

NHS Forth Valley

2018/19 Annual Audit Report



 AUDIT SCOTLAND

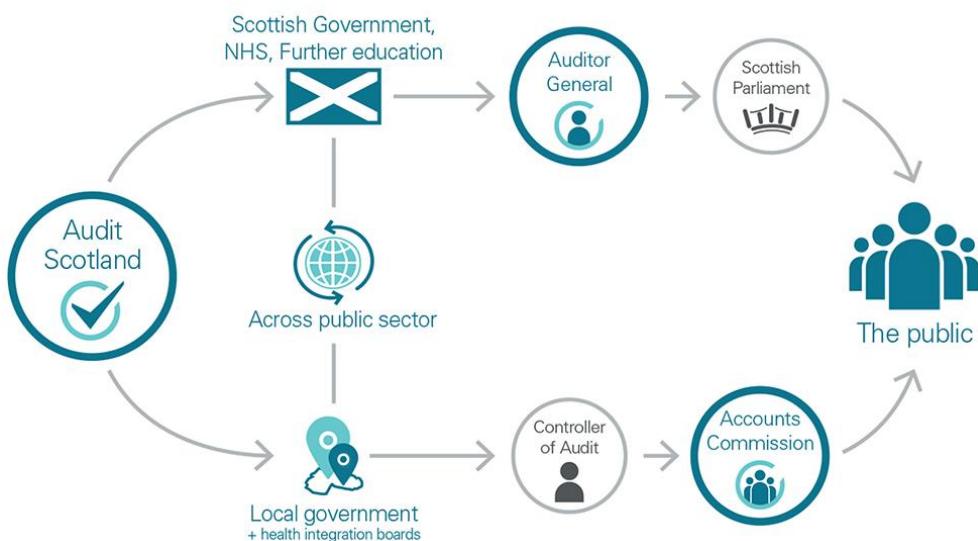
Prepared for the Board of NHS Forth Valley and the Auditor General for Scotland

11 June 2019

Who we are

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

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



About us

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

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

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

Contents

Key messages	4
Introduction	6
Part 1 Audit of 2018/19 Annual Report and Accounts	9
Part 2 Financial management	14
Part 3 Financial sustainability	20
Part 4 Governance and transparency	25
Part 5 Value for money	29
Appendix 1 Action plan 2018/19	35
Appendix 2 Significant audit risks identified during planning	39
Appendix 3 Summary of national performance reports 2018/19	43

Key messages

2018/19 Annual Report and Accounts

- 1 NHS Forth Valley's financial statements give a true and fair view and were properly prepared. Expenditure and income were in accordance with applicable enactments and guidance.
- 2 The audited part of the Remuneration and Staff Report, Performance Report and Governance Statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Financial management

- 3 NHS Forth Valley has appropriate and effective financial management arrangements in place. NHS Forth Valley met all its financial targets for 2018/19 and achieved an underspend of £0.217 million against its revenue resource limit.
- 4 Systems of internal control operated appropriately and effectively in 2018/19.

Financial sustainability

- 5 NHS Forth Valley has appropriate and effective financial planning arrangements in place to identify risks to financial sustainability across the short and medium term.
- 6 NHS Forth Valley achieved its savings target but was required to rely on a higher proportion of non-recurring savings to achieve the reported outturn position. This, together with the need to identify how medium-term savings requirements will be addressed, increases the risk of not achieving savings targets and maintaining financial balance in the medium term.
- 7 The board has assessed that some £8 million to £10 million of the savings plans required to deliver a balanced financial position in 2019/20 are at risk of not being achieved, which could impact on its ability to deliver a balanced financial position.

Governance and transparency

- 8 NHS Forth Valley has appropriate governance arrangements in place that support scrutiny of decisions made by the board. Transparency could be improved by holding all committee meetings in public whilst recognising that sensitive or confidential items could be dealt with in a private session; or by making public the non-confidential papers submitted to standing committees.

Value for money

- 9 NHS Forth Valley has an effective performance management framework in place which supports continuous improvement. However, the

organisation struggled to meet some key national performance targets and required help from the Scottish Government to achieve the 4-hour A&E target.

- 10** Improvements in performance have been achieved in most of the board's key targets. Priority has been given to protecting and maintaining services while operating within the board's financial settlement whose level is not certain in future years. Emphasis is being placed on meeting targets for A&E and the 12-week Treatment Time Guarantee.

Introduction

- 1.** This report summarises the findings from our 2018/19 audit of Forth Valley Health Board, commonly known as NHS Forth Valley (the “board”)
- 2.** The scope of our audit was set out in our 2018/19 Annual Audit Plan presented to the 18 January 2019 meeting of the Audit Committee. This report comprises the findings from:
 - an audit of the board’s Annual Report and Accounts
 - consideration of the wider dimensions that frame the wider scope of public audit set out in the *Code of Audit Practice 2016* as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

- 3.** The main elements of our audit work in 2018/19 have been:
 - a review the board's main financial system
 - an audit of the board's 2018/19 Annual Report and Accounts including the issue of an independent auditor's report setting out my opinions
 - consideration of the four audit dimensions

Adding value through the audit

4. We add value to NHS Forth Valley through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- providing guidance to the board when they updated their risk management arrangements
- early engagement on significant accounting issues such as the processing of Stirling Health and Care Village transactions
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

5. In so doing, we aim to help NHS Forth Valley promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. NHS Forth Valley has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing Annual Report and Accounts that are in accordance with the account's direction from the Scottish Ministers. The board's Annual Report and Accounts includes the following:

- Performance Report
- Accountability Report (which includes the Corporate Governance Report, Remuneration and Staff Report and Parliamentary and Accountability Report)
- Financial statements and supporting notes.

7. The board is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK.

9. As public sector auditors, we give independent opinions on the Annual Report and Accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements;
- the suitability and effectiveness of corporate governance arrangements; and
- the financial position and arrangements for securing financial sustainability.

10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

11. This report raises matters from the audit of the Annual Report and Accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

12. Our Annual Audit Report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation. It also includes any outstanding actions from last year and progress against these.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £0.145 million, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

15. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 Annual Report and Accounts



Main judgements

NHS Forth Valley's financial statements give a true and fair view and were properly prepared.

Expenditure and income were in accordance with applicable enactments and guidance.

The audited part of the Remuneration and Staff Report, Performance Report and Governance Statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The Annual Report and Accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Audit opinions on the Annual Report and Accounts

16. The Annual Report and Accounts for the year ended 31 March 2019 were approved by the board on 11 June 2019. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

Submission of Annual Report and Accounts for audit

17. We received most of the unaudited Annual Report and Accounts on 29 April 2019, in line with our agreed audit timetable. The narrative sections of the annual accounts, such as the Accountability Report and the Remuneration and Staff Report were received around a week later. However, we did not receive the Performance Report until 24 May 2019. This should be provided earlier in the audit process to ensure it does not have an impact on the timely conclusion of the audit.

18. The board's group accounts included the financial results of the Endowment Fund and Integration Joint Boards (IJBs) within its area. The IJBs' annual accounts have yet to be audited, however, we are satisfied with the board's arrangements to agree year end balances between itself and its partners. The balances between partners were not agreed until after the 30 April statutory deadline since all partners had not fully quantified their financial position by that date, and the basis

for sharing the overspends was not fully agreed until this was quantified. Our audit testing confirmed that the board properly identifies transactions that relate to work commissioned by its IJBs.

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

Risks of material misstatement

20. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the Annual Report and Accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

21. We have no issues to report from our work on the areas we identified in our 2018/19 Annual Audit Plan as being at risk of material misstatement in the financial statements. Our Annual Audit Plan also identified risks from our wider responsibility under the Code of Audit Practice. These relate to the need to deliver savings to maintain financial sustainability; and the requirement to meet key Scottish Government performance targets. These are ongoing risks which the board continue to manage. We have commented on these in parts 3 and 5 of this report and are included in the action plan at [Appendix 1](#).

Materiality

22. Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

23. Our initial assessment of materiality for the Annual Report and Accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the Annual Report and Accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

24. On receipt of the unaudited Annual Report and Accounts we reviewed our planning materiality calculations. Minor changes were made to the materiality levels we reported in our Annual Audit Plan as reported in [Exhibit 2](#). This had no impact on our audit approach.

Exhibit 2 Materiality values

Materiality level	As stated in the Annual Audit Plan	Revised amount
Overall materiality	£6.585 million	£6.700 million
Performance materiality	£3.951 million	£4.020 million
Reporting threshold	£0.165 million	£0.168 million

Source: Audit Scotland

Significant findings from the audit in accordance with ISA 260

- 25.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the judgemental aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.
- 26.** The significant findings are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

Subjective aspects of the audit

- 27.** We have no significant findings to report around the subjective aspects (e.g. accounting policies, accounting estimates/judgements, significant financial statements disclosures, impact of uncertainties etc) of the 2018/19 accounting practices.

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
1. Provision for pension liabilities overstated Provisions at note 13 of the annual accounts include an amount for pensions and similar obligations. The pensions element of this balance consists of a provision of £1.782 million to meet the estimated future pension costs for staff who took early retirement prior to 1995. The board has uplifted this provision to provide for future inflation, however, the inflation aspect of these costs is financed by the Scottish Public Pensions Agency (SPPA). We estimate that this provision is overstated by £0.219 million. We have not requested an adjustment to the accounts since a compensating adjustment would require to be processed through the board's annually managed expenditure (AME) non-core revenue funding.	The board will review the accounting treatment for this balance in 2019/20 and agree any compensating AME adjustments with the Scottish Government.
2. General fund deficit The general fund balance, as disclosed in the Consolidated Statement of Changes in Taxpayers Equity, continues to be in debit. The debit balance decreased from £24.848 million at 31 March 2018 to £18.389 million at 31 March 2019. The debit balance has built up due to the movements in non-cash expenditure such the CNORIS provision. A significant factor in the board's accumulated deficit is the required accounting treatment for PPP/PFI contracts.	The board has received assurance from the Scottish Government that they are aware of and are content with this position.
3. Holiday pay accrual Trade and other payables at note 12 of the annual accounts include an amount of £0.552 million for accrued holiday pay. The evidence held in support of this balance is not as robust as it should be. We carried out additional audit testing and we are satisfied that the provision is not materially under or overstated. However, the board should review its arrangements for documenting and monitoring the quality of information regarding annual leave within the HR system. This should ensure that employees outstanding leave	 Recommendation 1 (refer Appendix 1, action plan)

Issue	Resolution
entitlement at 31 March is accurately captured within the holiday pay accrual recorded in the accounts.	
4. Performance Report The Performance Report provided for audit did not report performance in the context of the key issues and risks the board faces. There is an opportunity for the board to refresh the format of the performance report to more fully cover the context in which it operates; and to deliver the key messages it wishes to convey. The board should also ensure the Performance Report is produced earlier in the annual account's completion process.	 Recommendation 2 (refer Appendix 1, action plan)
5. Clinical Medical Claims and CNORIS provision The board has calculated the structured settlement element of the provision for future medical negligence payments on a future cash basis that does not include any projected increase as a result of the difference between RPI rate and the general discount rate. As a result, the provision reported at note 13 is understated by £0.460 million. This has no impact on the net expenditure and savings reported for 2018/19 since any increase in this provision would be fully reimbursed by the Clinical Negligence and Other Risks Scheme (CNORIS) operated by NHS Scotland. Several health boards in Scotland have applied the same approach as NHS Forth Valley when calculating their provision for medical negligence claims. As a result, the overall CNORIS scheme liability for Scotland is understated. This has resulted in a redistribution of the overall liability to NHS boards in Scotland which, in turn, has resulted in an increase of £0.336 million to the board's share of the CNORIS liability of NHS Scotland. As any movements in the board's share of CNORIS funding is covered by AME funding from the Scottish Government, this does not have any impact on the net expenditure and savings reported for the year.	The board will review the accounting treatment for this balance in 2019/20 and agree any compensating AME adjustments with the Scottish Government.

Source: 2018/19 audit

How we evaluate misstatements

28. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. There were no material adjustments to the unaudited Annual Report and Accounts arising from our audit.

Follow up of prior year recommendations

29. We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#). In total, five agreed actions were raised in 2017/18. Of these:

- three have been fully implemented
- two are being monitored on an ongoing basis and continue to be relevant.

30. Overall the board has made satisfactory progress in implementing these actions. For those actions not yet implemented, revised responses and timescales have been agreed with management in [Appendix 1](#).

Part 2

Financial management



Main judgements

NHS Forth Valley has appropriate and effective financial management arrangements in place. NHS Forth Valley met all its financial targets for 2018/19 and achieved an underspend of £0.217 million against its revenue resource limit.

NHS Forth Valley had adequate systems of internal control in place during 2018/19 and our testing of the key controls confirmed that they operated effectively.

The board had good arrangements in place to identify and monitor efficiency savings. However, the board was required to rely on a greater than planned level of non-recurring savings in 2018/19 to enable it to achieve its reported underspend.

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

Financial performance in 2018/19

31. NHS Forth Valley, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD) annually. As illustrated in [Exhibit 4](#), the board operated within all limits during 2018/19.

Exhibit 4

Performance against resource limits in 2018/19

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	569.010	568.793	0.217
Non-core revenue resource limit	22.232	22.232	0
Total revenue resource limit	591.242	591.025	0.217
Core capital resource limit	9.296	9.296	0
Non-core capital resource limit	9.677	9.677	0
Total capital resource limit	18.973	18.973	0
Cash requirement	627.141	627.141	0

Underspend against Revenue Resource Limit (RRL)

32. NHS Forth Valley achieved an underspend of £0.217 million against its 2018/19 total revenue resource limit of £591.242 million. The 2018/19 underspend is after the board's contribution to residual year end overspends across both IJBs. This totalled £2.490 million and consisted of £1.264 million and £1.226 million being released from the board's internally ring-fenced budgets to Falkirk IJB and Clackmannanshire & Stirling IJB respectively to enable them to deliver a break-even position. Both IJBs also overspent their budget in 2017/18. There is a risk that if these overspends persist, then the services delivered by the IJBs to NHS Forth Valley may not be sustainable.

33. For Clackmannanshire & Stirling IJB, the board financed 50% of the total overspend based on voting share. This was a transitional arrangement, however, this arrangement also applied to the 2017/18 overspend. NHS Forth Valley met the overspend relating to the health arm of the Falkirk IJB outturn.

34. The board are reviewing arrangements for funding IJB overspends in 2019/20 if they arise. All partners need to review their arrangements for achieving savings targets to ensure strategic priorities can be delivered within budget.

Efficiency savings

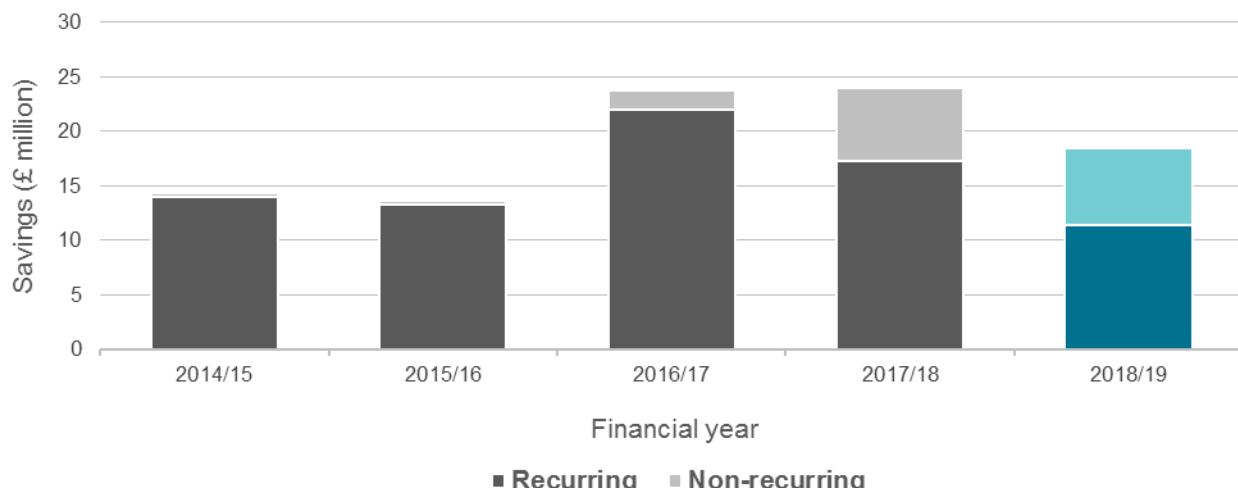
35. NHS Forth Valley was required to make efficiency savings of £18.418 million in 2018/19. This is equivalent to a savings target of 3.7% of baseline RRL. While this target was a reduction from the previous year, it continues a trend of significant year on year savings requirements as identified in [Exhibit 5](#).

36. Savings of £11.412 million (62.0%) were achieved on a recurring basis with the remainder on a non-recurring basis (£6.996 million: 38.0%). Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

37. The proportion of non-recurring savings attained in 2018/19 were higher than any preceding year. This is not sustainable over the longer term and increases the amount of recurring savings required in each future year to enable a break-even position. [Exhibit 5](#) illustrates the extent to which the health board has become reliant on non-recurrent savings in recent years.

Exhibit 5

Savings – recurring and non-recurring



Capital Allocation

38. NHS Forth Valley received a total capital allocation of £18.973 million in 2018/19. This included £9.677 million of non-core funding for the 2nd phase of the Stirling Care Village. An additional £1.568 million of cash was generated from the disposal of assets and income from donations to give an overall £20.541 million available for capital expenditure. This was fully utilised. Informative progress reports regarding capital projects and the capital plan budget are provided regularly to the Performance and Resources Committee.

Budgetary processes

39. We reviewed the board's budgetary processes including budget setting and monitoring arrangements. Senior management and members receive regular and accurate financial information on the board's financial position. The board has good arrangements for setting its budget, and we consider the underlying assumptions applied to the budget are reasonable.

40. NHS Forth Valley has appropriate budget setting and monitoring arrangements that allow both members and officers to carry out scrutiny of the board's finances. This includes information relating to the progress of all planned savings including the forecast year end delivery and whether the board are on course to achieve each saving.

Risk management

41. NHS Forth Valley implemented its "*Risk Management Strategy 2019 – 2021*" in January 2019. The strategy sets out the arrangements and processes to be applied to ensure an effective risk management framework. The strategy is clear and sufficiently detailed to allow all staff to understand their roles and responsibilities. Training on risk management was provided to members during the year.

42. The Corporate Risk Register, along with departmental, ward, etc. risk registers, are a key component of risk management arrangements. An updated Corporate Risk Register, under the new strategy, was reported at the May 2019 Board meeting. The updated Corporate Risk Register includes clear details on progress to date. Dates for the next general review of risks are also included.

Systems of internal control

43. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that NHS Forth Valley has sound systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

44. Our findings from the review of systems of internal controls were included in the progress report presented to the Audit Committee on 15 March 2019. We concluded that the controls tested were operating effectively. No significant internal control weaknesses were identified during the audit which could affect NHS Forth Valley's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Internal audit

45. We reviewed the board's internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could use the work of internal audit. We have used the work of internal audit in the following areas for our 2018/19 wider dimensions audit responsibilities:

- information assurance and security;

- management of the savings programme; and
- the quality of performance reports.

46. Internal audit filled its vacant posts during the year. It is therefore on course to complete its 2018/19 audit plan. However, some of their planned audits have been deferred for client operational reasons and are scheduled to be presented to the Audit Committee at the October 2019 meeting. None of the audits deferred have any impact on our planned audit work.

47. Progress regarding the implementation of internal audit recommendations is provided to the audit committee. The latest report to the March 2019 Audit Committee noted that of the 115 recommendations from current year reports, 13 recommendations have not been implemented in line with agreed timescales. Eight of these are still ongoing and the remaining five have been referred back to internal audit for follow up. It has been agreed that a paper detailing the audit follow up position will be provided to the senior leadership team on a monthly basis.

48. Public Sector Internal Audit Standards (PSIAS) require that internal audit carry out an external evaluation every five years. We reported in our 2018/19 Annual Audit Plan that this requirement had not been met by the 31 March 2018 deadline. This has since been completed and will be presented to the June 2019 Audit Committee meeting. The external assessors report stated that the “Internal Audit service for Fife and Forth Valley generally conforms with the PSIAS”. Some areas for improvement were identified and an action plan is in place to address the recommendations. We do not consider any of these to be significant.

Standards of conduct for prevention and detection of fraud and error

49. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

50. We have reviewed the arrangements in place to maintain standards of conduct including the Standing Financial Instructions, the Code of Conduct for Members, and the Whistleblowing arrangements. The financial operations manual includes a section on fraud standards which provides guidance to employees on what action to take when fraud, theft or corruption is suspected. The board has a formal partnership with NHS Scotland Counter Fraud Services (CFS). These arrangements include the Fraud Liaison Officer circulating reports to appropriate managers and to the Audit Committee. Reports from CFS highlighting any referrals from NHS Forth Valley are presented to the Audit Committee each quarter.

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

National Fraud Initiative

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

53. NHS Forth Valley submitted its payroll and creditors data in accordance with the required timetable. However, the cabinet office, who compile NFI matches incurred an error with the creditors matches and these are not yet available. The NFI website has identified 170 payroll matches for the board and these are categorised as:

- high (10 matches) i.e. some significant potential fraud factors identified
- medium (49) i.e. some potential fraud risk factors identified
- low (61) i.e. few potential fraud risk factors identified; and
- Nil (50). i.e. no fraud risk factors were identified.

54. The board has still to determine which matches to investigate. The approach, together with any results to date, and the outcome from the revised creditors match will be presented to the Audit Committee later in the year.

Shared systems

55. The NHS in Scotland procures a number of services each year for shared systems: NHS National Services Scotland (NSS) procures service audits covering primary care payments and the national IT contract; and NHS Ayrshire & Arran procure a service audit of the National Single Instance eFinancials service

56. As your external auditor we have considered the content of the service auditor assurance report, and any associated external audit report. There are no significant findings to draw to your attention.

Dependency on key suppliers

57. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts, or disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.

58. There are some significant non-public sector providers, however appropriate arrangements are in place to ensure minimal disruption to services in the event of supplier failure (e.g. clear agreements and contracts). We reviewed NHS Forth Valley's key suppliers and found there was little exposure to significant non-public sector providers.

ICT controls

59. We reviewed the board's business continuity arrangements. This included a high-level review of the disaster recovery plan (DRP) and the business continuity plan (BCP). We also liaised with internal audit, who reviewed the board's arrangements in greater detail. The DRP classifies all systems into timescales for recovery and also highlights a range of situations and how to address them, including a number of recovery strategies and the role and responsibilities for the Recovery Management Team.

60. The board's business continuity planning arrangements, which are currently being refreshed, cover the key systems within the health board and highlight how often systems should be backed up and how long it would take to get systems back to fully operational function in the event of a system failure.

61. Internal Audit carried out a review of the board's information security framework (including cybersecurity & eHealth organisational resilience). We note that the findings in their pending report, which focussed on service and departmental BCP arrangements, includes recommendations on the need for business continuity planning to be updated to ensure arrangements reflect revised organisational structures; and to ensure each service area of the organisation has been adequately planned for. They also note that the BCP monitoring tool has not been used since 2017 and that a gap analysis should be done to identify areas of the business where either there is no BCP in place, or where BCPs have become out of date due to organisational/service change. Internal audit are scheduled to report their detailed findings to the Audit Committee in June 2019.

Good practice

62. Savings achieved during the year to date are monitored through regular directorate meetings, ensuring that a structured approach to achievement of savings targets has been clearly defined and communicated to the relevant stakeholders. It is good practice that the board has included the staff body in this by inviting anonymous proposals from staff members which have been categorised and assigned as part of the formal savings program. The Area Partnership Forum has also considered the area wide savings programme. This level of communication promotes consistency of understanding of the importance of the savings programs.

Part 3

Financial sustainability



Main judgements

NHS Forth Valley has appropriate and effective financial planning arrangements to identify risks to financial sustainability. These arrangements are based on the Annual Delivery Plan and five-year revenue Financial Plan.

NHS Forth Valley achieved its savings target but was required to rely on a higher proportion of non-recurring savings than planned. This, together with the need to identify how medium-term savings requirements will be addressed, increases the risk of not achieving savings targets and maintaining financial balance in the medium term.

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

Changing landscape for public financial management and medium to long term financial planning

63. Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity

64. A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

65. The Scottish Government has introduced new arrangements from 2019/20 with NHS Boards required to set out plans to deliver a breakeven position over a three-year planning period rather than a one-year basis, with flexibility to report over or underspends of up to 1% of the board's core revenue resource funding in-year.

Financial planning

66. NHS Forth Valley's Annual Operational Plan (AOP) for 2019/20 sets out how its strategy is aligned to delivery. It comments on performance for the past year and highlights the board's strategic priorities and how this is linked to the board's financial and workforce plans. The draft AOP was submitted to the Scottish Government in April. Discussions are ongoing, and the final version is expected to be submitted and approved soon.

67. NHS Forth Valley has approved its "Financial Plan 2019/20 – 2023/24". As summarised at [Exhibit 6](#), this forecasts savings requirements of £60.1 million over the five-year period to enable financial balance, and £36.1 million over the first

three years of the financial plan to 2021/22. These forecasts are based on a set of assumptions for allocation uplifts, inflationary costs and demographic changes.

68. The board's longer-term vision is appropriately focused on efficiency and improving value across whole systems. The strategy and approach to the delivery of cost improvements is to extend the board's existing Project Management Office (PMO) model and apply it corporately across a prioritised set of programmes. This will initially focus on those areas of significant spend including workforce (rostering, job planning, administrative functions review), medicines and consumables.

69. A range of assumptions have been made on cost inflation and resources. The basic funding uplift for 2018/19 and 2019/20 is 1.8% while in each subsequent year the funding uplift is assumed to be 1.5% based on best estimates given current year uplift and known historic positions. There is no agreed advisory position for future years from the Scottish Government, but funding assumptions were benchmarked with other boards through the corporate finance network. The financial plan highlights other assumptions relating to other elements of income and a range of cost inflation projections. It is not possible for us to comment on these with any degree of certainty, however, we consider these assumptions to be reasonable.

70. A balanced financial position is projected over the first three-year period of the plan, meeting Scottish Government requirements. This incorporates a forecast deficit in 2019/20 of £2.4 million, a breakeven position in 2020/21, and an offsetting surplus of £2.4 million in 2021/22. The forecast overspend in 2019/20 incorporates the costs of supporting and enabling the infrastructure that will be needed to deliver future cost reduction and efficiency improvements at the scale that is required to ensure the future sustainability of the board and its services. This includes significant investment to improve IT and data capture systems which are critical to the future success of the organisation.

71. The board has highlighted that the area of highest risk of potential variability in future years is costs associated with new drugs, particularly those which are impacted by changes in demand profile. In the shorter term, clarity on funding in respect of meeting waiting times improvement targets is required to determine trajectories and delivery plans for 2019/20 and beyond.

72. The board's "*Capital Plan 2019/20 – 2023/24*" was approved in March 2019. This is based on annual core capital resource funding of £6.085 million over the period of the plan. It also incorporates projections of future anticipated asset disposals; and capital funds of £4.5 million in 2019/20 to finance two theatres within Forth Valley Acute Hospital to facilitate a reduction in national waiting times. Other principal areas of capital investment include IT investment to support the priorities in the eHealth strategy, and the final element of Stirling Health and Care Village.

73. The board has strong financial planning arrangements in place which enable the organisation to identify and mitigate the foreseeable risks to financial sustainability across the medium term.

Medium to long term efficiency savings

74. As previously noted, NHS Forth Valley achieved its efficiency savings target in 2018/19, albeit with £6.996 million coming from non-recurring sources. The board requires to achieve efficiency savings of £19.2 million in 2019/20, which is equivalent of 3.7% of recurring baseline RRL in 2019/20. To date, savings options of £15.6 million have been identified and are subject to further review and change once the corporate PMO is fully established. These are categorised as red, amber, or green in accordance with the risk or additional work required to achieve the projected savings. The remaining £3.6 million is still required to be identified. Based on the current status of the assessed savings plans, it is estimated that there is a financial risk of between £8 million and £10 million for 2019/20. There is a risk that the board may not be able to deliver all of its required saving requirements for 2019/20.



Recommendation 3

The board should identify how the remaining £3.6 million savings requirements will be met; and take steps to mitigate the £8 million to £10 million of savings that are identified as red (higher risk of achievement).

75. In each subsequent year of the plan, NHS Forth Valley is required to achieve the efficiency savings illustrated in [Exhibit 6](#). Most of the savings required in 2020/21 and beyond have yet to be identified and many of the ‘easier’ savings opportunities have already been realised by the board. The achievement of future savings targets will involve difficult decisions and a fundamental reassessment of the organisation’s operating model. It is unlikely that the board will be able to deliver savings of this scale in isolation and will need to work with partners and stakeholders to take these challenges forward.

Exhibit 6 Funding gap 2019/20 to 2023/24

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	TOTAL
Total	19.214	7.124	9.776	11.055	12.943	60.112
% of baseline RRL	3.8%	1.4%	1.9%	2.1%	2.5%	N/A
Savings identified to date	15.600	£0	£0	£0	£0	15.600
Shortfall in identified savings	3.614	7.124	9.776	11.055	12.943	44.512

Source: NHS Forth Valley.

Note – savings for 2010/21 and beyond have not yet been identified

76. While the funding gap for the next five years has been identified, savings options to meet this gap have not yet been fully developed. In determining the options for future savings plans it is incumbent upon the board to recognise that such strategies will also need to fit with the plans of its partners in the local public sector economy. Therefore, the board will need to work closely with all partners as it seeks to develop its approach to achieving future savings and efficiency requirements. A key challenge will be for the board to identify who are the key partners it has to work with.



Recommendation 4

The board should work with its local and national partners to identify the key areas where efficiencies and savings can be made to bridge the five-year funding gap.

Workforce planning

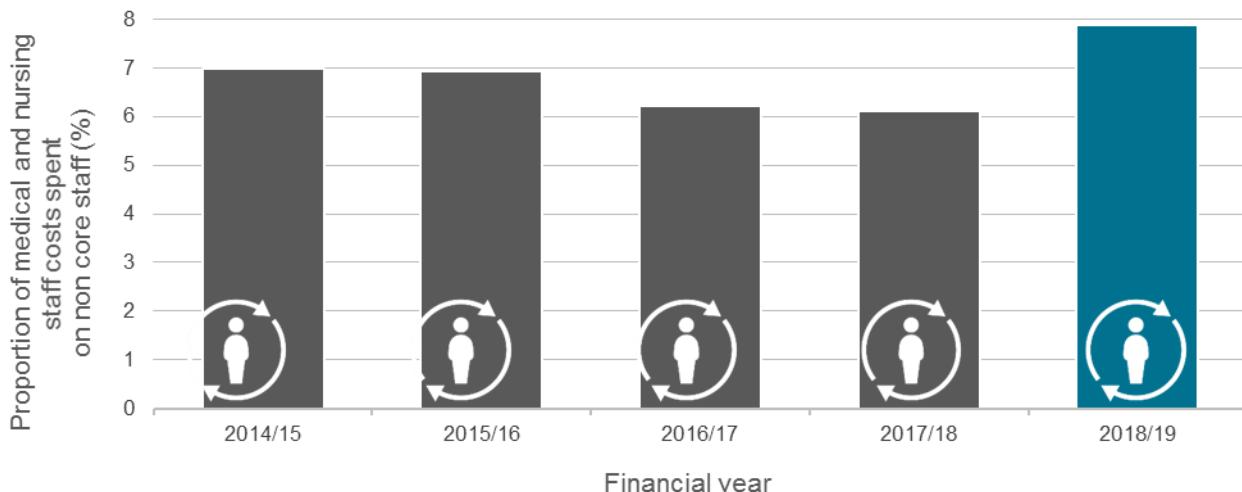
77. NHS Forth Valley has a three year “*Our People Strategy 2018 – 2021*”. This provides the framework in support of the “*Workforce Plan 2018 – 2019*”, which was approved by the board in November 2018. This highlights that NHS Forth Valley is facing a number of workforce challenges. It also highlights how the board intend to address these challenges. We are therefore satisfied that the board has reasonable strategic planning arrangements in place to manage this.

78. One issue highlighted in the workforce plan is the age profile of staff. Latest figures show that there is an increasing proportion of the board’s workforce that are over 50 years old. Currently 39.96% of the workforce is aged 50 or over, which is slightly higher than the NHS Scotland level of 39.02%. This figure is projected to rise over the next 10 years. This presents a risk that, in the medium to long term, the board could face significant staffing shortages as a result of retirement, which could impact the board’s ability to provide key service areas at the required level.

79. NHS Forth Valley is also facing challenges in recruiting and retaining staff and have highlighted Learning Disabilities and Community Nursing Services which are facing difficulties in recruiting experienced and appropriately trained staff.

80. As a result of recruitment retention problems and pressures to meet waiting time targets, expenditure on temporary staff increased in 2018/19 as illustrated in [Exhibit 7](#). Although temporary staff provide flexibility in the short term, it comes at a cost with spending on temporary staff increasing from 6.11% of medical and nursing staff costs in 2017/18 to 7.88% in 2018/19. This has partly arisen due to the need to meet national waiting time targets, and difficulties in substantive recruitment to a number of hard to fill jobs.

Exhibit 7 Temporary staff costs



81. Of the temporary staff costs in 2018/19, 74.8% (£10.960 million) was on bank staff and 25.2% (£3.690 million) was on agency staff. A key objective in the “*Our People Strategy 2018 – 2021*”, is to improve and enhance recruitment and retention. To achieve this the board aims to reduce its reliance on more costly agency workers, therefore reducing overall temporary staff costs. Actions being taken include the board working with other boards to review recruitment practices, targeting specific populations, and using a range of communication methods.

82. Achievement of the national performance standard of 4% for sickness absence remains a challenge for NHS Forth Valley, as it does for most health boards. As at March 2019, the 12-month average for sickness absence rate has deteriorated slightly to 5.88% compared to 5.40% for the comparable period last year. This is above the national average across Scotland of 5.39% and partly contributed to the increase in non-permanent staff costs in 2018/19. The Board aims to reduce its sickness absence rate to below 4.5% through the “*NHS Forth Valley Health and Wellbeing Absence Management Programme Board*”.

EU Withdrawal

83. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

84. NHS Forth Valley has considered the impact of each of these areas. Leads have been appointed for each of the risk areas identified. The board has participated in some national initiatives such as workforce surveys to determine the number of staff and areas that may be affected. They are involved in a series of incident response processes in the event of a no deal.

85. A variety of risks have been identified, such as the impact on third and independent sector organisations. Arrangements are underway to mitigate these, and other risks identified, where possible. Some risks, such as the impact of market turbulence and the resultant impact on the supply chain and availability and cost of medicines and equipment, cannot be quantified financially.

86. The board are taking reasonable steps to prepare for the impact of EU withdrawal.

Part 4

Governance and transparency



Main judgements

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

NHS Forth Valley is open and transparent in the way it conducts its business but there are opportunities for further improvement.

The board provides appropriate information and assistance to help the two IJBs fulfil their financial and performance reporting requirements.

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

Governance arrangements

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

88. The Board receives standing reports at each meeting under the headings of Quality and Safety, Health Improvement, Strategic Planning, Governance, and Core Performance including Executive Performance Report, Finance Report and Waiting Times Report.

89. The board has appropriate governance arrangements in place and they provide a framework for effective decision making. Members are clear about their role and this includes a good level of scrutiny and challenge by members and a good working relationship between members and officers. Senior officers attend and present reports to all board and committee meetings.

90. We attend all Audit Committee meetings and most Performance and Resources Committee meetings and consider that these operate effectively. Members were provided appropriate training in 2018/19 which included risk management and corporate governance workshops.

Openness and transparency

91. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using resources such as money, people and assets.

92. There is evidence to demonstrate the board's commitment to transparency including the annual accountability review (where members of the public can attend). Additionally, Board meetings are open to the public.

93. While non-Board committee meetings are held in private, the minutes of these meetings are publicly available on the board's website. The board could usefully

consider the opportunity to hold committee meetings in public with sensitive or confidential items held in private session. Alternatively, the board could further enhance transparency by making non-confidential committee papers public through its website.

94. The board's response to dealing with complaints showed an improvement in 2018/19 with 85.1% at March 2019 (2017/18: 73.9%) being addressed within 20 days. This follows a year on year improvement in the preceding year. Performance regarding complaints is included in the performance reports to the Board and Performance and Resources Committee.

95. The Board conducts its business in an open and transparent manner but that there are some areas where the Board could improve current arrangements.

Performance Report

96. In addition to the opinion on the Performance Report covered in Part 1 of this report, we also consider the judgement aspects of the report. The purpose of a Performance Report is to provide information on a body, its main objectives and strategies and the principal risks that it faces. Guidance require the report to provide a fair, balanced and understandable analysis of a body's performance and is essential in helping stakeholders understand the financial statements.

97. The Performance Report should be structured in a way that allows a cohesive and clear narrative flow. Although the Financial Reporting Manual (FReM) identifies the requirements for a Performance Report as a list of bullets, a checklist approach is unlikely to achieve effective communication. NHS Forth Valley's Performance Report provides a detailed description of performance, particularly regarding the eight key targets set by the Scottish Government (referred to in Part 5). However, as noted in [Exhibit 3](#) in Part 1, the board should determine the key messages it wishes to convey within the Performance Report and set these within the context of the environment that it operated in during the year. We also consider that this should be prepared earlier in the audit process.

Transparent reporting of financial and performance information

98. A Finance Report, Executive Performance Report, and Waiting Times Report is presented every month to either the Board or the Performance and Resources Committee. Our attendance at these meetings confirms that these are fully discussed and scrutinised.

99. The Finance Report provides information on the financial performance to date and forecast outturn. Reports are transparent, timely and clear; and support effective scrutiny of the financial management process. We are satisfied that this provides sufficient, but not excessive information, and that figures reported are consistent with the year-end position.

100. The Executive Performance Report to the board includes a Balanced Scorecard which provides good context for each performance measure, including commentary and graphs to depict the trajectory of the measure. A high-level summary is provided of key issues and highlights where targets are not being achieved. Since April 2018 there has been a new layout of performance reports following feedback from members. These are more concise and emphasise the eight key targets highlighted by the Scottish Government in 2018.

Health and social care

101. There are two Integration Joint Boards (IJBs) within NHS Forth Valley's catchment area. The board and its partners have continued to assist the IJBs to develop their governance arrangements and a protocol was put in place during the year to clarify which IJB reports by internal audit relating to governance issues should be presented to the board.

102. As noted at Part 2, both IJBs incurred overspends in 2018/19. This highlights the risk that if these overspends persist, then the services delivered by the IJBs to NHS Forth Valley may not be sustainable. The board intends to review the arrangements for funding overspends in 2019/20.

103. The board has good arrangements in place to identify all financial transactions that relate to both IJBs. There are also proper arrangements in place to agree the board's share of the IJB budgets and to provide each of them with appropriate financial information to enable each of the IJBs to monitor their financial budget. The board advised and agreed the IJB budget in good time for 2018/19 and have done so again in 2019/20. The 2019/20 IJB budgets have been approved and formal directions have been passed back to NHS Forth Valley from both IJBs.

104. Health Boards and Integration Joint Boards were, like last year, required to agree a figure for the sum "set aside" to be included in their respective 2018/19 annual accounts. There is no mandated mechanism for reaching agreement, however national data is available to prepare the appropriate accounting estimates. The set aside budgets were agreed with and allocated between the two partnerships using Integrated Resource Framework (IRF) statistics produced by Information Services Division of NSS Scotland (ISD). The board reviewed this model in 2018/19 and will carry out a further review in 2019/20 to determine the extent of any impact of delayed discharge costs to the set aside budget.

105. The operational responsibility for some services is being gradually transferred to the health and social care partnerships. This has seen operational responsibility for services such as district nursing, community-based rehabilitation, mental health services for older people, residential learning disability and inpatient community hospital services transfer to the Clackmannanshire and Stirling Health and Social Care Partnership during the year.

106. There was an increase in the number of bed days occupied by delayed discharges in 2018/19 compared to the previous year, with the highest proportion within the Falkirk Health and Social Care Partnership.

107. It is difficult to point to any shifts in spending (away from hospital care, toward the community) or improvements in performance resulting from the new structures; or to clearly identify particular actions that have led to improvements as there are many initiatives ongoing. Also, the board only run one acute site, which covers the two IJBs so there is an inherent need for the two IJBs and the board to work together.

2020 Vision

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

109. The board's Annual Delivery Plan reflects the outcomes of the 2020 vision and forms the basis for the performance contract between NHS Forth Valley and the Scottish Government. It also reaffirms the commitment to implement the board's long-term vision as set out in its Healthcare Strategy – "Shaping the Future" and how it relates to the Government's request to reduce health inequalities whilst improving population, health and life expectancy especially for those people living with long term conditions.

110. The local Healthcare Strategy 2016 – 2021 also reflects how the 2020 Vision will be taken forward. This highlights the transformational service changes over the next five years to meet population demographic changes, expected financial constraints, and the need to provide more joined up services including more care at home and in communities. It emphasises that this will be implemented with a range of other strategic partners.

111. The board's performance management framework is reviewed and updated on a biannual basis. This takes cognisance of the changing health and social care environment, the requirements of the 2020 Vision, and the board's Annual Delivery Plan. As national requirements develop, the performance framework is kept under review.

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

General Data Protection Regulation

113. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998 (DPA). As a Regulation, all EU member states must implement it in the same way. GDPR sets out more requirements than the DPA and has introduced new and significantly changed data protection concepts. Failure to comply with new GDPR data handling arrangements could result in the board incurring significant fines.

114. As reported in the Governance Statement, NHS Forth Valley is not compliant with the GDPR. Internal audit has carried out a review of information assurance arrangements, which will be reported at the June 2019 Audit Committee. Internal audit found that the pace of progress towards GDPR compliance is not as expected. NHS Forth Valley has made progress towards an Information Asset Register, however this is still in development as the initial template was not considered fit for purpose. In addition, internal audit suggested wider training within the organisation should be provided to ensure services are aware and understand the requirements of the GDPR and information sharing arrangements.

Part 5

Value for money



Main judgements

NHS Forth Valley has an effective performance management framework in place that supports the board in its drive to achieve value for money and continually improve how it delivers services.

The Board struggled to meet some of the key national performance targets and required help from the Scottish Government to achieve the 4-hour A&E target.

Improvements have been achieved in nearly all of the board's key targets. Priority has been given to protecting and maintaining services while operating within the board's financial settlement whose level is not certain in future years. Emphasis is placed on meeting targets for A&E and Treatment Time Guarantee.

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

Best value

115. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure Best Value.

116. NHS Forth Valley aims to embed quality at all levels throughout the organisation using models of continuous improvement. Its Best Value framework is based on the fundamental concept that Best Value is a codification of good governance and good management and therefore existing governance processes are utilised wherever possible.

117. The framework is centred around the characteristics deemed appropriate by the Scottish Government's Best Value Guidance for Accountable Officers (i.e. it has themes on vision and leadership; effective partnerships; governance and accountability; use of resources; and performance management); and two cross cutting themes (equality and sustainability).

118. The Audit Committee receives an annual update on the board's Best Value Framework and evidence which shows how each of the themes and outcomes are measured and monitored. This provides the Board with an appropriate overview of the Best Value arrangements in place.

119. From 2019/20, NHS Forth Valley has prepared a five-year financial plan. This focusses on delivering better value and recognises the challenges encountered due to financial constraints and increasing service demand profiles. The board aims to focus on the corporate Project Management Office (PMO) model it set up in 2018/19. This is designed to manage the elective care project to deliver costs and quality improvements by applying a consistent set of "centre of Excellence" tools across a prioritised set of programmes.

Performance management

120. The Board is kept well informed of performance across all areas. Performance reports are reported alternatively on a bimonthly basis to either the Board or the Performance and Resources Committee. The detailed review and scrutiny of performance has been delegated to the Performance and Resources Committee which meets every two months.

121. Members are provided with an Executive Performance Report and Balanced Scorecard. This incorporates the Annual Delivery Plan targets and focuses on the Institute for Health's triple aim framework of better care, better health and better value. Indicators are based on the Institute of Medicine's six dimensions of quality and the eight key standards noted at paragraph 125 are reported under the timely section, within the better care dimension. Performance reports contain detailed information, including trend analysis, for each of the eight key targets, together with any indicators with an adverse variance of more than 5%, together with action being taken to improve performance.

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

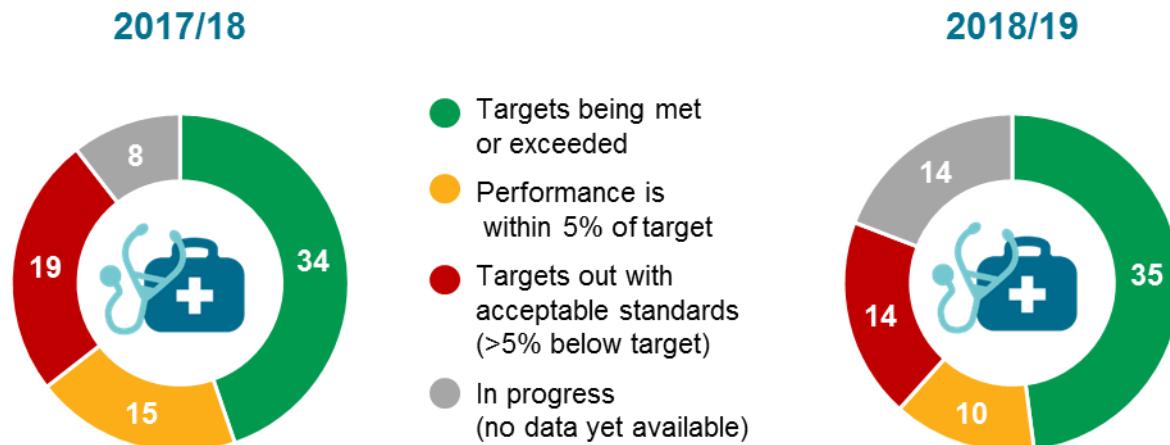
123. NHS Forth Valley has a good performance management framework in place which helps the board deliver value for money and is aimed at driving continuous improvement in service delivery.

Overview of service performance

124. The Board is provided with regular performance summaries based on the 73 measures (March 2018: 76 measures) of performance reported on the NHS Forth Valley balanced scorecard. The most up-to-date position at the end of March 2019 is summarised in [Exhibit 9](#).

Exhibit 9

Overall performance against the measurable targets in the balanced scorecard



125. From 2018/19, the Scottish Government requires that NHS Boards should focus on the eight key standards that are most important to patients. It was expected that NHS boards will achieve as a minimum the March 2017 outturn position by March 2019. The eight key standards are:

- 62-day Cancer Wait
- 31-day Cancer Wait
- 12-week Outpatients Wait
- Diagnostics 42 day wait
- Treatment Time Guarantee
- Child & Adolescent Mental Health Services (CAMHS) within 18 weeks of referral
- Psychological Therapies within 18 weeks of referral
- Accident & Emergency Waiting Times within 4 hours

126. Performance at March 2019 in relation to the eight key standards advised by the Scottish Government is provided in [Exhibit 10](#), together with action being taken by the board to address standards where NHS Forth Valley is not meeting the national target.

Exhibit 10

Performance against the eight key Government targets

Target/standard	Performance at March 2019 (March 2018 in brackets)	Action being taken by Board	Direction of travel since March 2018
62 Day Cancer Wait Patients with a suspicion of cancer treated within 62 days	95% ● 88.2% (77.6%) Scottish average March 2019: 79.9%	Some generic measures including working with lead cancer GP across primary/ secondary interface. Review of vetting of referrals, evaluating new ways of working, increasing access to theatres and prioritising cancer targets over all others.	
31 Day Cancer Wait Patients diagnosed with cancer who begin treatment within 31 days	95% ● 98.9% (98.2%) Scottish average March 2019: 95.5%	n/a- target being met and above Scottish average.	
12 Week Outpatients Wait Patients wait time from referral to first outpatient appointment within 12 weeks	95% ● 87.0% (83.9%) Scottish average March 2019: 78.8%	Clinic utilisation is being reviewed by service leads to ensure maximum adoption of appointments with staff using additional sessions where possible.	

Target/standard	Performance at March 2019 (March 2018 in brackets)	Action being taken by Board	Direction of travel since March 2018
		Cancellation of clinics is monitored so as to reschedule rather than cancel where possible. Improvements to patient reminder process.	
Diagnostics Diagnostic 42 day wait for a range of endoscopy and radiology treatments	100% ● 99.0% (99.4%) Scottish average March 2019 (84.0)	While target not being met – it is within 1% hence “green”	
Treatment Time Guarantee (TTG) Proportion of patients that were seen within 12 weeks TTG	100% ● 58% (56%) Scottish average March 2019: 71.9%	Additional theatre capacity during weekends to June 2019. Capacity is reviewed daily to ensure all theatre space is used. Service leads meet theatre co-ordinator weekly to ensure every theatre session is used. Working group in place to address communication with patients.	
Child & Adolescent Mental Health Services (CAMHS) Proportion of patients that were seen within 18 weeks of referral	90% ● 90.2% (45.5%) Scottish average March 2019: 77.6%	n/a targets being met and above Scottish average. Note that there has been a sustained improvement in this position during the year following a programme of service redesign which includes re-established links with wider primary care and universal services to provide support through early advice in support of preventing referrals.	
Psychological Therapies Proportion of patients that were seen within 18 weeks of referral	90% ● 67.1% (50%) Scottish average March 2019: 77.7%	Recruitment is underway to fill key posits. Healthcare Improvement Scotland is working with the service to assist with improvement plans. Referral engagement work is continuing with the aim of improvements to referral for people who are at the right time and place for psychological services.	
Accident & Emergency Waiting Times	90% ● 95.8% (83.4%)	n/a targets being met and above Scottish average	

Target/standard	Performance at March 2019 (March 2018 in brackets)	Action being taken by Board	Direction of travel since March 2018
Proportion of patients waiting less than 4 hours from arrival to admission	Scottish average March 2019: 89.3%	(but see paragraph 128 below).	

Note: 1. Figures still to be validated by NHS Information Services Division.

Source: Performance Report to Performance and Resources Committee 30 April 2019

127. The board has achieved improvements in performance in seven of the eight key targets since March 2018. However, in four cases the national target is still not being met (62-day cancer wait, 12-week outpatients wait, 12-week treatment time guarantee, and access to psychological therapies). At March 2019 the board is above the Scottish average in six of the key national targets – this is an improvement from March 2018 when only three were above the Scottish average. Four services are not meeting the March 2017 position (62-day cancer wait; 12-week treatment time guarantee; access to CAMHs – note this was 100% at March 2017; and A&E 4 hour wait target).

128. NHS Forth Valley was moved to stage 3 of the NHS Board Performance Escalation Framework in December 2018. This is defined as “significant variation from plan; risk materialising; tailored support required”. This applied specifically to its A&E performance of not meeting the target of admitting 95% within 4 hours. This had fallen to a low of 78.3% in November 2018. As part of this, the North of England Commissioning Support unit provided tailored support to NHS Forth Valley in respect of unscheduled care and the whole system. Support included an interim Site Director and three senior project managers from the North of England Commissioning Support. This, combined with the agreement of specific measures, has helped A&E performance improve to 95.8% being admitted within 4 hours of admission at March 2019.

129. The board has not met the TTG target in either of the last two years. From June 2019, an Elective Care Development Programme is intended to provide additional capacity for day case and inpatient surgery in Forth Valley (and wider) and provide additional MRI imaging in order to improve access and remove waiting times for elective treatment. As noted earlier, a Programme Management Office was established during the year and a supporting programme structure is in place, linking development activity with ongoing business functions. This activity, together with increased funding from the Scottish Government, has enabled the board to take steps towards improving TTG performance although they are still a long way from national targets.

130. The board were provided interim targets by the Scottish Government for new outpatients and inpatients/day cases and these were met at March 2019. Trajectories have been developed to March 2020 to show how waiting times will be reduced. However, the trajectories are based on the assumption that the Board will receive an additional funding allocation of £5.4 million from the Scottish Government.

131. It is a challenge for the board to meet all LDP targets while operating within financial settlements which require savings to be achieved. We have concluded that the board has goods arrangements for monitoring targeted performance issues which are geared towards addressing the high risks. Improvements have been achieved in 2018/19, however, we recognise that in some cases maintaining rather than improving primary care services is a priority and meeting waiting time targets is a significant challenge.



Recommendation 5

The Board should continue to maintain the measures it has implemented to improve its performance in relation to achieving the key waiting time targets. Emphasis is required on getting closer to the target and national averages for TTG, Psychological Therapies, and 62-day Cancer Wait times.

National performance audit reports

132. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 a number of reports were published which are of direct interest to the board and are highlighted in [Appendix 3](#).

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

Good practice

134. The monthly Performance Reports and Waiting Times Reports to the Board and Performance and Resources Committee are of a good standard. They provide members with an instant snapshot of performance, together with the main reasons contributing to improvements or deteriorations in performance.

Appendix 1

Action plan 2018/19

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Holiday pay accrual</p> <p>The evidence held in support of the holiday pay accrual balance is not as robust as it should be.</p> <p>Risk The accrual for accrued annual leave in the annual accounts could be misstated.</p>	<p>The board should review its arrangements for documenting and monitoring the quality of information regarding annual leave within the HR system. This should ensure that the outstanding leave entitlement at 31 March is accurately captured within the holiday pay accrual recorded in the accounts.</p> <p>Exhibit 3</p>	<p>Agreed action: The board will review the accounting treatment for this balance in 2019/20 and agree any compensating AME adjustments with the Scottish Government.</p> <p>Responsible officer: Director of Finance</p> <p>Date: March 2020.</p>
2	<p>Performance Report</p> <p>The Performance Report provided for audit did not report performance in the context of the key issues and risks the board faces.</p> <p>Risk Stakeholders are not aware of the risks and context in which the board operates, or the key messages on performance attained during the year.</p>	<p>The board should refresh the format of the Performance Report to more fully cover the context in which it operates; and to deliver the key messages it wishes to convey. The board should also ensure the Performance Report is produced earlier in the account's completion process.</p> <p>Exhibit 3</p>	<p>Agreed action: The board will revise the format and timing of the performance report in line with audit recommendations.</p> <p>Responsible officer: Director of Finance</p> <p>Date: March 2019</p>
3	<p>Efficiency savings</p> <p>For 2019/20 the board is required to deliver 19.2 million savings. The board has yet to identify £3.6 million of the savings required for next year. Of those savings identified to date, some £8 million to £10 million are considered high risk and may not materialise.</p> <p>Risk The board may not be able to deliver the targeted savings in 2019/20.</p>	<p>The board should identify how the remaining £3.6 million savings requirements will be met; and take steps to mitigate the £8 million to £10 million of savings that are identified as high risk of delivery (red).</p> <p>Paragraph 74</p>	<p>Agreed action: The board will continue to focus on development and delivery of 2019/20 savings plans and will present regular updates through the Performance and Resources Committee.</p> <p>Responsible officer: Director of Finance</p> <p>Date: From June 2019</p>

No.	Issue/risk	Recommendation	Agreed management action/timing
4	Medium term efficiency savings <p>While the funding gap for the next five years has been identified, savings options to meet this gap have only been identified for the first year of the five-year revenue financial plan.</p> <p>Risk The board may not be able to identify or deliver the required savings for the remainder of the five-year financial plan.</p>	<p>The board should work with its local and national partners to identify the key areas where efficiencies and savings can be made in order to bridge the five-year funding gap.</p> <p>Paragraph 76</p>	<p>Agreed action: The board will continue to work with partner organisations in developing longer term cost improvement plans during 2019/20.</p> <p>Responsible officer: Director of Finance with Executive Leads.</p> <p>Date: From June 2019</p>
5	Overview of Service Performance <p>While the board has achieved some notable service improvements in its key performance targets in 2018/19, it is still not meeting some of the key targets and has not achieved the requirement to return to March 2017 levels of performance for some services.</p> <p>Risk Key performance targets may not be met; or recent improvements may not be maintained.</p>	<p>The board should continue to maintain the measures it has implemented to improve its performance in relation to achieving the key waiting time targets. Emphasis is required on getting closer to the target and national averages for TTG, Psychological Therapies, and 62-day Cancer Wait times.</p> <p>Paragraph 130</p>	<p>Agreed action: The board has set out planned 2019/20 performance trajectories in its AOP and will monitor progress throughout the year at the Performance and Resources Committee.</p> <p>Responsible officer: Chief Executive</p> <p>Agreed date: From April 2019</p>
Follow up of prior year recommendations			
b/f	Efficiency savings		Updated response: The board delivered the £18.4 million savings necessary to achieve its break even in 2018/19, albeit nearly £7 million were non-recurring savings from central budgets. The majority of the £19.2 million savings required for 2019/20 have been identified, however, many of these are at risk of not being achieved and it continues to be necessary to use an element of non-recurring savings.
1	<p>For 2018/19 the board is required to deliver savings of £18.4 million. This includes the £6.7 million of non-recurring savings carried forward from 2017/18. The board has yet to identify £3.5 million of the savings required for next year. Of those savings identified to date, some £8 to £10 million are considered high risk and may not materialise.</p> <p>Risk The board may not be able to deliver the targeted savings in 2018/19.</p>	<p>The board should ensure that savings plans are developed identifying how the £3.5 million of unidentified savings in 2018/19 will be achieved, and determining the extent to which those assessed as amber or red can be attained</p>	<p>Revised action: Refer to 2018/19 recommendation 3 above.</p>

No.	Issue/risk	Recommendation	Agreed management action/timing
b/f 2	<p>Efficiency Savings</p> <p>The Annual Delivery Plan does not set out the savings requirement beyond 2018/19.</p> <p>Risk Savings requirements for the medium to longer term may not be identified or strategically based</p>	<p>The Board should prepare medium to longer term efficiency savings requirements based on its key financial assumptions about future funding and costs</p>	<p>Updated response: The Financial Plan 2019/20 – 2023/24 was approved in March 2019 and identifies that efficiency savings of £36.114m are required over the first three years to achieve break even and savings of £60.1 million will be required to achieve break even over the five-year period to 31 March 2024 based on current assumptions.</p> <p>Revised action: Implemented</p>
b/f 3	<p>Workforce planning</p> <p>The workforce plan has not been formally updated since 2016/17.</p> <p>Risk The workforce may not reflect the impact and challenges of changes to NHS Forth Valley priorities/ requirements, or changes in the available workforce</p>	<p>The board should update its workforce plan on a regular basis and ensure it reflects its strategic priorities and is consistent with financial plans over the medium term</p>	<p>Updated response: The board approved its 2018/19 workforce plan in November 2018.</p> <p>Revised action: Implemented</p>
b/f 4	<p>Risk Management</p> <p>The corporate risk register does not record the timescales regarding when the actions or sub actions to address a risk need to be taken, nor does it fully describe the further steps that have been taken towards mitigating a risk.</p> <p>Risk Actions taken to address risks may not be carried out as directed, or in a timely manner or may not be fully captured in the risk register</p>	<p>The risk register should be updated to more clearly demonstrate the timescales and actions being taken to mitigate risks.</p>	<p>Updated response: The risk register has been updated to more clearly document progress to date. Dates for the next general review of risks are also included.</p> <p>Revised action: Implemented</p>
b/f 5	<p>Overview of Service Performance</p> <p>There was a deterioration in performance during the year relating to a number of performance standards that impact significantly on patients which the Scottish</p>	<p>The board should review its current measures for achieving the key waiting time targets, with emphasis on getting closer to the target and national averages for TTG, CAMHS, Psychological Therapies, 62-day Cancer Wait, and A&E Waiting Times.</p>	<p>Updated response: The board continued to face challenges in 2018/19 and did not meet some of the key waiting time targets. Various steps have been taken to address these and improvements were made in</p>

No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>Government expects NHS Boards to focus on in 2018/19.</p> <p>Risk Performance could fail to improve or continue to deteriorate if not addressed</p>		<p>the final few months of the year. This is an ongoing issue.</p> <p>Revised action: Refer to 2019/20 recommendation 5 above.</p> <p>Responsible officer: Executive Leads</p>

Appendix 2

Significant audit risks identified during planning

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

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
1 Management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business. Substantive testing of transactions around the year end to confirm income and expenditure are accounted for in the correct financial year. 	<p>No unusual or inappropriate transactions were identified as part of our detailed journal testing.</p> <p>A review of accounting estimates did not show any evidence of bias.</p> <p>Focused testing of accruals and prepayments identified these were appropriately evaluated and based on reasonable assumptions.</p> <p>Focused testing on a sample of transactions outside the normal course of business did not show any evidence of management override of controls.</p> <p>Substantive testing of transactions around the year end did not identify any transactions that had been recorded in the wrong financial year.</p> <p>Conclusion: no evidence of management override of controls.</p>
2 Risk of fraud over income NHS Forth Valley receives a significant amount of income in addition to Scottish Government Funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.	<ul style="list-style-type: none"> Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk. Obtain assurances from the NHS Counter Fraud Service. 	<p>Analysis of all income streams was carried out and satisfactory responses were provided for all significant variances.</p> <p>Detailed testing of revenue transactions confirmed these were normal business transactions and had been accounted for in the correct year.</p> <p>No significant frauds specific to NHS Forth Valley were identified by the NHS Counter Fraud Service.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3 Risk of fraud over expenditure</p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p> <p>The Code of Audit Practice requires consideration of risk of fraud over expenditure. NHS Forth Valley incurs significant expenditure on a range of activities which will require audit coverage.</p>	<ul style="list-style-type: none"> • Analytical procedures on expenditure areas. • Detailed testing of expenditure transactions focusing on the areas of greatest risk. • Complete NFI audit questionnaire to assess progress and action taken by the board to investigate matches. • Obtain assurances from the NHS Counter Fraud Service. 	<p>Conclusion: no evidence of fraud over income.</p> <p>Analysis of all expenditure streams was carried out and satisfactory responses were provided for all significant variances.</p> <p>Detailed testing of expenditure transactions confirmed these were normal business transactions and had been accounted for in the correct year.</p> <p>Monitored progress of NFI to date and noted that satisfactory progress has been made by NHS Forth Valley.</p> <p>A review of the Internal Audit Annual Report provided assurance on fraud over expenditure.</p> <p>Conclusion: no evidence of fraud over expenditure.</p>
<p>4 Estimations and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions.</p> <ul style="list-style-type: none"> • The valuations of land and buildings are by nature significant estimates. These are based on specialist and management assumptions, and estimates can be subject to material changes in value. • The majority of Stirling Care Village development will be completed in 2018/19. The financial close model for the arrangement makes use of assumptions and judgements to estimate the value of the asset and liability. • The board holds a provision for the clinical and medical legal claims and a provision for its share of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). These provisions are based on the assessed likelihood and settlement value of claims against the board. This subjectivity 	<ul style="list-style-type: none"> • Completion of 'review of the work of an expert' for the professional valuer. • Review the external revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals. • Review the information provided to the valuer and assess whether this was complete and included all board property assets relevant to the revaluation in 2018/19. • Review the accounting treatment for the recognition of the Stirling Care Village asset and liability. • Completion of 'review of the work of an expert' for the Central Legal Office. • Review of information provided by the Central Legal Office in support of the provision by the board for the clinical and medical legal claims; and for CNORIS. 	<p>'Review of the work of an expert' was completed for the professional valuer and the Central Legal Office which confirmed that assurances can be taken from their work.</p> <p>A review of the revaluations performed by the valuer identified these had been performed in a reasonable manner and had been correctly reflected in the financial statements.</p> <p>A review of the accounting treatment for the Stirling Care Village asset and liability recognition identified these had been reasonably estimated and processed in the financial statements.</p> <p>A review of the information provided by the Central Legal Office to support the provision clinical and medical legal claims and for CNORIS did not identify any issues and these had been correctly reflected in the financial statements.</p> <p>A review of other estimates and judgements did not show any evidence of bias and accounting policies were appropriate.</p> <p>Conclusion: estimations and judgements included in the</p>

Audit risk	Assurance procedure	Results and conclusions
represents an increased risk of misstatement in the financial statements.	<ul style="list-style-type: none"> For any other areas of estimation and judgement we will carry out focussed substantive testing of provisions and accruals. 	financial statements are reasonable and supported by appropriate evidence.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
5 Financial sustainability and financial position	<ul style="list-style-type: none"> Review Finance Reports and delivery of savings plans. Attendance at committee meetings and review of papers to assess progress and impact in delivering savings planned to date. Review position for agreeing year end IJB balances between partner bodies. 	<p>The financial statements and a review of finance monitoring reports identify a surplus of £0.217 million was achieved in year. The surplus was contingent on the outturn of NHS Forth Valley's IJBs. There were challenges in agreeing the final position and risk sharing agreements. This resulted in the NHS Forth Valley contributing £2.490 million to the IJB overspends. This is reflected in the above surplus but provides an ongoing challenge to the board</p>
		<p>The savings target of £18.4 million for the year was achieved. However, non-recurring savings of £6.996 million were required to meet this target. The proportion of non-recurring savings required to achieve the target has increased in recent years and this is not sustainable over a longer term.</p>
		<p>The five-year financial plan identifies a savings requirement of £19.2 million in 2019/20. To date, savings of £15.6 million have been identified, with the remaining £3.6 million still require to be identified.</p>
		<p>Conclusion: in our judgement, NHS Forth Valley will find it challenging to deliver the efficiency savings required over the coming years while continuing to sustain, or improve, the existing levels of service.</p>
6 Performance targets	<ul style="list-style-type: none"> Review of Executive Performance Reports to assess progress in achieving targets, and actions being taken to improve performance. Attendance at committee meetings and review of papers to assess progress. 	<p>A review of performance reports over the year identified performance has improved since March 2018 for all key targets. However, four of the national targets are not being met and four targets are below March 2017 levels.</p>
		<p>The board was moved to stage 3 of the NHS Board Performance Escalation Framework in December 2018. This applied</p>

Audit risk	Assurance procedure	Results and conclusions
meeting one of the eight key waiting time targets, with the majority being classified as red (out with 5% of meeting trajectory).		specifically to A&E performance. As part of escalation, support was provided to the board and this resulted in improvements to performance.
The challenges of achieving a balanced budget, together with difficulties in recruiting staff within certain specialties (e.g. older people psychiatry and breast cancer care services) could result in further deterioration in performance.		Information reported in the performance reports is of a good standard and provides details on performance, issues impacting on performance, and actions being taken to address poor performance.
There is a continued risk that the eight key targets will not be achieved, and the delivery of quality affordable services is not sustained.		<p>Conclusion: NHS Forth Valley has good arrangements for reporting and monitoring performance targets. There have been issues with performance against some key targets but there has been an overall improvement in performance since March 2018. However, the board is still not meeting all national targets.</p>

Appendix 3

Summary of national performance reports 2018/19

2018/19 Reports		
	Apr	
Local government in Scotland: Challenges and performance 2018		
Councils' use of arm's-length organisations		May
Scotland's colleges 2018		Jun
		Jul
Forth Replacement Crossing		Aug
Children and young people's mental health		Sept
NHS in Scotland 2018		Oct
Health and social care integration: update on progress		Nov
		Dec
		Jan
		Feb
		Mar
	Local government in Scotland: Challenges and performance 2019	

NHS relevant reports

[Children and young people's mental health](#) – September 2018

[NHS in Scotland 2018](#) – October 2018

[Health and social care integration: update on progress](#) – November 2018

NHS Forth Valley

2018/19 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk