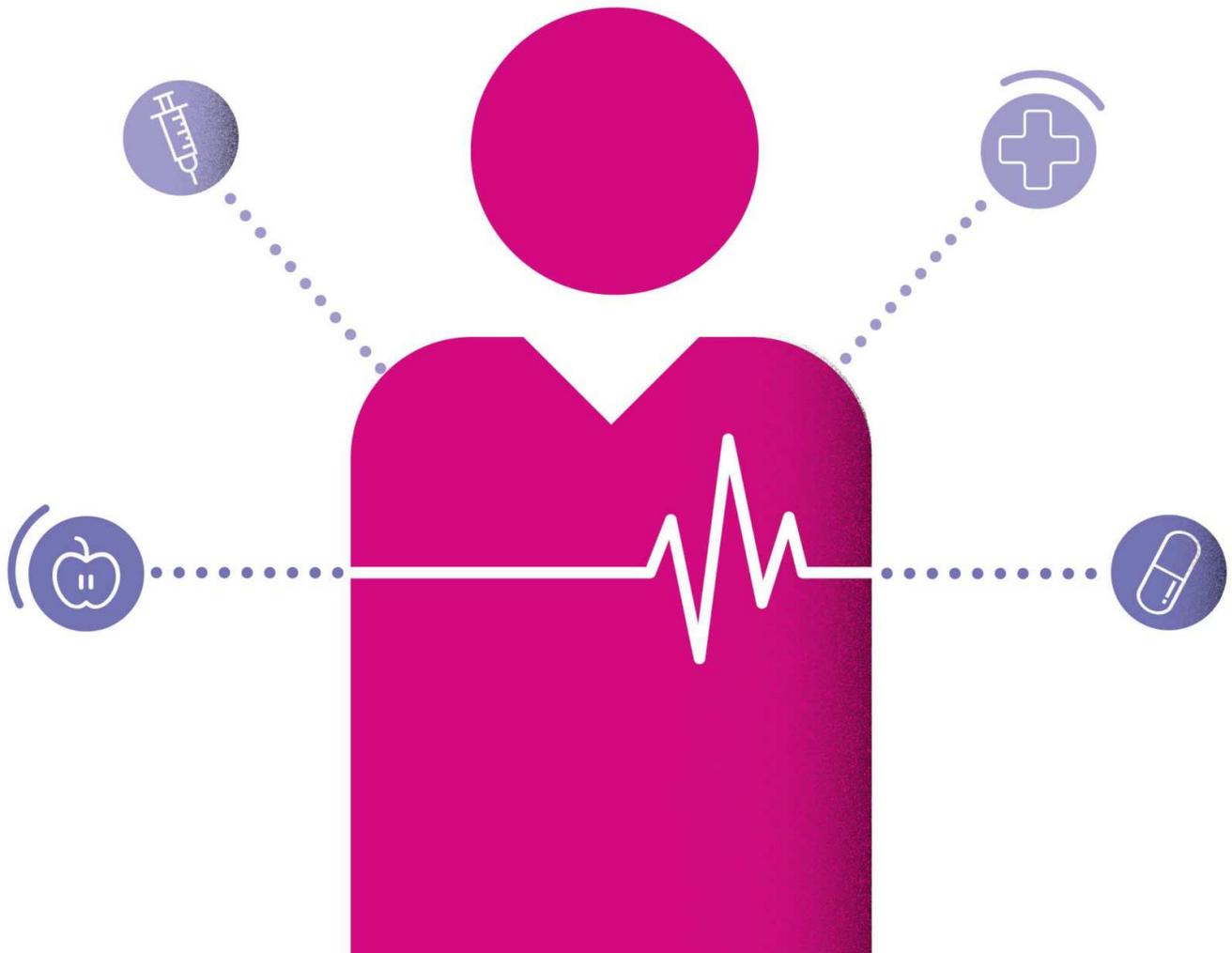


# NHS Lothian

2018/19 Annual Audit Report to the  
Board and the Auditor General for  
Scotland

June 2019





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# 1. Key messages

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## Annual accounts audit

All key financial targets were met in 2018/19. NHS Lothian achieved a saving of £0.410million against its revenue resource limit, and a breakeven position against its capital resource limit of £89.526million.

The annual report and accounts were approved by the Board on 26 June 2019. Our independent auditor's report includes an unqualified opinion on the annual accounts, regularity and on other prescribed matters.

The annual accounts and supporting schedules were of a good standard. Our thanks go to staff at NHS Lothian for their assistance with our work.

## Wider scope audit

### Financial sustainability

Work continues on developing a financially sustainable model. The Finance and Resources Committee continues to be able to take only limited assurance on long term financial sustainability. In line with previous projections, the Annual Operational Plan sets out financial gaps for the next three financial years with limited plans in place to deliver savings to close the gap. The 2019/20 financial plan outlines a financial gap of £26million.

Additional scrutiny of business units' savings plans will be performed by the Sustainability and Value Group. The new Lothian Integration Care Forum represents a significant and important development to achieving long term financial sustainability.

### Financial management

Whilst meeting its key financial targets in 2018/19, NHS Lothian did not achieve all planned savings, and reliance on non-recurring savings increased in the year.

NHS Lothian has adequate arrangements in place for managing its overall financial position and use of resources to date, but relied on an increasing amount of non-recurring savings to achieve financial balance in 2018/19.

The board's key financial systems and internal financial controls are adequate to help prevent material misstatements in the annual accounts.

### Governance and transparency

Governance arrangements at NHS Lothian were found to be satisfactory and appropriate. NHS Lothian's self-assessment against the Blueprint for Good Governance demonstrates a commitment to continuous improvement, with a number of actions identified to strengthen existing arrangements.

The board's response to the external review of emergency care waiting times has been extensive and is ongoing. Programme management arrangements have been implemented to help ensure the effective management of issues and associated actions. The focus needs to move to closing off extant actions and agreeing a timetable to return to business as usual.

### Value for money

Performance metrics have marginally improved this year although the overall position continues to reflect a challenging environment. There has been a deterioration in performance against waiting times standards.

The board can demonstrate clear focus on quality improvement, with a Quality Strategy approved in 2018/19. While there is a clear intention to focus on improving patient outcomes and reducing future demand, there is limited funding available to support extensive improvement initiatives.

There is evidence of detailed evaluation of the qualitative and quantitative options before approval of the £11.6m settlement agreement in relation to the RHSCYP.

## Conclusion

This report concludes our audit for 2018/19. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.



# 2. Introduction

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**This report is presented to those charged with governance and the Auditor General for Scotland, and concludes our audit of NHS Lothian for 2018/19.**

**We carry out our audit in accordance with Audit Scotland’s Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.**

**At NHS Lothian, the Audit and Risk Committee has been designated as “those charged with governance”.**

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## Scope of audit

1. This report summarises the findings from our 2018/19 audit of NHS Lothian.
2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit and Risk Committee in November 2018 and again (updated) in February 2019. The core elements of our work include:
  - an audit of the 2018/19 annual report and accounts and related matters;
  - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
  - monitoring NHS Lothian's participation in the National Fraud Initiative (NFI); and
  - any other work requested by Audit Scotland. Accordingly, in March 2019, Audit Scotland asked us to take on some additional work which involved high level review of the arrangements around the settlement agreement between NHS Lothian and the contractor (IHS Lothian Ltd - IHSL) considering project governance and value for money.

### Exhibit 1: Audit dimensions within the Code of Audit Practice



### Board's responsibilities

3. NHS Lothian is responsible for preparing an annual report and accounts which show a true and fair view, and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. The report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their

wider implications before deciding on appropriate actions.

5. We discussed and agreed the content of this report with the Director of Finance. We would like to thank all management and staff for their co-operation and assistance during our audit.

### Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we comply with the Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the



audit process is independent and our objectivity has not been compromised in any way.

8. We set out in Appendix 1 our assessment and confirmation of independence.

### Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to NHS Lothian through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.
10. As part of our 2018/19 audit we added value to NHS Lothian and Audit Scotland in a range of ways:

#### Regular contact with the board

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11. We invest senior time to ensure that we keep up to date with significant issues and share that knowledge across our team. Examples include:
  - We are members of the NHS Technical Accounting Group and Sub group, and we share that knowledge across our team and with the board;
  - We maintain regular dialogue with the Director of Finance and her team, including early discussion on potential audit and accounting issues;
  - We hold discussions with the board's finance team in advance of the preparation of the annual accounts;
  - We ran two non-executive forums during the year, to which NHS Lothian non-executive directors were invited. These forums covered areas such as achieving transformational change, cyber resilience, change & project management, and Brexit;
  - We ran an NHS Finance roundtable event for our NHS external audit clients to discuss the audit process, accounting framework changes and common audit and accounting issues.

#### Providing assurance to the Board and Audit Scotland

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- We have met the deadlines set out in Audit Scotland's annual planning guidance in respect of the delivery of audit plans, independent auditor reports and annual reports.

- We participated in meetings of the Sharing Intelligence for Health & Care Group alongside NHS Lothian's other scrutiny bodies.
- At the request of Audit Scotland, we performed a high level review of the arrangements for agreeing and approving the settlement agreement between NHS Lothian and the contractor with respect to the Royal Hospital for Children and Young People, Department of Clinical Neurosciences and Child and Adolescent Mental Health Services project.

### Feedback

12. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: [www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX)
13. While this report is addressed to the Board and the Auditor General for Scotland, it will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)



# 3. Annual report and accounts

**NHS Lothian’s annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.**

**In this section we summarise the findings from our audit of the 2018/19 annual report and accounts.**





# Annual report and accounts

## An unqualified audit opinion on the annual report and accounts

The annual report and accounts for the year ended 31 March 2019 were approved by the Board on 26 June 2019. We report unqualified opinions within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and accounts.

The Board has appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.

### Overall conclusion

#### An unqualified audit opinion on the annual report and accounts

14. We report within our independent auditor's report:

- An unqualified opinion on the financial statements;
- An unqualified opinion on regularity; and
- An unqualified opinion on other prescribed matters.

15. We are also satisfied that there were no matters which we are required to report by exception.

#### Good administrative processes were in place

16. We received the unaudited annual report and accounts and supporting working papers for the majority of expected areas in line with our agreed audit timetable. Our thanks go to staff at NHS Lothian for their assistance with our work.
17. The annual report and accounts were submitted to the Scottish Government and Auditor General for Scotland by the 30 June 2019 deadline.

### Our assessment of risks of material misstatement

18. The assessed risks of material misstatement described in Exhibit 2 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described in Exhibit 2.



## Exhibit 2 – Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### 1. Management override

In any organisation, there exists a risk that management has the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

*Excerpt from the 2018/19 External Audit Plan*

19. We have not identified any indication of management override in the year. We have reviewed the board's accounting records and obtained evidence to ensure that transactions outside normal processes were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

### 2. Revenue recognition

Under ISA (UK) 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the board could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

*Excerpt from the 2018/19 External Audit Plan*

20. At the planning stage of our audit, we reported that we did not consider there to be a significant risk of fraud in relation to revenue recognition from government resourcing streams. For all non-government income, we have evaluated the type and extent of revenue transactions and reviewed the controls in place over revenue accounting. We have considered the board's key revenue transactions and carried out testing to confirm that the board's revenue recognition policy is appropriate and has been applied consistently throughout the year. We have gained reasonable and appropriate assurance that this area is free from material misstatement, but we have raised a management action point to revise the current approach to how research and development income and expenditure is matched in year (an area which is not material).

**Action Plan Point 1**



### 3. Risk of fraud in the recognition of expenditure

The FRC published a revised Practice Note 10 which applies to the audit of financial statements of public sector bodies in the UK, for periods commencing after June 2016. The Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure. In line with the practice note, our presumption is that the board could adopt accounting policies or recognise expenditure in a way that materially misstates the board's financial performance.

*Excerpt from the 2018/19 External Audit Plan*

21. We have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion we carried out testing to confirm that the board's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

### 4. Capital transactions

The board holds a significant level of high value estate. The board values its assets on a five year cycle, with an element of the estate being subject to valuation each year. In addition, the Board expects to make significant capital additions during 2018/19. Additions are expected through traditional procurement routes as well as through Hub projects. The board's Capital Resource Limit for 2018/19 is £53.263million and it is expected that this will be fully utilised.

Given the value of assets held, and the scale of the in-year capital transactions expected, any misstatement in the accounting for assets could potentially result in a material misstatement in the financial statements.

*Excerpt from the 2018/19 External Audit Plan*

22. We have reviewed capital transactions to ensure they that they have been accounted for in line with the Government Financial Reporting Manual ('the FReM') and the board's accounting policies. We have gained assurance over the completeness and accuracy of these transactions and are satisfied that the carrying value of the board's estate in the financial statements is materially correct.



## 5. PFI and related assets

The board has a range of legacy facilities which were delivered through the Public-Private Partnerships (PPP) / Private Finance Initiatives (PFI), including The Royal Infirmary of Edinburgh, Midlothian Community Hospital, East Lothian Community Hospital, Ellens Glen and Findlay House. The cumulative estimated base capital value of these agreements is in excess of £200million.

During 2017/18 phases 1 & 2 of the East Lothian Community Hospital project were brought into operation in addition to three other PFI projects at a capital value of £32million. The board expects further Hub developments in 2018/19.

In practice, the accounting arrangements for the REH development, and the other Hub developments, are generally consistent with those used for the board’s legacy PPP/PFI assets. Due to the complexity of accounting and the high value of the transactions, there is a risk that the board’s financial statements do not show the correct accounting entries and related commitments, and that the unitary payments in relation to these facilities are not correctly accounted for.

*Excerpt from the 2018/19 External Audit Plan*

- 23. We have reviewed the board’s PPP/PFI/NPD accounting and related commitment disclosures against the requirements of the FReM, the Manual and against the supporting contracts. We have also reviewed relevant aspects of the transactions against the NHS Scotland Capital Accounting Manual. No exceptions were identified.
- 24. During 2018-19, practical completion of the Royal Hospital for Children and Young People, Department of Clinical Neurosciences and Child and Adolescent Mental Health Services was achieved. From the range of work performed, we are satisfied that the various accounting entries present a true and fair review of these assets and related commitments.

### Our application of materiality

- 25. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements.
- 26. Our initial assessment of materiality for the financial statements of the board and group was £23.4million. On receipt of the 2018/19 draft accounts, we reassessed materiality and maintained this threshold. We consider that our updated assessment has remained appropriate throughout our audit.
- 27. Our assessment of materiality is set with reference to the revenue resource limit. We consider this to be the principal consideration for the users of the financial statements when assessing financial performance.

aggregate of the uncorrected and undetected misstatements exceed materiality for the annual accounts overall.

- 29. We set a performance (testing) materiality for each area of work (based on a risk assessment for the area). We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of more significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

	Area risk assessment		
	High	Medium	Low
Performance materiality	9.3	12.8	17.5

### Performance materiality

- 28. Performance materiality is the amount set by the auditor at less than overall materiality for the annual accounts as a whole, to reduce to an appropriately low level the probability that the

- 30. We agreed with the Audit and Risk Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of £250,000, as well as other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds.



## Group accounts

31. NHS Lothian consolidates the four integration joint boards and the Edinburgh and Lothian Health Foundation.
32. We reviewed the consolidation process in 2018/19 and concluded that group bodies had been correctly included in the group accounts of the board.

## Audit differences

33. We are pleased to report that there were no material adjustments to the unaudited annual accounts. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.
34. We also identified two unadjusted errors which are not considered material to the annual accounts. These relate to (i) adjustment of £1.06m between lines of receivables, and (ii) a national issue with respect to the calculation of the CNORIS provision which impacts NHS Lothian by £1.04m. These are set out further in Appendix 3. These have been reported to the Director of Finance and Audit & Risk Committee and are included as an appendix to the letter of representation and this report. The letter covers a number of issues and we have requested that it be presented to us at the date of signing the annual accounts.

## An overview of the scope of our audit

35. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk Committee in February 2019. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the board. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
36. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
37. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have

applied the concept of materiality, which is explained earlier in this report.

## Other matters identified during our audit

38. During the course of our audit we noted the following:

### Other information in the annual report and accounts

39. “Other information” in the annual report and accounts comprises any information other than the financial statements and our independent auditor’s report. We do not express any form of assurance conclusion on the “other information” except as specifically stated below. Overall, we found this narrative compliant with requirements. There was slight delay and piecemeal receipt of this information. More generally, we will work in collaboration with NHS Lothian management to explore any opportunities for continuous improvement in the length, flow and focus of the narrative sections in 2019/20 and beyond (considering Audit Scotland, Financial Reporting Council and other good practice guidance).

### The performance report

40. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an overview of the organisation and a detailed summary of how the entity measures performance.
41. We have concluded that the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

### The accountability report

42. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the governance statement), a remuneration and staff report; and a parliamentary accountability report.

### Governance statement

43. The coverage of the governance statement is in line with our expectations.
44. We have concluded that the governance statement has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions from Scottish Ministers and is consistent with the financial statements.



## Remuneration and staff report

45. We have concluded that the audited part of the remuneration and staff report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions from Scottish Ministers.

## Regularity

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46. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

## Looking forward – IFRS 16 Leases

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47. IFRS 16 *Leases* will be effective from 1 April 2020. This will lead to a substantial change in accounting practice for lessees where the current distinction between operating and finance leases will be removed. Instead, it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee's obligation to pay for that right.
48. There are new requirements for measurement of the lease liability, which will initially be measured at the present value of the lease payments payable over the lease term but may rise to reflect any reassessment or lease modifications, or revised lease payments.
49. Board finance staff have attended a number of recent events at which the anticipated changes resulting from adoption of the standard have been discussed. The board has also commenced work to quantify the financial impact of the change in accounting standard. This will be a key area of focus for our 2019/20 audit.

## Qualitative aspects of accounting practices and financial reporting

50. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. The following observations have been made:



Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are in line with the NHS Accounts Manual and are considered appropriate.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the material accounting estimates and judgements used in the preparation of the annual accounts. Significant estimates have been made in relation to the valuation of liabilities related to the board's membership of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS); property valuations and asset depreciation rates. Where appropriate, these estimates have been informed by advice from qualified, independent experts. We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the experts' advice is appropriate.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2019/20. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the board's activities will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts beyond those already made.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period to report here.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.



# 4. Financial sustainability

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



Work continues on developing a medium to long term financial strategy, including working with regional partners, but NHS Lothian needs clearer plans for where and how savings will be delivered. The new Lothian Integration Care Forum will be an important mechanism to take this challenge forward.

The 2019/20 financial plan outlines a financial gap of £26million, after taking into account financial recovery plans of £25million. 12 risks have been identified as high impact and likelihood on NHS Lothian's ability to continue to meet its financial target in 2019/20, reflecting the increasing financial challenges faced by the board.



## Significant audit risk

51. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

### Financial sustainability

In April 2018, the Board and Finance and Resources Committee considered a Financial Plan to support the Annual Operational Plan. The paper outlined a remaining financial gap of £21.4 million. Our work on the financial projections from 2018/19 onwards notes ongoing challenges in achieving the recurring savings targets and medium to longer term financial stability.

NHS Lothian has an ongoing challenge relating to the impact of demography as funding has not kept pace with population changes. Since the NRAC formula was introduced in 2009, NHS Lothian's actual allocation has fallen considerably below the target level of funding. While in 2018/19 all boards, including NHS Lothian, have moved to within 0.8% of NRAC parity, NHS Lothian has estimated that the annual value of this shortfall will be £14m at the end of 2018/19.

*Excerpt from the 2018/19 External Audit Plan*

52. We reviewed NHS Lothian's achievement of the outturn position as part of our work on financial management and the financial statements. This work has highlighted that the board continues to face challenges in achieving savings targets, including recurrent savings. The board achieved an underspend in 2018/19 due to a number of one-off savings and careful financial management during the year.
53. The Financial Plan presented to the Finance and Resources Committee in March 2019 sets out a financial gap of £25.985million for 2019/20. Our work on the financial projections from 2019/20 onwards is set out below and highlights the ever increasing challenges the board faces in achieving financial sustainability, while maintaining an appropriate level of performance. We have concluded that financial sustainability continues to be a significant risk for 2019-20 onwards, with difficult decisions forced in optimising the balance between financial and non-financial performance metrics.

### Health and social care medium term financial framework

54. In October 2018, the Scottish Government published its Health and Social Care Medium Term Financial Framework. The Framework is supported by financial modelling and highlights the necessity for not only additional investment but continued reform of the Health and Social Care system. It is anticipated that the development of the Framework will provide NHS Boards with more information and funding assurances in order to develop longer term financial and reform plans.
55. The framework was supported by a statement in Parliament by the Cabinet Secretary for Health and Sport. The Cabinet Secretary confirmed that a 3-year deal would be offered to support all NHS Territorial Boards to move to a level position through the removal of outstanding brokerage and the creation of a new 3-year financial planning arrangement.

### Financial projections

56. Under the revised financial framework, all NHS Boards are required to submit a three-year financial plan. The board's 2019/20 Operational Plan outlines a financial gap of £25.985million after taking into account financial recovery actions of £25.240million, with notably increasing gaps in years thereafter.

**Exhibit 3: Future Financial Gap (£'000s)**



Source: NHS Lothian 2019/20 Operational Plan



57. NHS Lothian's 2019/20 financial gap is largely in line with those identified in the previous three years. Each year, the board has achieved a breakeven position however this is thanks to an increasing reliance on one-off savings.
58. Delivery of savings is a fundamental component of NHS Lothian's ability to deliver financial balance. In 2018-19, the board did not achieve all identified financial recovery plans and in response to this issue, additional financial review meetings with Business Units have been planned to focus on savings delivery.
59. Specific Business Units, based on risk and financial projections, will be asked to report back to the Sustainability and Value Group (chaired by the Director of Finance) to examine the Business Units' approach to financial sustainability and what opportunities there may be to improve the financial position. Business Units will also be invited to present to the Finance and Resources Committee in the coming year to update on progress.
60. In line with previous financial years, the Finance and Resources Committee has only been able to take limited assurance that the board will achieve financial balance in 2019-20. At this stage, there are no clear plans to close the financial gap on a recurring basis.
61. The assumptions underpin the operational plan and include an assessment of risk. From our review of the financial plan and presentations made to Finance and Resources Committee, it is positive to see scenario planning has been used to understand the implications of movements in the assumptions and to stress test financial sensitivities.
62. To complete the scenario planning, all Business Units were asked to consider their optimistic, realistic and pessimistic financial plans. Plans were collated and reviewed centrally to ensure there was consistency in overall application of key assumptions. The consolidated position showed a financial gap in each scenario ranging from £14.1million to £48million.
63. In line with previous submissions, boards have been asked to identify the key risks to delivering their financial plan. NHS Lothian has identified a total of 20 risks to delivering their financial plan split between three categories:
- 12 High risk (2018/19: 6)
  - 5 medium (2018/19: 5)
  - 3 low risk (2018/19: 1)

### Key assumptions and risks in the Financial Plan

61. The assumptions included within the 2019/20 Financial Operational Plan are largely consistent with prior years. The board has highlighted the key issues that may impact on the achievement of a balanced financial outturn including:
- NHS Lothian remains behind NHS Scotland Resource Allocation Committee ('NRAC') parity relative to Scotland by up to an estimated £15million. The board is continuing to highlight its view on the ongoing inequity within overall allocations;
  - While the plan shows financial gaps in each year, at this stage, the board does not intend to request brokerage;
  - The plan assumes that costs associated with Waiting times improvement to be matched by Scottish Government funding; and
  - There are ambitions to further develop unscheduled care which have not been taken into account within the financial plan.

### Exhibit 4: Significant Risks

Integration	Delayed discharge	Winter Costs
Changes to Pay T&Cs	Scottish Government Allocations	Capital Programme
Waiting Times	Brexit	Mental Health
New Ultra-Orphan Pathways	Safe staffing	Acute Medicines

65. The increase in the number and significance of the risks to the financial plan reflects the growing pressures on the board's financial sustainability. New risk areas for 2019/20 generally relate to Scottish Government priorities, including Mental Health and Waiting times.
66. In line with prior years, funding levels for additional cost pressures in relation to pay consequentials in 2019/20 have not yet been confirmed by the Scottish Government and will apply across all NHS Boards in Scotland. There remains further uncertainty around

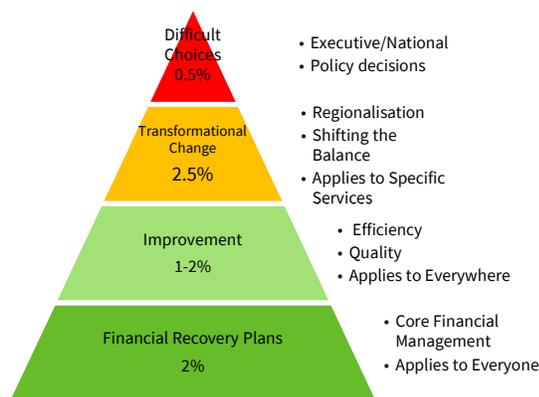


whether these costs will be funded in full in future years.

67. The achievement of efficiency savings plans has also been recognised as a risk area in delivery of the financial plan. NHS Lothian has encountered challenges in delivering the full savings targets in recent financial years. The 2019/20 financial plan includes a total of £25.240million in identified financial recovery plans, however in future financial years identified savings are currently less than £5million per annum.
68. The Health and social care medium term financial framework should move boards towards preparing more detailed medium term financial plans. However this will take time to be embedded in financial planning cycles as is demonstrated at NHS Lothian by the increasing financial gaps with limited plans for how the gaps will close.

### Financial Strategy

69. In March 2018, a financial strategy was presented to the Finance and Resources Committee. A four tiered approach to achieving financial sustainability was outlined which recognises the limits that NHS Lothian can achieve on its own.



**Exhibit 5: NHS Lothian identified a four tiered approach to achieving sustainability**

70. During 2018/19, this work has been further developed through the collection of data and cost modelling to inform the financial strategy. The Finance and Resources Committee agreed a number of key financial strategy principles, however it was agreed that the Committee would benefit from a dedicated workshop to consider the strategy.

71. While the board has outlined an overall strategic direction and framework for achieving financial sustainability, a detailed financial strategy is not yet in place.

*Prior year Action Plan Point 1*

### Strategic and Operational Planning

72. NHS Lothian's Strategic Plan *Our Health Our Care Our Future* recognises that, against a background of rising quality aspirations, major demographic challenges and resource constraints, delivery will not be achieved without radical change, accelerating innovation and changing mindsets.
73. The 2019-20 annual operational plan outlines the delivery of expected levels of operational performance, with a focus on supporting the delivery of national priorities associated with improvement in scheduled and unscheduled care, access to mental health and well-being services, alongside greater progress and pace in the integration of Health and Social Care to deliver a shift in the balance of care from hospital to community services.
74. The plan focuses primarily on how NHS Lothian anticipates delivering performance targets while achieving financial balance. The plan also includes an overview of the approach for developing workforce and various improvement programmes.
75. Key areas of focus for 2019/20 include supporting Scottish Government priorities such as Mental Health and the Waiting Times Improvement Plan.

### Working in Partnership

76. There is an increasing requirement for boards to work collaboratively across their geographical regions, including with integration authorities, other health boards, local authorities and private sector partners. This is a key feature of NHS Lothian's 2019/20 Operational Plan which has a focus on services delivered with Integration Authorities and also work performed on the East Region Plans.

### Integration Authorities

77. In April 2019, the first meeting of the Lothian Integration Care Forum took place with the group meeting bi-monthly moving forward. The membership of the Group includes the NHS Lothian Chair and Chief Executive, Four Integration Joint Board Chairs and Vice Chairs, Chief Officer Acute Services, Chief Officer IJBs and NHS Lothian Director of Strategic Planning.



78. For 2019-20, the focus of the Forum will be to consider services such as unscheduled care, emergency departments, community hospitals and inpatient mental health services. Key aims agreed at its first meeting include to:
- Create an infrastructure for joint planning;
  - Improve relationships and understanding, including the different approaches, cultures and challenges between IJBs, Councils and NHS Lothian;
  - Work towards medium and long-term joint financial planning; and
  - Ensure that the delivery of care in Lothian is agreed in collaboration with partners; allowing more efficient strategic working and improvements to transpire that take into account the needs of all organisations.
79. The Forum will help enable the four Lothian Integration Joint Boards and NHS Lothian to discuss progress and develop proposals set out in the Ministerial Strategic Group for Health and Community Care Report<sup>1</sup>.
80. In our view, the introduction of the Forum is a positive step to promote increased collaboration and a coherent approach to delivering health care services across the Lothians. We endorse this development, given the need for NHS Lothian and partners to move to a more strategic, long term and impact/outcome focussed approach. We will review the operations and effectiveness of the Forum as part of our 2019/20 audit.

### East Region Plans

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81. For many years, NHS Lothian has worked collaboratively with boards across the south east of Scotland. Following the publication of the National Health and Social Care Delivery Plan, the region augmented its programme of work to include a wider range of services, assessing potential opportunities in supporting delivery against 5 agreed regional objectives.
82. Included within the 2019/20 Operational Plan are a number of priorities being progressed in partnership, such as:
- Laboratory Medicine
  - Ophthalmology
  - Regional Trauma Network

<sup>1</sup> <https://www.gov.scot/publications/ministerial-strategic-group-health-community-care-review-progress-integration-health-social-care-final-report/>



# 5. Financial management

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



NHS Lothian has generally effective arrangements in place for financial management and the use of resources, albeit it continues to face significant resource pressures.

The board met its key financial targets once again in 2018/19, delivering an underspend against its revenue resource limit and a breakeven position against its capital resource limit.

NHS Lothian did not achieve all planned savings and the board's reliance on non-recurring savings increased in the year.



## Financial performance

83. All boards have to work within the resource limits and cash requirements set by the Scottish Government.
84. The board achieved a saving against its RRL of £410,000, which represents an underspend of 0.025%. This surplus is effectively in line with the breakeven position outlined within the 2018/19 Operational Plan.

### Exhibit 6: Performance against resource limits

Financial target	Limit £000	Actual £000	Variance £000	Target achieved?
Core revenue resource limit	1,535,514	1,535,104	410	Yes
Non-core revenue resource limit	93,525	93,525	-	Yes
Core Capital resource limit	54,377	54,377	-	Yes
Non-core Capital resource limit	35,149	35,149	-	Yes
Cash requirement	1,724,008	1,724,008	-	Yes

### Delivering financial balance

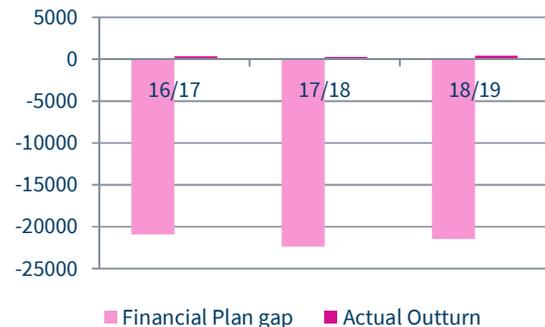
85. The 2018/19 Operational Plan outlined an expected financial gap of £21.4million against a full year recurring expenditure budget of £1.57billion as illustrated below:

2018/19 Budget (£'000)	Limit £000
Full year recurring Expenditure Budget	1,571,621
Baseline pressures	(53,945)
Projected Expenditure uplifts and commitments	(78,776)
Additional resources	83,575
Financial Recovery Plans	27,671
Financial Plan Gap	(21,475)

86. The financial gap represents 1.5% of the full year recurring budget. In line with previous years, limited assurance was given to the Board and Finance and Resources Committee on achieving a breakeven outturn during early 2018/19. By September 2018 moderate assurance was provided, with significant assurance only being provided in March 2019.
87. NHS Lothian has not been able to set a breakeven budget for the last three financial years. Despite the

challenging financial position, NHS Lothian has continued to deliver against financial targets in each year.

### Exhibit 7: Analysis of outturn against financial plan gaps



Source: Annual audit reports

88. NHS Lothian has been able to deliver financial targets recurrently in the context of increasing financial pressures from the likes of pay changes, growing demographic challenges in Lothian, strategic investment and the implementation of national policies.
89. This has been achieved partly through one-off benefits such as the delayed opening of RHCYP, CNORIS contributions and depreciation. Financial balance was achieved by:



Description	(£'000)
<b>2018/19 Financial plan gap</b>	<b>(21,475)</b>
Improvement in operational position	14,355
Increase in availability of reserves in financial plan	727
Depreciation benefit	677
Slippage in RHSC investment	2,000
CNORIS benefit	1,866
Benefits from prior year accounting adjustments	1,000
In year corporate commitments net of benefits	(840)
<b>2018/19 Year end outturn</b>	<b>410</b>

90. While NHS Lothian achieved an overall underspend against the RRL in 2018/19, the baseline operational overspend was £13.1million which was offset by the net release of reserves flexibility of £13.5million.

91. The board has recognised the significant risk to the achievement of breakeven in relation to health component of the four Integration Joint Boards (IJBs). All of the IJBs achieved a breakeven position but this was only possible as a result of the distribution of non-recurring corporate flexibility.

## Efficiency savings

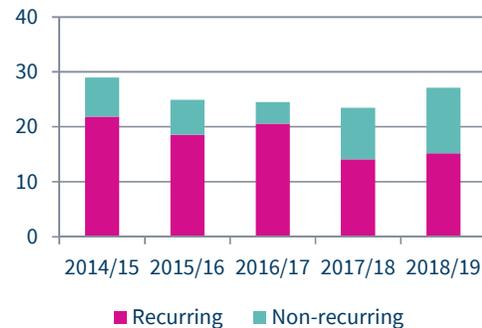
*NHS Lothian did not deliver all planned savings and experienced challenges in delivering savings on a recurring basis*

92. NHS Lothian's 2018/19 Operational Plan outlined a plan to deliver £29.467million of savings. £27.063 million was actually delivered, leaving a shortfall of £2.404million.

93. The amount of recurring savings achieved, as a percentage of total savings, has continued to decrease in 2018/19 by 6% (although the absolute value of recurring savings has increased). Exhibit 8

outlines how NHS Lothian has become increasingly reliant on non-recurring savings.

### Exhibit 8: Historical analysis of savings achieved (£'000s)



Source: NHS Lothian Financial Monitoring reports to Finance and Resources Committee

94. Reliance on non-recurring savings places additional pressures on the future financial position of the board and therefore requires careful management.

95. Traditionally, NHS Lothian does not perform a financial performance review in quarter 4. However, due to the shortfall in savings achieved, an additional review was initiated with the intention to challenge and support individual business units to deliver an increased level of savings to help reduce the financial gap during 2019/20.

### Capital programme was delivered in full

96. The Property and Asset Management Programme underpins the vision for the estate based on the four 'stakes' within the Board's Strategic Plan. NHS Lothian broke even against the CRL set in 2018/19 (£89.526million). Key developments include:

- Practical completion of the Royal Hospital for Children and Young People, Department of Clinical Neurosciences and Child and Adolescent Mental Health Services was achieved in February 2019. Commissioning work is progressing and the facility is planned to be operational from July 2019.
- Construction work continues on the new East Lothian Community Hospital planned for completion in early 2020.
- Partnership developments include the development of an Equally Safe Multi-Agency Centre, with works beginning in 2019. Projects for primary care facilities include Cockenzie, East Lothian and East Calder.



## Budget monitoring and control

97. As part of our audit we considered NHS Lothian's system of budgetary control and financial management and did not identify any significant deficiencies, whilst acknowledging the challenging financial situation and the need for the board to be flexible in how it ultimately delivers financial balance. Comprehensive financial regulations and policies are in place which are subject to regular review and are available on the board's Finance Online intranet site.
98. Financial monitoring reports are submitted to all meetings of the Board, the Finance and Resources Committee, and Corporate Management Team. The reports include forecasts to the year end and explanations of key movements in the year.
99. During the year, the Finance and Resources Committee held a development session which took account of the non-executive checklist included within Audit Scotland's NHS in Scotland 2018 report and also linked in to the whole system of governance review through the NHS Scotland Blueprint for Good Governance.
100. The output from the self-assessment was an Action Plan for the Committee which includes development of online induction and training material for all Board members (including financial matters). The aim will be to support members in providing appropriate scrutiny of financial issues through a greater understanding of NHS Scotland financial terminology, technical framework and risks.

*Prior Year Action Plan Point 2*

## Prevention and detection of fraud and irregularity

101. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the board's arrangements for the prevention and detection of fraud and other irregularities to be adequate and appropriate.
102. The Fraud Liaison Officer provides an annual report to the Audit and Risk Committee outlining any cases that have been referred to Counter Fraud Services, and the progress of any investigations. The Audit and Risk Committee also receive updates on current counter fraud activity from the Fraud Liaison Officer at each meeting.

### National Fraud Initiative

103. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working

together with a range of Scottish public bodies to identify fraud and error.

104. Participating bodies were required to submit data in October 2018 and received matches for investigation in January 2019. Investigation work should be largely complete by 30 September 2019 and the results recorded on the NFI system.
105. We reviewed NHS Lothian's participation in the NFI scheme in May 2019, including an assessment of progress in addressing identified matches. We are satisfied that NHS Lothian is appropriately prioritising matches and the majority of matches have either been closed or are being actively investigated.
106. To date, results of the NFI investigation have not identified any frauds, errors or other such observations. Based on our review, we have concluded that NFI arrangements are satisfactory and NHS Lothian is adequately prepared to meet the September 2019 deadline for the 2018/19 NFI exercise.

## Standards of conduct

107. In our opinion NHS Lothian's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and scheme of delegation and for complying with national and local codes of conduct. We have also considered compliance with the regulatory guidance produced by the SGHSCD throughout the year.

## Systems of internal control

108. We have evaluated the Board's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.
109. We did not identify any material weaknesses in the board's accounting and internal control systems.

## Internal audit

110. An effective internal audit service is an important element of NHS Lothian's governance arrangements and supports the system of internal control. The NHS Lothian internal audit service is provided through a co-sourced arrangement with Grant Thornton. The service operates in line with Public Sector Internal Audit Standards. During our audit we



considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of NHS Lothian's audit resource.



# 6. Governance and transparency

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



Our audit planning identified a significant risk in relation to the board's response to the alleged mismanagement of waiting times reporting. We have concluded that governance arrangements in place to support the programme are extensive and appropriate, but the focus needs to move to agreeing a timetable to return to business as usual.

The board performed a self-assessment against the Blueprint for Good Governance demonstrating a commitment to continuously improving governance arrangements.



## Significant audit risk

111. Our audit plan identified a significant risk in relation to governance and transparency under our wider scope responsibilities.

### External Review of Waiting Times

Our Audit Plan identified a risk relating to an investigation into specific concerns raised under the Board's whistleblowing arrangements about the alleged mismanagement of waiting times reporting. The report noted that NHS Lothian was not consistently complying with the guidance set out in the A&E Data Recording reference manual (2013), the Scottish Government clarification guidance on ambulance waits (2015) and the board's own standard operating procedures.

The Cabinet Secretary for Health and Wellbeing commissioned the Royal College of Physicians of Edinburgh to undertake an investigation into the concerns, which was published in June 2018. As a result of the internal and external reviews over 60 actions have been identified to address concerns raised.

*Excerpt from the 2018/19 External Audit Plan*

112. We are satisfied that the board has responded clearly and openly to the issues raised, as part of an extensive programme led by senior management and regularly scrutinised by non-executive committees. Work continues on ensuring that all actions identified in the reports and subsequent programme plan are addressed and implemented, as discussed further below.

113. NHS Lothian first became aware of concerns relating to the culture and management of the 4 hour emergency care standard in October 2017. It was agreed that there was ambiguity in the NHS Lothian 4 hour emergency care standard operating procedure (SOP) and that this required to be reviewed and revised.
114. The key catalyst for this occurred on 11 October 2017, when the Chief Executive received an email containing allegations of misconduct in relation to the management of the four hour emergency care standard in the Emergency Department at St John's hospital. An investigation was launched in compliance with the Board's whistleblowing arrangements, led by the Board's Non-Executive Whistleblowing champion.
115. The board's internal auditors then carried out an investigation, with oversight from a non-executive Board member. The scope of the investigation was extended to all four emergency departments.
116. The internal auditor's report was presented to the Board in December 2017 and highlighted a number of findings and contributing factors which indicated that NHS Lothian was not consistently complying with the guidance set out in the A&E Data Recording reference manual (2013), the Scottish Government clarification guidance on ambulance waits (2015) and the board's own standard operating procedures.
117. The report set out an action plan to address procedural, cultural and governance issues and was accepted in full by the Board.
118. On 26 June 2018, the Scottish Government published the independent report from the Academy of Royal Medical Colleges on the reporting of A&E waiting times against the 4 Hour Emergency Access Standard. The report underpins a range of findings and actions from the earlier reviews and identifies a number of additional, prioritized recommendations which will be used to inform and enhance the existing improvement plan.
119. The main actions being taken to address the recommendations within the report fall under four themes:
- Governance
  - Patient Safety and Quality of Care
  - Culture
  - Recording of 4 Hour Emergency Access Standard and Unscheduled Care Data
120. A full programme plan is in place which identifies key tasks, the task owner and the start and end dates for key tasks. Where actions have been closed, the programme team ensures that there is appropriate evidence in place to support the closure of the action.



121. A formal Programme Delivery Group was established, chaired by the Deputy Chief Executive. This group receives scrutiny and challenge from the Programme Oversight Group. The Audit and Risk Committee has been responsible for exercising overall governance oversight of the measures taken. We have confirmed that both the Audit and Risk Committee and the Board have received comprehensive updates throughout the year.
122. In February 2019, the Board received the delivery report summarising work undertaken in Phase 1 (September to December 2018) and the actions to be taken during Phase 2. Under each theme, the following information is shown:
- What the external investigation report outlined;
  - What the intended outcomes are;
  - Progress to date; and
  - What is still to come.
123. An external support team was appointed by the Scottish Government in Summer 2018 to support the board in addressing the issues identified. In January 2019, the team formally reduced the level of support provided.
124. Formal 'touch points' have been agreed for follow up with the Scottish Government and external support team with the first of these taking place on 26 March 2019 and the second scheduled for June 2019. These take the form of detailed deep dives into performance data; walks round the adult acute sites and feedback from staff.
125. The board has been able to make significant progress in addressing the original whistleblower's concerns, the internal audit investigation and the independent report. This has involved tackling a range of issues, including those linked to wider factors not explicitly raised in the original concerns given the integrated nature of the system. During 2019/20, focus needs to turn to agreeing an approach to returning activities to business as usual rather than a specific, ring-fenced area of special activity and scrutiny.
127. NHS Lothian has continued to assess the overall impact that Brexit may have on each of the above key areas. Initially, a short-life working group was established to outline the key risks and practical issues. In January 2019, an organisation-wide resilience response structure was established. This included setting up:
- Small Impact Assessment Groups in areas most likely to be affected;
  - A Brexit Management Group to consider the response options and agree actions as appropriate; and
  - A Brexit Secretariat to develop and maintain an information picture and produce in-house planning assumptions for Brexit, and to support other parts of the assessment and response cycle.
128. The first meeting of the Brexit Management Group took place on 30 January 2019 and the meetings were initially held fortnightly. Following the delay of the Brexit, it was decided that meetings would be held on a less frequent basis.
129. The board recognised early on that workforce is likely to be a key area of impact. The Staff Governance Committee has received regular updates and these are reported to the Board through Committee updates. Brexit was added to the Board's corporate risk register in April 2019 and also features as a significant risk in the financial plan.

#### Action Plan Point 2

### Impact of EU withdrawal

126. Audit Scotland has highlighted EU withdrawal as a significant risk facing public bodies across Scotland. Three streams of potential impact were identified:
- Workforce;
  - Funding; and
  - Regulation.

### Key supplier dependency

130. One of the sector risks identified by Audit Scotland for 2018-19 relates to the reliance of public sector organisations on key suppliers. Following the collapse of Carillion, it became apparent that public sector bodies face significant risks where suppliers are experiencing difficult trading conditions.
131. We have evaluated the board's key suppliers and considered what contract management arrangements are in place as part of our work on expenditure. We consider the key area of risk for NHS Lothian to be in relation to capital projects, due to the significant value associated with these. During 2018/19 we have focused particularly on contract arrangements and supplier issues through our work on the Royal Hospital for Children and Young People, Department of Clinical Neurosciences and Child and Adolescent Mental Health Services project.



## Openness and transparency

132. Audit Scotland also cited a risk in relation to public sector organisations keeping pace with public expectations on openness and transparency.
133. In our opinion, NHS Lothian demonstrates good practice with respect to openness and transparency in the following ways:
- Board agendas and papers are published on NHS Lothian's website in advance of meetings being held;
  - Committee minutes and updates are available to the public through Board papers;
  - Key publications (including operational plan, results of annual review, annual accounts) are available on NHS Lothian's website; and
  - Up-to-date register of interests are available on NHS Lothian's website.

## Blueprint for good governance

134. In February 2019, the Scottish Government published the Blueprint for Good Governance in NHS Scotland. The document draws on best practice to ensure all health boards continuously assess and improve their corporate governance systems.
135. A self-assessment tool was issued by the Scottish Government to allow boards to assess themselves against the Blueprint and was sent to all NHS Scotland board members, who were invited to complete and return by 1 March 2019.
136. The results of the survey were then fed back to the board, collated and distributed in a briefing pack to the Board members in advance of a Board workshop on 21 March 2019. At the workshop, the Board members considered each of the five key functions of governance set out in the Blueprint, namely; Setting the Direction, Holding to Account, Assessing Risk, Engaging Stakeholders, and Influencing Culture.
137. The self-assessment process identified several areas of strength including:
- Financial governance – 100% of respondents agreed that the board safeguards and accounts for public money to ensure resources are used in accordance with Best Value principles exceptionally well or well;
  - The committee structure and system of assurance – in our view, NHS Lothian's system of assurance is particularly strong; and
  - Recent developments in risk management – 91% of respondents agreed the board had

considered and agreed the organisation's risk tolerance exceptionally well or well.

138. While no significant weaknesses were identified, the process did highlight three broad themes where opportunities for continuous improvement exist. These were:
- Sharpening the activities of strategic planning, performance management, and risk management, and improving the linkages between them;
  - Strengthening leadership at all levels, and prioritising leadership resource in key areas;
  - Improving the involvement, engagement and consultation with stakeholders.
139. The results from the self-assessment, including a high level action plan to take forward the three continuous improvement themes, were submitted to the Scottish Government on 29 April 2019.
140. Management will develop a detailed action plan during 2019/20. In addition, the board plans to undertake a paired learning exercise with an NHS Trust in England, which will give opportunities to learn from another organisation.
141. The self-assessment exercise is one part of a programme of work the board has been taking forward to improve its system of governance. Throughout 2018/19, the board has been reviewing its approach to risk management, the role and operation of the Strategic Planning Committee, how to make integration work, as well as the significant programme of work undertaken in relation to the 4 hour emergency access standard (as detailed above).
142. We have confirmed that the board followed the self-assessment process prescribed by the Scottish Government and we have reviewed the survey results. The conclusions drawn from the self-assessment and the workshop are not inconsistent with our own views of the board's governance arrangements. During 2019/20, we will follow progress in developing and implementing the detailed action plan arising from the self-assessment.



# 7. Value for money

**Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the board's own reporting of its performance.**



An established and appropriate performance management framework is in place at NHS Lothian with improvements being continually made in relation to performance reporting.

Performance has marginally improved on last year, however there has been a deterioration in performance in key waiting times targets. Improvement plans are in place to return performance to target levels.



## Performance framework

143. The board has a well-established performance management framework in place. Since 2016-17 the Board has delegated scrutiny of performance indicators to relevant committees. A range of 36 indicators are considered by Committees and the Board, including key nationally reported operational plan targets and quality indicators.
144. A summary Quality and Performance Improvement Report, with supporting data pack, is considered at each Board meeting. This report is also one of the key mechanisms the Board uses to report to the public on performance during the financial year.
145. In 2017/18, we noted that the board was considering improvements to the performance reports, including providing Board members with access to a performance dashboard. We considered there to be scope to review the context and coverage of the indicators to better reflect the complexity and priorities of the board and ensure alignment to the Board's strategic priorities. We noted that limited use is made of contextual information, for example to describe the importance of indicators and, where relevant, the reasons for deteriorating performance and priorities for action.
146. During 2018/19, the Chief Quality Officer advised opportunities to consider new ways of presenting data would be considered and that Non Executive Board members' views would be sought through an online survey monkey tool to help identify areas of further improvement.
147. Feedback gathered was used to inform a revised Quality and Performance Improvement report. This resulted in a lighter reporting approach being adopted. The board continues to assess the best means of reporting performance data and is considering working with partners such as Healthcare Improvement Scotland to improve the presentation of performance data.

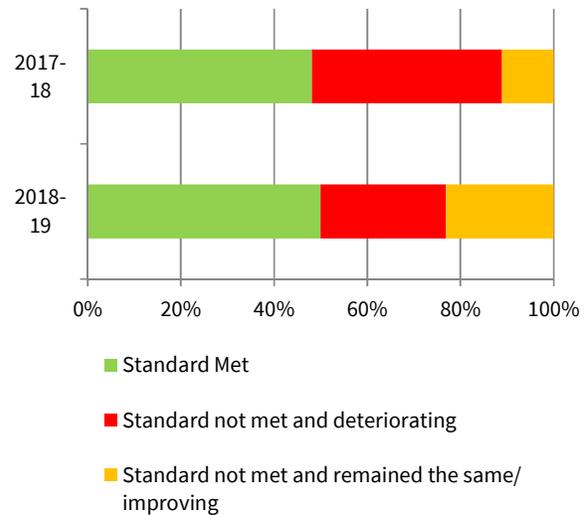
### *Prior Year Action Plan Point 3*

148. The April 2019 performance report highlights that the scrutiny committees have taken no or limited assurance from 53% of relevant indicators. It is therefore difficult for the Board to have overall assurance on the indicators as a complete suite, and the plans and financial implications for improvement.

## Performance during 2018-19

149. The board uses the Annual Report and Accounts to report on performance against 29 key indicators included within the Operational Plan. Of the 26 indicators where targets were set the board achieved only 50% in 2018/19 (compared to 48% in 2017-18).

**Exhibit 9: The relative performance reported in the Annual Report has improved during 2018-19**

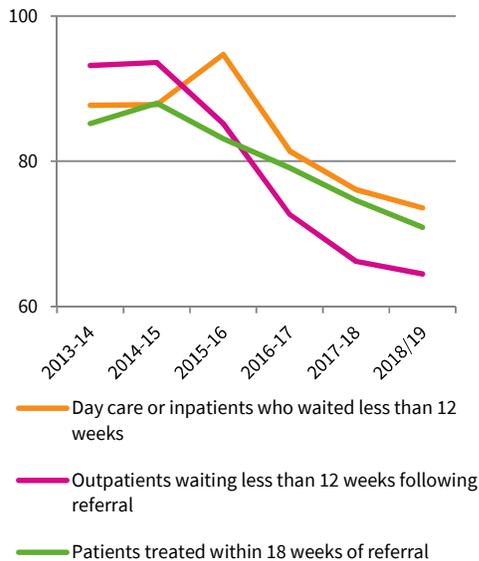


*Source: NHS Lothian Annual Report and Accounts*

150. The board acknowledged the challenges associated with a number of targets for scheduled care within the Operational plan, particularly in light of the financial position.
151. A number of areas have deteriorated since 2017-18:
- Rate of SAB (staphylococcus aureus bacteremia (including MRSA)) cases was 0.30 per 1,000 acute occupied bed days (target: 0.24, 2017-18: 0.29)
  - Only 79.3% of patients referred with suspicion of cancer received treatment within 62 days (target: 95%, 2017-18: 85.9%)
  - 73.6% of inpatient and day cases covered under the Treatment Time Guarantee were seen within 12 weeks (Target: 100%, 2017/18: 76.10%)
  - 64.4% of outpatients were treated within 12 weeks (Target: 95%, 2017/18: 66.2%)



**Exhibit 10: Waiting time performance has significantly deteriorated in recent years, partly as a result of financial decisions**



Source: NHS Lothian Annual Report/ISD

152. NHS Lothian continues to face challenges in meeting waiting times performance targets. The 2019/20 Operational Plan provides an outline of the improvement plans in place to address these areas of poor performance and a forecast of when NHS Lothian hopes to be able to meet the targets.

### Quality strategy

153. One of the board's key strategies for delivering continuous improvement and for meeting the scale of the financial challenge is a focus on the Quality Management System.
154. The Chief Quality Officer leads a Clinical Quality Academy to build and support the understanding, capability and capacity of NHS Lothian staff in aspects of quality planning, improvement and control of processes relating to health and care.
155. Individual clinicians and teams are enabled and empowered to test new approaches to deliver improvements in patient outcomes, patient experiences and use of resources.
156. The programmes currently focus on improving outcomes in mental health, stroke, disease, cancer, outpatient endoscopy and hip fractures. NHS Lothian reports that, as a result of the delivery model, significant sustained improvements have been achieved, alongside a high level of staff engagement. The programme has a dedicated website to report on achievements and share good practice and knowledge.

157. The Quality Strategy 2018-2023 was approved by the Board in June 2018. The Strategy describes a five-year journey to transform the way NHS Lothian manages change and how continuous improvement can be embedded in such a way that it becomes everyone's business as usual.
158. The Strategy is aligned to existing strategic and operational plans and recognises the role that quality improvement can have in making the board more financially sustainable. It also recognises that, due to the financial challenges facing NHS Lothian, a funding gap exists in delivering quality improvement activities.
159. Included within the Strategy are a number of milestones to be achieved to support delivery. These milestones are particularly focused on the early years of the Strategy. Through review of papers of the Sustainability and Value Group and discussions with staff, we understand that significant progress has been made in delivering the milestones assigned to 2018/19; however no update has yet been presented to the Board on progress in delivering quality improvement activities.

Action Plan Point 3

### Sustainability and Value Group

160. The Sustainability and Value Group, chaired by the Director of Finance, provides a relatively new forum to link improvement and financial recovery plans. While the group does not have a delegated budget, Business Units are invited to present service redesign or improvement plans for consideration by the group.
161. The group provides an oversight role for these plans and also makes decisions on the prioritisation of resource support for programme delivery. A key function of the group is to scrutinise delivery of the programme against original proposals, particularly based on return on investment assessments.
162. Our review of the Sustainability and Value Group's papers and minutes has concluded that it provides a mechanism for clear focus on improvement activity. In the context of increasing financial challenges, it is recognised by the Board that the group will play an increasingly important role in the oversight and scrutiny of financial recovery plans. We also concur with recent plans to develop the role of this relative new group, in terms of further clarifying its operating framework and in more explicit reporting of project performance to better enable scrutiny and challenge by the group.



## Focused work on the Royal Hospital for Children and Young People, Department of Clinical Neurosciences and Child and Adolescent Mental Health Services project - settlement agreement

### Summary

163. As part of our audit in 2018/19 Audit Scotland asked us to carry out a high level review of the arrangements around the settlement agreement between NHS Lothian and the contractor, IHS Lothian Ltd (IHSL) considering project governance and value for money. The board has provided evidence of detailed evaluation of the qualitative and quantitative options available to it before proceeding with the settlement agreement option. All the options reasonably available to NHS Lothian came with some adverse impact, whether financial or non-financial, including impact on service redesign.

### Background and context

164. Ensuring effective project governance and securing value for money are crucial aspects of any hospital development project. The Royal Hospital for Children and Young People, Department of Clinical Neurosciences and Child and Adolescent Mental Health Services project (“the project”) is a high profile, strategically important development for NHS Lothian as it modernises, redesigns and integrates its services. The Outline Business Case was approved in 2012 by the Board and Scottish Government, with the Full Business Case and addendum approved by both bodies in April 2015.
165. The project has faced a number of challenges and delays, with construction issues impairing the original project plan and timetable. These have since been resolved and the facility was handed over to NHS Lothian in February 2019. Towards the end of the build stage, a £11.6m payment was agreed from NHS Lothian to IHSL to facilitate resolution of a number of issues but primarily the “Three Key Outstanding Technical Matters”. Broadly, these three matters relate to a drainage solution, heater batteries, and void fire detectors. This payment is in addition to the £150m construction cost as at Financial Close and £80m of enabling and equipment works outwith the agreement with IHSL.

### Dispute issues and resolution process

166. In September 2017, a paper was submitted to the Board seeking approval to pursue the Dispute Resolution Process (DRP). This represented the culmination of a series of technical and contractual disputes throughout 2017 - over and above what would generally be expected on such a project - which could not be resolved through the established relationship management arrangements. There was a prolonged period of negotiation and preparation for the DRP in advance of October 2017, involving professional advisors, obtaining technical opinions, formal discussions with IHSL, and a meeting mediated by the Scottish Futures Trust.
167. NHS Lothian had identified a number of issues that it believed were not compliant with the original contractual requirements and raised concerns over what it felt would be a significant adverse impact on patients, staff and visitors.
168. The Board negotiated with IHSL a potential framework solution to overcome the points of dispute and assist in the completion of the facility. The Board’s Finance and Resources Committee was tasked by the Board with governance oversight, and it gave its support to the principle of a settlement agreement at its meeting in May 2018. The Settlement Agreement was jointly drafted by NHS Lothian and IHSL, setting out all the remaining actions to complete the facility in return for an £11.6m payment. The Agreement was signed with Board and Scottish Government approval.
169. Detailed evaluation was undertaken by NHS Lothian of the qualitative and quantitative options available to it before proceeding with the settlement agreement option. This included a range of professional advice (including legal, contractual and technical construction advice), extensive analysis and resources committed at senior levels – both executive and non-executive – to appraise the options available and weigh up the pros and cons of different scenarios. The issue was discussed regularly at various management meetings and by the Board and its sub-committees.

### Underlying considerations and factors

170. NHS Lothian has consistently maintained its position that the issues experienced were materially non-compliant with the original specifications and raised concerns over the facilities for patients, visitors and staff (relating to aspects such as function, safety, adequacy and future capacity). However, legal and contractual expert opinion did not give the board sufficient confidence that the



likely benefits of pursuing resolution through legal redress in the courts outweighed the qualitative and quantitative implications of such a route. There were also differences of opinion between NHS Lothian and contactor external experts.

171. The priority of providing a safe and robust facility was in evidence throughout the board's approach to the resolution of the dispute. Professional advice on technical standards, legal and commercial matters was taken throughout the process and includes ongoing involvement from advisors in infection control; fire, health and Safety; and facilities engineering.

Government was consulted and ultimately supported the supplemental business case for the Settlement Agreement. This drew on the various legal, commercial and technical advice received from external experts throughout the process. There has been continuity of advisors throughout the project, to support cumulative knowledge and expertise.

173. On a number of occasions, where significant construction lessons had been learnt from other buildings or where other problems had been identified that may impact the project, the project team engaged with IHSL to seek formal assurances over these key issues. For example, given recent issues experienced at Queen Elizabeth University Hospital in Glasgow, NHS Lothian requested assurances regarding the cladding on the new hospital.

### Further governance observations and wider context

172. The Board was formally briefed on both progress of negotiations and the Settlement Agreement itself by the Finance and Resources Committee in both public and private sessions. The Scottish



### Facility completion and way forward

174. The facility was certified (under the NPD contract) as complete on 22 February 2019. The original contracted completion date was 5 July 2017. The post completion works identified in the Settlement Agreement are underway alongside the Board's commissioning programme. Migration of services will commence on 5 July 2019 with fully operational services planned for 15 July 2019.
175. As with all major estates developments, NHS Lothian will be undertaking a post-project evaluation. Given our high level review of aspects of the settlement agreement and the considerable time, resources and complexity involved in resolving the disputes with IHSL, we recommend that this evaluation includes an element specifically focused on the whole-project contracting, monitoring/timetabling and related "lessons-learned". This should go beyond what may have otherwise been standard on more straightforward projects which have gone closer to plan. The key outcomes should be shared within NHS Lothian and with other NHS bodies in Scotland and other public bodies (as appropriate) to help with cumulative understanding of the issues arising, and to help with both preventative and reactive measures to mitigate the likelihood and impact in future projects.

*Action Plan Point 4*



# 8. Appendices

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## Appendix 1: Respective responsibilities of the Board and the Auditor

### Responsibility for the preparation of the annual report and accounts

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder.

#### In preparing the annual report and accounts, the Board and the Chief Executive, as Accountable Officer are required to:

- apply on a consistent basis the accounting policies and standards approved for the NHS Scotland by Scottish Ministers;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Financial Reporting Manual have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate; and
- ensure the regularity of expenditure and income.

#### Board members are also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Auditor responsibilities

#### We audit the annual report and accounts and give an opinion on whether:

- they give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the board's affairs as at 31 March 2019 and of its net expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FReM ;
- they have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

#### We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the annual accounts and the part of the Remuneration and Staff Report to be audited are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.



## Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

## Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

### Confirmation of independence

We confirm that we have complied with the FRC's Revised Ethical Standard (June 2016).

In addition to our work on the board we are also responsible for the review of the abstract of receipts and payments of patients' private funds. The non-audit fee for this work in 2018/19 is expected to be around £7,200. In line with Audit Scotland planning guidance, approval was obtained from the Scott-Moncrieff ethics partner and Audit Scotland before commencing this non-audit work.

In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the board, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.



## Appendix 2: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

### Action plan grading structure

The recommendations have been rated to help the Board assess the significance of the issues and prioritise the actions required.

The rating structure is summarised as follows:

Grade	Explanation
<b>Grade 5</b>	Very high risk exposure - Major concerns requiring immediate attention.
<b>Grade 4</b>	High risk exposure - Material observations requiring management attention.
<b>Grade 3</b>	Moderate risk exposure - Significant observations requiring management attention.
<b>Grade 2</b>	Limited risk exposure - Minor observations requiring management attention
<b>Grade 1</b>	Efficiency / housekeeping point.



## Current year action plan

Action plan point	Issue & recommendation	Management comments
<p>1. Research and Development Income</p> <p>Rating</p> <p>Grade 2</p> <p>Paragraph Ref</p> <p>20</p>	<p><b>Issue</b></p> <p>NHS Lothian is not recognising R&amp;D income in line with achieved contract milestones, but is instead recognising income in relation to expenditure incurred. This is not in line with revenue accounting requirements as R&amp;D surpluses and deficits are not accounted for.</p> <p><b>Risk</b></p> <p>Non-compliance with accounting standards and inaccurate reporting of R&amp;D financial performance.</p> <p><b>Recommendation</b></p> <p>Management should revise the current approach to recognising research and development income, to ensure it is compliant with IFRS 15.</p>	<p><b>Responsible officer:</b> Director of Finance</p> <p><b>Implementation date:</b> 30 November 2019</p> <p>A review of R &amp; D income and how it is recognised in the Board's accounts will be taken forward during 2019/20. This will include ensuring that the Boards' direct and indirect costs are appropriately calculated and reimbursed and that the link between milestones and receipt of income is formalised.</p>

Action plan point	Issue & recommendation	Management comments
<p>2. Waiting Times - next steps</p> <p>Rating</p> <p>Grade 3</p> <p>Paragraph Ref</p> <p>125</p>	<p><b>Issue</b></p> <p>Following the whistleblowing concerns raised in October 2017 and subsequent investigations, a programme plan was developed with progress being reported through both the Audit and Risk Committee and the Board.</p> <p>As the programme continues to develop, there will soon be a requirement to move the activities to business as usual. At present, it is not clear how this transition will occur or the likely timeframe.</p> <p><b>Risk</b></p> <p>Without a clear plan for transition to business as usual the programme may either lose momentum or move away from its original point of focus, resulting in improvements not being sustained or the board failing to demonstrate progress in addressing the recommendations.</p> <p><b>Recommendation</b></p> <p>We encourage the board to agree a timetable and action plan to move the Waiting Times programme to business as usual, using a SMART methodology.</p>	<p><b>Responsible officer:</b> Deputy Chief Executive</p> <p><b>Implementation date:</b> 31 October 2019</p> <p>We recognise the risks highlighted by our External Auditors and agree with their recommendation. We will establish a proposed critical path for transitioning this improvement/Assurance programme to 'Business as usual' and will present the proposed critical path for this objective to ARC for approval in October 2019</p>



Action plan point	Issue & recommendation	Management comments
<p>3. Quality Strategy Progress Reporting</p> <p>Rating</p> <p><b>Grade 3</b></p> <p>Paragraph Ref</p> <p>159</p>	<p><b>Issue</b></p> <p>NHS Lothian approved the Quality Strategy in June 2018, including a number of milestones to be achieved during 2018/19.</p> <p>To date, a progress update has not been presented to the Board or Committees.</p> <p><b>Risk</b></p> <p>Without a clear reporting framework for the Quality Strategy, the Board may not take prompt recovery actions where progress is not made and there may be a failure to deliver against the Quality Strategy.</p> <p><b>Recommendation</b></p> <p>NHS Lothian should prepare an annual report documenting progress against the key milestones outlined within the Quality Strategy. This should be reported to the Board.</p>	<p><b>Responsible officer:</b> Chief Quality Officer</p> <p><b>Implementation date:</b> 31 October 2019</p> <p>A 2018-19 annual review of progress against aims of the strategy is being prepared as we finish the first year of implementation. The review will be submitted to key Board Subcommittees (F&amp;R, HCG and Staff Governance) in Q2-3 of 20 19-20 and for consideration by the whole Board in October 2019. Quarterly highlight reports will be produced thereafter for CMT and shared with Board and Subcommittee as requested. Annual reviews will be produced for Q3 of each subsequent Financial Year covering the 2018-23 period.</p>

Action plan point	Issue & recommendation	Management comments
<p>4. RHSCYP</p> <p>Rating</p> <p><b>Grade 3</b></p> <p>Paragraph Ref</p> <p>175</p>	<p><b>Issue</b></p> <p>In line with best practice, NHS Lothian anticipates undertaking a post project evaluation to reflect on the RHSCYP project. However, this may not include specific and detailed focus on the whole-project contracting and delivery issues.</p> <p><b>Risk</b></p> <p>The post project evaluation may not deliver maximum value and best-inform future projects if it does not take appropriate cognisance of the contract dispute issues on this project.</p> <p><b>Recommendation</b></p> <p>The post project evaluation should include an element specifically focused on the whole-project contracting, monitoring/timetabling and related “lessons-learned”. This should go beyond what may have otherwise been standard on more straightforward projects which have gone closer to plan. The key outcomes should be shared within NHS Lothian and with other NHS bodies in Scotland (as appropriate) to help with cumulative understanding of the issues arising, and to help with both preventative and reactive measures to mitigate the likelihood and impact in future projects.</p>	<p><b>Responsible officer:</b> Director of Finance</p> <p><b>Implementation date:</b> 31 March 2020</p> <p>The Board welcomes the recommendation to include the settlement agreement within a robust post project evaluation (PPE) process (separate from an ‘occupancy review’, which will take place shortly after occupancy of the facility). Steps are already underway to ensure sufficient resource, skills and knowledge are in place.</p> <p>The Board will look to include other NHS bodies, as well as Government agencies (eg SFT) and external parties in the PPE to ensure a full range of views and experiences, with the key outcomes shared as appropriate.</p>



## Follow up of prior year recommendations

Of the three recommendations raised in our 2017/18 annual audit report, we note that one has been implemented and two have been partially implemented. Details are given below.

### 1. Financial Sustainability

Initial rating	Issue & recommendation	Management comments
<b>Grade 3</b>	<p><b>Observation</b></p> <p>The Board has made significant progress in 2017-18 to develop a framework to deliver financial sustainability, including regional and national planning. There are currently 22 work streams NHS Lothian is involved in to address the board's savings gap. However there is currently limited information presented to committee on specific projects and no breakdown of how the total savings, within each work stream, will be achieved and therefore how this supports NHS Lothian's financial position.</p> <p><b>Recommendation</b></p> <p>NHS Lothian should ensure that the Board is presented with clear plans and options for where savings will be achieved.</p>	<p>NHS Lothian will continue to provide information to its committees on the achievement of savings against plan.</p> <p>As the Sustainability and Value programme is part of Lothian's financial strategy, a more formal process for ensuring a robust prioritisation of savings opportunities will be developed.</p> <p><b>Action owner:</b> Director of Finance</p> <p><b>Due Date:</b> December 2018</p>
Current status	Audit update	Management response
<b>Partially Completed</b>	<p>Work continues to refine the financial strategy and delivery approach. While a high level overview of savings planned and achieved is presented to both the Finance and Resources Committee and the Board, there remains limited detail on the specific savings programmes and the impact that these may have.</p> <p>The board has indicated that the Sustainability and Value Group will have an enhanced role in monitoring and challenging financial recovery plans during 2019/20.</p>	<p>The Sustainability &amp; Value Group has commissioned an overview of all the programmes and projects of work that are likely to contribute to sustainability and value. This will form the agenda for the Sustainability &amp; Value Group over 2019/20. In addition, the Sustainability &amp; Value Group will require business units to provide regular updates on other opportunities for programmes and/or projects that will contribute to this agenda. The Implementation Date is ongoing.</p> <p><b>Responsible officer:</b> Director of Finance</p> <p><b>Implementation date:</b> Ongoing</p>



## 2. Financial Monitoring

Initial rating	Issue & recommendation	Management comments
<b>Grade 2</b>	<p><b>Observation</b> The NHS Financial framework that the board operates under is complex and reporting on this in a way that is clear and understandable is a challenge.</p> <p><b>Recommendation</b> We believe that there is scope to further clarify financial monitoring reports by:</p> <ul style="list-style-type: none"> <li>• Providing greater explanation and analysis of flexibility</li> <li>• Removing reference to legacy efficiency savings gaps to allow Board members to focus on in-year performance.</li> </ul>	<p>NHS Lothian has agreed to remove legacy LRP gaps following discussion with the F&amp;R committee.</p> <p>The presentation of financial flexibility information will be discussed with F&amp;R Committee.</p> <p><b>Action owner:</b> Director of Finance</p> <p><b>Due date:</b> December 2018</p>

Current status	Audit update	Management response
<b>Complete</b>	<p>Review of financial monitoring reports during 2018/19 has confirmed that reference to legacy LRP has been removed. References to financial flexibility remain within financial monitoring reports however greater explanation has been included.</p> <p>The outcome of the Finance and Resource Committee's self-assessment is an Action Plan for the Committee and includes development of online induction and training material for all Board members, including on financial matters. The aim will be to support members in providing appropriate scrutiny of financial issues through a greater understanding of NHS Scotland financial terminology and issues. We will monitor progress on this during our 2019/20 audit.</p>	N/A



### 3. Performance Reporting

Initial rating	Issue & recommendation	Management comments
<b>Grade 3</b>	<p><b>Observation</b></p> <p>The Board is presented with a Quality and Performance Improvement Report, with supporting data pack, at each Board meeting. While we acknowledge that this report reasonably focuses on the key targets that the board will be assessed on, we believe that there is scope to develop performance reporting to consider the achievement of other corporate objectives.</p> <p><b>Recommendation</b></p> <p>The board should review performance reporting arrangements to ensure that reports provide a balanced and comprehensive commentary across each of the organisation's priorities, including, for example, improvement work and efficiency savings.</p>	<p>As part of its next review of content in Quality and Performance Improvement NHS Lothian has committed to conducting a comprehensive review of the report specifically including the views of key users on format and content to reflect the broader organisational priorities informed by the recommendations arising from the Scottish Parliament's Health and Sports Committee consideration of Scrutiny of NHS Health Boards.</p> <p><b>Action owner:</b> Chief Quality Officer</p> <p><b>Due date:</b> 31 March 2019</p>

Current status	Audit update	Management response
<b>Partially Completed</b>	<p>Feedback was gathered from non-executive Board members and was used to inform a revised Quality and Performance Improvement report. This resulted in a lighter reporting approach being adopted. The Board continues to assess the best means of reporting performance data and is considering working with partners such as Healthcare Improvement Scotland to improve the presentation of performance data.</p>	<p>External scoping is concluding, and a new system will be tested during Q3 2019-20 will be embedded before 2020</p> <p><b>Responsible officer:</b> Chief Quality Officer</p> <p><b>Implementation date:</b> 31 December 2019</p>



## Appendix 3: Unadjusted errors

We identified the following potential adjustments to the financial statements during our audit. We have discussed these with management and have agreed that they will not be reflected in the financial statements on the basis of immaterial impact.

Unadjusted difference	SoCNE		Balance Sheet	
	DR £m	CR £m	DR £m	CR £m
Other receivables			1.06	
Prepayments				1.06
<i>Being the transfer of receivables wrongly categories between disclosure lines</i>				
Expenditure	1.04*			
Provisions				1.04
<i>Being NHS Lothian's share of the national CNORIS adjustment. This reflects NHS Lothian having to take a pro-rata share of miscalculations made by other NHS boards in relation to their periodic payment orders to settle clinical and medical negligence claims. We found no issues with NHS Lothian's own approach in this area.</i>				
<i>*(Note that SGHSCD has indicated that offsetting AME funding is available to NHS Lothian, such that the impact on RRL would be fully offset should NHS Lothian have chosen to process this adjustment)</i>				
<b>Net impact on income / expenditure</b>	-			

