b>69</b>	<b>14</b>	<b>11</b>	<b>4</b>	<b>98</b>

## National Fraud Initiative

The National Fraud Initiative (NFI) brings together data from health bodies, local government, police and fire rescue bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.

NFI in Scotland is now well underway following the release of the identified possible matches in February 2009. The Board has been investigating the matches since February to consider if any instances of fraud have been identified.

Good progress has been made in investigating Payroll to Payroll matches by the Board. Out of a total of 28 matches, a total of 22 have now been fully addressed with no issues found in any of these cases.

Through discussions with management it is understood that action is underway to investigate Payroll to UK Visa matches but no formal documentation had taken place on the NFI database.

NHS Lanarkshire has focussed on addressing the recommended matches on the NFI database. These are the matches which are of the highest quality in terms of the data available. This does not mean that these are the most likely to be fraudulent. NHS Lanarkshire has over 1,700 matches, each of which has equal potential to be fraudulent.

**NHS Lanarkshire should consider selecting a sample from all the NFI matches and investigating these in order to gain a higher level of assurance that the matches identified are not fraudulent in nature  
ACTION 6.**

## Internal audit

The role of internal auditing is determined by management and therefore its objectives differ from ours. It is part of our approach to gain an understanding of the internal audit function to determine if it would be effective and efficient to use their work.

During 2008/09 the Board has continued to operate an in-house internal audit service. We have reviewed the work of internal audit and have, where appropriate, placed reliance on their work.

# Appendix A – Action Plan

Ref	Issue and Recommendation	Management Response
1	<p>There has been a drive by management to improve the process around the generation of provisions and accruals at the year end and this had led to a decrease in the number of financial adjustments that were identified during the audit. However, there is room for further improvement, particularly in the areas of classification between accruals and provisions and rigorous application of the appropriate accounting standard.</p> <p><b>NHS Lanarkshire should assess the year-end provisions and accruals against appropriate accounting standards.</b></p>	<p><b>Management Response:</b></p> <p>Whilst there will remain an element of interpretation between classification of accruals and provisions, we will continue to work closely with external audit to ensure appropriate accounting standards are applied.</p> <p><b>Responsible Officer:</b> Director of Finance</p> <p><b>Due Date:</b> Ongoing</p>
2	<p>Government guidance was issued in 2008/09, as a result of the economic downturn, that suppliers should be paid within 10 days. NHS Lanarkshire processes invoices and releases them for payment as soon as they are matched to purchase orders and receipts on the ledger meaning that in the absence of issues, these targets will be achieved. However, problems regarding the delivery of invoices to the accounts payable department has hampered the Board's attempts to meet this target.</p> <p>In addition, a significant number of invoices are placed on the Invoice Query Register as differences exist between the quantity and/or price on the invoice compared to the Goods Received Not Invoiced (GRNI) accrual. Due to the high volume of creditors invoices processed each month, a queried invoice can considerably slow down the length of time taken to make a payment.</p> <p><b>Management should investigate creditor payment days to identify trends in the processing of invoices. This may involve selecting a sample of GRNI accruals and tracking and recording their progress through to payment to identify any common</b></p>	<p><b>Management Response:</b></p> <p>The Finance Department issued a letter to all suppliers in March 2009, instructing them to send all invoices direct to Financial Services at Monklands Hospital. The situation continues to be monitored and follow up reminders will be sent, if necessary. There has also been recent mail delivery problems at Monklands and this is currently being investigated by the General Manager for Property and Support Services.</p> <p>An action plan is being prepared to address the invoice query problem and new targets will be set. The shared services Consortium is also looking at the best process to ensure the 10 day target is achieved.</p>

Ref	Issue and Recommendation	Management Response
	<p>issues and actions required.</p>	<p><b>Responsible Officer:</b> Director of Finance</p> <p><b>Due Date:</b> Invoice Query reduction September 2009. Other issues ongoing.</p>
3	<p>The assimilation of staff under Agenda for Change was completed during 2008/09. This is a process that has been ongoing for 5 years and, as expected, the Board is starting to see a slowing in staff turnover, as a result of improved pay and conditions. The lower staff turnover will result in increment drift as staff move upward through their pay-scales. It is expected that this cost pressure will be felt more acutely from 2009/10, but as yet this has not been quantified. The impact of this rise is expected to be absorbed within the divisions, with no additional funding allocated for this.</p> <p><b>NHS Lanarkshire should closely monitor staff cost budgets throughout the year in order to manage the effects of increment drift arising from the implementation of Agenda for Change.</b></p>	<p><b>Management Response:</b></p> <p>The Divisions are tracking the impact of incremental drift across individual budget headings. The Agenda for Change budgets are currently set at the 4<sup>th</sup> top point across NHSL. Any decisions to move this will be taken as part of the wider discussions on the NHSL Financial Plan, taking into account the operational budgetary pressures arising from the current position.</p> <p><b>Responsible Officer:</b> Director of Finance</p> <p><b>Due Date:</b> Ongoing</p>
4	<p>A new implementation plan for 2009 – 2011 is currently being developed in support of the new KSF HEAT target which requires the electronic completion of personal development reviews on e-KSF for at least 80% of staff by March 2011. This will include the ongoing provision of training and refresher training.</p> <p><b>NHS Lanarkshire should provide the necessary resources to ensure that the new HEAT target on the completion of electronic PDPs is achieved by the deadline of March 2011.</b></p>	<p><b>Management Response:</b></p> <p>Agreed. The Board is already on the trajectory and in line with plans to achieve this within the timescales required.</p> <p><b>Responsible Officer:</b> Director of Organisational Development</p> <p><b>Due Date:</b> Ongoing until 31/3/11</p>

Ref	Issue and Recommendation	Management Response
5	<p>Sickness absence remains persistently high at NHS Lanarkshire. The government target was to reduce sickness absence to 4% by 31 March 2009; this was not achieved by the Board, with sickness levels ranging from 5.69% to 4.25% during 2008/09. There are particular cultural challenges in Lanarkshire that have hampered management's attempts to reduce sickness absence. These must be addressed by management to improve the Board's sickness absence rate.</p> <p><b>NHS Lanarkshire should continue to rigorously monitor sickness absence and manage it robustly in order to drive down the levels of absence within the Health Board.</b></p>	<p><b>Management Response:</b></p> <p>The Sickness Absence Group has been monitoring this target throughout the year within NHS Lanarkshire. A project plan was put in place, reflecting best practice. The group includes representation from across the organisation. An early intervention service (EASY) has been established through the occupational health service with ongoing management action to address the position.</p> <p><b>Responsible Officer:</b> Director of Human Resources</p> <p><b>Due Date:</b> Ongoing</p>
6	<p>Good progress has been made in investigating recommended matches by the Board as part of the 2008/09 NFI exercise. However, no action has been taken in relation to the other matches that are out with the recommended matches. These other NFI matches have an equal chance of being fraudulent as the recommended matches.</p> <p><b>NHS Lanarkshire should consider selecting a sample from all the NFI matches and investigating these in order to gain a higher level of assurance that the matches identified are not fraudulent in nature</b></p>	<p><b>Management Response:</b></p> <p>A larger sample had been checked in the previous financial year and had not given any additional assurance. A report on the NFI exercise and a discussion on this point will be taken to the September 2009 Audit Committee</p> <p><b>Responsible Officer:</b> Director of Finance</p> <p><b>Due Date:</b> Ongoing</p>

# Appendix B – Summary of Unadjusted Differences

Financial Statements Area	Proposed Accounting Journal		Detail of the matter
	Dr	Cr	
Fixed Assets – Impairments	Operating Cost Statement – Impairment charge  <b>£656,402</b>	Fixed Assets – Land & Buildings  <b>£656,402</b>	<p>The Scottish Government fund all Health Boards to cover the cost of impairments (write downs) of fixed assets. Management were required to submit a return to the Scottish Government in August 2008 detailing the level of expected funding required to cover the cost of impairments for the 2008/09 financial year. However, following the submission of the return, management received confirmation from the Valuer's report that the actual impairment of fixed assets was £656,402 higher than had been requested from the Scottish Government. At this point it was too late to obtain the extra funding required to cover this charge to the Operating Cost Statement. As a result management made a decision to defer the impairment charge until 2009/10 so that it could be fully funded by the Scottish Government. As a result the Land and Building assets are overstated by £656,402 in the 2008/09 balance sheet, and expenditure has been understated by the same amount. This cost is excluded from the Revenue Resource Limit as it is generally treated as 'Annually Managed Expenditure', however approval for this treatment was not sought on a timely basis from the Scottish Government Health Department.</p>



# Appendix C – Communications to Management

International Standard on Auditing (“ISA”) (UK&I) 260 – Reporting to those charged with Governance, requires that the External Auditor communicates certain matters to those charged with governance.

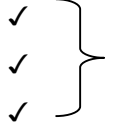
Those charged with Governance is taken to be the Members of the Audit Committee with responsibility discharged through the regular meetings of the Audit Committee during the year. Summarised below are the requirements set out within ISA 260 together with reference to the relevant communication with you during 2008/09 or comments as appropriate.

Communication Required under ISA 260	Reference/Comment
Engagement letters	Signed Engagement Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	Audit Planning document reported to 9 December 2008 Audit Committee and confirmed no member of audit team has any direct interest, financial or otherwise, in NHS Lanarkshire.
Audit Approach and Scope	Audit Planning document (reported to Audit Committee 9 September 2008).
Accounting Policies/Practices with a Material Effect on the Financial Statements	Section 3 of our Annual Report to Board Members and the Auditor General for Scotland.
Potential Effects of Material Risks and Exposures	Audit Planning document (9 September 2008).
Audit Adjustments	Section 3 and Appendix B of our Annual Report to Board Members and the Auditor General for Scotland.
Material Uncertainties relating to Going Concern	None identified.

Communication Required under ISA 260	Reference/Comment
Disagreement with Management about Matters that could be Significant to the Financial Statements	Not applicable.
Expected Modifications to the Auditor's Report	No modifications identified. A true and fair opinion provided.
Letter of Representation	Signed by Management 24 June 2009.
Material Weaknesses in Internal Control	Internal Controls findings reported separately in our Interim Management Letter (10 March 2009), Section 7 of our Annual Report to Board Members and the Auditor General for Scotland.
Fraud	Discussed fraud arrangements with the Chair of the Audit Committee (9 December 2008), Management throughout audit process.
Laws and Regulations	We have not identified any material breaches of laws and regulations in the period which impact on the 2008/09 Financial Statements.
Audit Materiality	Audit Planning document – presented to Audit Committee in 9 September 2008.
Fair Value Measurement and Disclosure	Included in representation letter, signed by management dated 24 June 2009.
Related Parties	Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.

## Formal Reporting to Management during 2008/09

During the year we have presented a number of formal reports to Management and the Audit Committee and produced certain outputs. Our principal outputs during 2008/09 are summarised below:

Formal Output	Timing
Audit Plan	9 September 2008
Detailed Timetable for 2008/09 Financial Audit	9 September 2008
IFRS Opening Balance Sheet Letter	26 February 2009
Follow-up of 2007/08 Recommendations	10 March 2009
Interim Management Letter	10 March 2009
Letter to Director of Workforce regarding the process for preparation of the Staff Governance Action Plan	30 April 2009
Annual Report to Board Members and the Auditor General for Scotland	24 June 2009
Audit Opinions 1. True and fair view on the financial statements    ✓ 2. Regularity of income and expenditure            ✓ 3. Remuneration Report (sections)                    ✓ 	24 June 2009  Unqualified Audit Opinions

### **Freedom of Information Act (Scotland) 2002**

In the event that, pursuant to a request which the institution has received under the Freedom of Information Act (Scotland) 2002 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), NHS Lanarkshire is required to disclose any information contained in this report, it will notify PwC promptly and will consult with PwC prior to disclosing such report. NHS Lanarkshire agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC, NHS Lanarkshire discloses any of this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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