

NHS Lanarkshire

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared by Audit Scotland
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Contents

Key messages	3
Introduction	5
1. Audit of 2020/21 annual report and accounts	8
2. Financial management	14
3. Financial sustainability	22
4. Governance and transparency	30
5. Value for money	39
Appendix 1. Action plan 2020/21	48
Appendix 2. Significant audit risks	51
Appendix 3. Summary of 2020/21 national performance reports	55

Key messages

2020/21 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 The global coronavirus pandemic, Covid-19, impacted on the whole of the 2020/21 financial year. This has had significant implications for the board's services and on the costs of healthcare provision.

Financial management and sustainability

- 3 NHS Lanarkshire has effective financial management arrangements in place. The board met all its financial targets for 2020/21 and achieved breakeven against its Revenue Resource Limit (RRL).
- 4 The board achieved 97% of its savings target. It realised £28.682 million of efficiency savings, some of which related to lower than anticipated cost growth due to reduced activity levels due to Covid-19. The board did not seek any support from the Scottish Government for any unrealised efficiency savings in 2020/21.
- 5 The North and South Lanarkshire IJBs incurred expenditure of £51.902 million in responding to the Covid-19 pandemic across Health (£16.320 million) and Social Care (£35.582 million) and the rest of the board's services incurred costs of £43.446 million. These costs were fully met by the Scottish Government.
- 6 The majority of the £56.6 million of health and social care funding that was paid to the Integration Joint Boards (IJBs) and is held in their reserves for future services, was received late in 2020/21.
- 7 Effective internal control systems operated throughout the year.
- 8 NHS Lanarkshire has effective financial planning arrangements in place but its financial plans show increasing pressures on services.
- 9 In line with Scottish Government guidance NHS Lanarkshire developed a one-year financial plan for 2021/22. The pandemic has had a significant impact on the short-term finances of NHS Lanarkshire and the impact of this in medium/longer term planning is still to be evaluated.
- 10 To achieve breakeven in 2021/22 savings are required of £30.693 million. Some of these savings have yet to be identified.

- 11** The medium-term financial plan identifies funding gaps and will need to be updated to reflect the impact of Covid-19. The board's reliance on non-recurring savings is not sustainable.
- 12** NHS Lanarkshire is finding it difficult to recruit staff and relies on supplementary staff to fill gaps, at a high cost to the board. Expenditure on agency staff is £17.2 million.
- 13** The site for the University Hospital Monklands Replacement Project (MRP) was approved by the Scottish Government in January 2021 following an evaluation of potential sites which included consultation with members of staff and the public.

Governance and transparency

- 14** In March 2020, the board implemented emergency arrangements for services in response to the Covid-19 pandemic. Following direction from the Scottish Government non-urgent treatments were largely paused and, even after restrictions relaxed, never resumed previous levels.
- 15** NHS Lanarkshire has effective governance arrangements in place that support good governance and accountability. Changes to the arrangements in response to the Covid-19 outbreak in March 2020 are set out in the Governance Statement in the accounts.
- 16** The board's executive and non-executive members demonstrate effective leadership, challenge and scrutiny of the board's activity and performance.
- 17** The board has appropriate arrangements in place to prevent fraud and corruption.

Value for money

- 18** Covid-19 has impacted significantly upon the board's activity and waiting times for services. The board has published a remobilisation plan to address backlogs caused by the Covid-19 pandemic and the restoration of health services.
- 19** The board has an effective performance management framework in place which supports continuous improvement.
- 20** Officers report to members on the arrangements in place to secure Best Value which demonstrates good practice.
- 21** The board's focus on trying to reduce delayed discharge bed days has led to a reduction in delayed discharges this year.

Introduction

1. This report summarises the findings from our 2020/21 audit of Lanarkshire Health Board, commonly known as NHS Lanarkshire (the board). The scope of our audit was set out in our Annual Audit Plan presented to the January 2021 meeting of the Audit Committee. This report comprises the findings from:

- an audit of the board's annual report and accounts
- consideration of the wider dimensions that frame the scope of public audit set out in the [Code of Audit Practice 2016](#)

2. The main elements of our audit work in 2020/21 have been:

- an audit of the board's 2020/21 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- a review of the board's key financial systems
- consideration of the four audit dimensions.

3. As highlighted in our Annual Audit Plan, in common with all public bodies, NHS Lanarkshire has had to respond to the global coronavirus pandemic. During 2020/21 this has had significant implications on the services it delivers, the costs of healthcare provision, sickness absence levels, and the suspension of non-essential projects and activities. Our audit approach in 2020/21 was adapted to working in a 'lockdown' environment, with the audit of the accounts conducted remotely, which was the same approach as the previous year.

Adding value through the audit

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

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides.

5. We aim to help NHS Lanarkshire promote improved standards of governance, better management and decision-making and more effective use of resources.

Responsibilities and reporting

- 6.** NHS Lanarkshire has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers.
- 7.** The board is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.
- 8.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the effectiveness of the performance management arrangements, the effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
- 9.** This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
- 10.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

- 11.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.
- 12.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £199,520, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
- 13.** This report is addressed to the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to

thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance.

Main judgements

Our audit opinions on the annual accounts are unmodified.

The global coronavirus pandemic, Covid-19, impacted on the whole of the 2020/21 financial year. This has had significant implications for the board's services and on the costs of healthcare provision.

Our audit opinions on the annual report and accounts are unmodified

14. The board approved the annual report and accounts for the year ended 31 March 2021 on 30 June 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

15. The working papers provided to support the accounts were of a good standard and the audit team received great support and from finance staff which helped ensure the final accounts audit process ran smoothly. We are particularly grateful to finance staff in light of the fact that remote working arrangements were in place for both them and us.

Overall materiality is £17 million

16. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#) overleaf. However, the revised materiality

levels were not significantly different from our planned levels and did not impact on our audit approach.

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£17.045 million
Performance materiality	£10.227 million
Reporting threshold	£165 thousand

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

17. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and inform where the efforts of the team are directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

18. We have no issues to report from the work done on the main risks of material misstatement.

We have significant findings to report on the annual report and accounts

19. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have no significant findings to report around the qualitative aspects of the annual report covering accounting policies, accounting estimates and financial statements disclosures.

20. The significant findings are summarised in [Exhibit 2](#) overleaf. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

Exhibit 2**Significant findings from the audit of the financial statements**

Issue	Resolution
<p>1. Health and Social Care Integration</p> <p>The integration joint boards (IJBs) activities have been reflected in the board's accounts. £946.498 million has been included in the board's other health care expenditure relating to the board's payments to the two IJBs. Income of £891.919 million for services commissioned by the two IJBs has also been included.</p> <p>The IJBs have been consolidated into the group accounts as joint ventures, £45.075 million has been shown in reserves, representing the board's share of the IJBs' cumulative financial outturns to 31 March 2021.</p> <p>The IJB figures are based on the unaudited accounts for each IJB and the deadline for these accounts to be audited is 30 November 2021. We do not anticipate any material changes to the draft figures used in consolidation.</p>	<p>For information only.</p>
<p>2. Endowment Funds</p> <p>The Endowment Funds figures included in the 2020/21 group accounts were based on the unaudited financial statements. The Endowment Funds financial statements were approved by the trustees and external auditor of the Endowment Funds on 30 June 2021. There were no material changes to the unaudited figures used in consolidation and the external auditor of the Endowment Funds has raised no significant issues in relation to their audit.</p>	<p>For information only.</p>
<p>3. Personal Protective Equipment (PPE) and Covid-19 testing kits</p> <p>To protect health staff during Covid-19, NHS NSS ordered supplies of PPE and issued it to boards to use. The Scottish Government had concluded that these products should not be accounted for by the health boards. Audit Scotland advised the Scottish Government in April 2021 that they did not agree with this treatment. The Scottish Government agreed to revise the accounting treatment in June 2021 and provided figures to be reflected in the board's accounts. Revised funding allocation letters were also issued to cover the cost of these items. The accounts have been updated to reflect</p>	<p>We have reviewed the changes to the accounts and are satisfied with the changes made.</p> <p>The net impact of adjusting the 2020/21 accounts was nil.</p> <p>For information only.</p>

Issue	Resolution
<p>costs and corresponding funding of £11.251 million.</p> <p>Similarly, the costs and funding for Covid-19 testing kits of £1.885 million have also been reflected in the revised accounts</p>	
<p>4. Deferred Income – Research and Development Contracts</p> <p>In our 2019/20 Annual Audit Report we highlighted that, included within the board’s deferred income was an amount for £0.970 million which related to income from 60 research and development contracts. Through discussion with finance officers we identified that this amount did not appear to meet the accounting definition of deferred income and, as a result, should have been disclosed in the board’s 2019/20 accounts as operating income. This was reported as an unadjusted error in the 2019/20 accounts.</p> <p>The board commenced a detailed review of all research and development contracts in 2019/20 and as a result closed a number of completed contracts and removed them from deferred income. The completion of the review has been delayed by Covid-19. Included within the board’s 2020/21 deferred income balance is an amount for £0.365 million which relates to income from 11 research and development contracts. Through discussion with finance officers we identified that to date there is no evidence to support this income as deferred income. As a result, it should be disclosed in the board’s 2020/21 accounts as operating income.</p>	<p>The board have advised that the detailed review of all research and development contracts will be completed in 2021/22. The board has decided not to adjust the 2020/21 accounts and to await the completion of this detailed review of research and development contracts in 2021/22.</p> <p>The net impact of adjusting the 2020/21 accounts to remove the £0.365 million of research and development income from deferred income and disclose this as income would be to decrease the board’s 2020/21 reported net expenditure by £0.365 million. We have included this as an unadjusted error in the accounts, at paragraph 22.</p>
<p>5. Large hospital services and set aside budgets</p> <p>In March 2019, the Scottish Government wrote to NHS Scotland Chief Executives advising of its expectations for the annual accounts that Health Boards and IJBs agree a figure for the sum set aside to be included in their respective annual accounts. In the absence of bespoke local arrangements, data from NSS ISD may be used to enable the preparation of accounting estimates for this sum.</p> <p>The agreement in place for 2020/21 between NHS Lanarkshire and North Lanarkshire and South Lanarkshire IJBs is similar to a block contract Service Level Agreement (SLA). This means that</p>	<p>For information only.</p>

Issue	Resolution
<p>board provides services covered within the set aside arrangements for an agreed sum which can be varied to reflect planned service changes agreed by the IJBs. The board and the IJBs worked through all agreed changes by the end of May 2021 to ensure final agreed values for inclusion within respective annual accounts, being £63.066 million for North Lanarkshire IJB and £59.501 million for South Lanarkshire IJB.</p> <p>The risk of the cost of the directed services exceeding the agreed sum is borne by the board in year. As data becomes available (currently 17 months in arrears) the IJBs will be provided with an assessment of the actual costs (based on cost allocation methodology) to inform their understanding of how its use of resources will change and aid future planning.</p>	

Source: Audit Scotland

Identified misstatements above our performance materiality threshold were adjusted in the accounts but we did not need to revise our audit approach

21. Point 3 in [Exhibit 2](#) above highlights that the Scottish Government agreed in June 2021 to revise the accounting treatment in boards' annual accounts in relation to supplies of PPE and Covid-19 testing kits. As this revised accounting treatment was advised to boards after NHS Lanarkshire's 2020/21 unaudited accounts had been passed to the audit team, the unaudited accounts needed to be updated. As a result, there was an increase in funding and expenditure of £13.136 million, and the net impact of this adjustment was nil. Although the misstatements were above our performance materiality threshold of £10.227 million, this was an isolated error due to a unique set of circumstances and therefore did not require a change to our audit approach.

22. One misstatement which was above our reporting threshold, as detailed in [Exhibit 2](#), was identified which was not processed through the financial statements and this has been classified as an unadjusted error. If corrected, this would have decreased net expenditure by £0.365 million and increased the net assets in the consolidated statement of financial position by £0.365 million.

23. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management do not propose to adjust for the item above as the

amount is not considered material in the context of the financial statements. If this error had been corrected the board would still have met its financial targets.

The performance report was of a good standard

24. In addition to the opinion on the performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of the body's performance report. The performance report should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

25. There are a number of characteristics of financial reporting which make for a high quality performance report. We reviewed the draft performance report provided to us as part of the unaudited 2020/21 annual report and accounts taking into account good practice notes issued by Audit Scotland in recent years in relation to the content of performance reports in the NHS and Central Government. As a result, we have concluded that the board's 2020/21 performance report complies with good practice.

26. The board has comprehensive arrangements in place to ensure that the Governance Statement contained in the annual report and accounts is soundly based. This is built up through a package of evidence presented to the Audit Committee in the final quarter of the year, including the completion of the assessment tool in the Scottish Government Audit Committee Handbook. This represents good practice and demonstrates the board's commitment to transparent reporting.

Progress on prior year audit recommendations

27. The board has not yet implemented our prior year audit recommendation in relation to revisiting its medium -term financial plan to reflect the impact of Covid-19. A revised response and timescale have been agreed with management and are set out in [Appendix 1](#).

2. Financial management

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

Main judgements

NHS Lanarkshire has effective financial management arrangements in place. The board met all its financial targets for 2020/21 and achieved breakeven against its Revenue Resource Limit (RRL).

The board achieved 97% of its savings target. It realised £28.682 million of efficiency savings, some of which related to lower than anticipated cost growth due to reduced activity levels due to Covid-19. The board did not seek any support from the Scottish Government for any unrealised efficiency savings in 2020/21.

The North and South Lanarkshire IJBs incurred expenditure of £51.902 million in responding to the Covid-19 pandemic across Health (£16.320 million) and Social Care (£35.582 million) and the rest of Health incurred an additional £43.446 million. These costs were fully met by the Scottish Government.

The majority of the £56.6 million of health and social care funding that was paid to the Integration Joint Boards (IJBs) and is held in their reserves for future services, was received late in 2020/21.

Effective internal control systems operated throughout the year.

NHS Lanarkshire operated within its Revenue Resource Limit (RRL)

28. With effect from 2019/20, the Scottish Government introduced a new approach to financial planning and target setting. This removes the requirement for boards to achieve financial balance annually and instead boards are required to achieve a break-even position over a rolling three-year period. NHS boards can exercise annual flexibility within 1% of their revenue resource limit.

29. In the previous two year the board reported that it delivered services within its RRL. As illustrated in [Exhibit 3](#) overleaf, the board operated within all limits again during 2020/21.

30. The Scottish Government paused the normal financial planning arrangements under the Scottish Government's Health and Social Care

Medium Term Financial Framework due to the pandemic and announced that all Health Boards would be fully funded in 2020/21. Throughout the year, additional non-recurring funding allocations were provided based on the estimated financial impacts of the pandemic on the board.

Exhibit 3 Performance against resource limits in 2020/21

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	1,561.008	1,561.008	0
Non-core revenue resource limit	30.300	30.300	0
Total revenue resource limit	1,591.308	1,591.308	0
Core capital resource limit	23.340	23.340	0
Non-core capital resource limit	0	0	0
Total capital resource limit	23.340	23.340	0
Cash requirement	1,585.814	1,585.814	0

Source: NHS Lanarkshire Annual Report and Accounts 2020/21

There was a significant financial impact due to Covid19

31. The pressures facing the NHS continue to intensify. NHS Lanarkshire's financial plan for 2020/21 and forecasts for the next two years was approved by the Board in March 2020. This was prior to the impact of Covid-19 being known. The financial plan estimated that the board would start 2020/21 with an estimated £8.853 million recurring funding gap. In addition, the plan predicted cost growth would exceed the allocation uplift by £29.828 million. Efficiency savings would be needed to bridge this gap, of which £10.030 million had still to be identified at March 2020. The Board agreed that the financial plan would need to be revised once the impact of the board's response to Covid-19 is better known.

32. Historically, the board received less than its target share of funding under the national resource allocation (NRAC) formula and in previous years the board received additional funding to bring it closer to its share of NRAC. However, the board's 2020/21 financial plan highlighted that there was no additional funding available for NHS Lanarkshire as it was being targeted at boards more than 0.8% away from their target share.

33. The finance report to the end of March 2021, presented to the Board in May 2021, highlights that the board moved into emergency response mode on 2 March 2020. From the outset, expenditure patterns varied from the original 2020/21 financial plan. The IJBs incurred expenditure of £51.902 million in responding to the Covid-19 pandemic across Health (£16.320 million) and Social Care (£35.582 million) and the rest of Health incurred an additional £43.446 million. These costs were fully met by the Scottish Government.

34. As services adapted to redirect beds and staff to the emergency response, developments previously anticipated in specialist services and high cost drugs inevitably moved more slowly. Therefore, the cost increases forecast from these, which had created part of the unfunded gap in the original financial plan, did not materialise to the full extent. Although the financial sustainability programme was suspended in March 2020 and there has been limited ability for the board to address the original £10.030 million funding gap, the gap narrowed in 2020/21. The net impact of these factors was that the board was able to achieve breakeven.

35. Direct Covid19 related expenditure was tracked using specific account codes in the general ledger. [Exhibit 4](#) shows the expenditure in these areas compared to additional Covid-19 related funding allocations.

Exhibit 4

Covid-19 Costs compared to additional funding allocations

	Total Funding Received (£m)	Total Expenditure (£m)	Difference (£m)
NHS Board			
Covid-19 Additional Allocations	54.713	54.821	-0.108
Health & Social Care			
Covid-19 Additional Allocations	60.420	51.902	8.518

Source: NHS Lanarkshire

36. A number of additional Covid-19 allocations were earmarked by the Scottish Government for the use by the IJBs for health and social care expenditure. These were included in full as part of NHS Lanarkshire funding to these bodies. IJBs are able to retain any unspent funding within their reserves (see Paragraphs 40 and 41).

Efficiency savings were achieved but relied on significant non-recurrent savings of £22.866 million

37. NHS Lanarkshire's target for total efficiency savings in 2020/21, was originally £29.828 million (2% of baseline RRL), which was revised down to £28.911 million during the year and £3.810 million of these savings were delegated to North and South Lanarkshire IJBs. The board reported £28.682 million of efficiency savings, some of which related to lower than anticipated cost growth due to reduced activity levels due to Covid-19.

38. In 2020/21, the board has reported that £5.816 million (20%) of the total efficiency savings achieved were on a recurring basis, with the remainder £22.866 million (80%) achieved on a non-recurring (one off) basis. The board's reliance on non-recurring savings has increased from 40% in 2018/19 to 91% in 2020/21 but Covid-19 has impacted on the recognition and comparability of these savings levels.

39. In February 2021 Scottish Government announced they would fund NHS boards' savings that could not be achieved in 2020/21. NHS Lanarkshire did not seek any support from the Scottish Government for any unrealised efficiency savings. The board started 2021/22 with a recurring funding gap of £17.356 million after non-recurring savings were estimated.

The majority of the £56.6 million of health and social care funding that was paid to the Integration Joint Boards (IJBs) and is held in their reserves for future services, was received late in 2020/21

40. NHS Lanarkshire delegates responsibility for a specified range of health and social care services to the North and South Lanarkshire Integration Joint Boards (IJBs) and passes the budgets associated with these services to the IJBs. The budget is amended throughout the year to reflect additional funding received by the board for IJB services. Under the integration financial guidance, any funding unspent at the year-end belongs to the IJBs and is retained by them to be held in reserves for use in future years.

41. For 2020/21, £25.304 million of health funding was paid to North Lanarkshire IJB which is now held in reserves. Similarly, £31.335 million was paid to South Lanarkshire IJB and is held in reserves. Each IJB will be considering its plans for use or retention of these reserves. £28.836 million of this unspent funding comes from a range of late funding allocations to the board from the Scottish Government issued in the January 2021 allocation letter which were to be used to fund future IJB related expenditure.

Financial systems of internal control are operating effectively

42. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant

to produce the financial statements. Our objective is to gain assurance that NHS Lanarkshire has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

43. Our findings were included in a management report presented to the Audit Committee on 1 June 2021. We identified no significant control weaknesses from this audit work. We reported that a small number of control weakness reported by us in previous years remain, and as a result we carried out additional audit testing in three specific areas to gain the necessary audit assurances on aspects of the financial statements.

44. Our sample testing of journals found that there was not always evidence that they had been authorised. We were advised that the increase in journals processed and the practicalities of remote working meant that it was not feasible to demonstrate that all journals were authorised remotely. As a result, we increased the sample of journals included in our audit testing. Our testing has not identified any journals that were not processed for a valid purpose. However, there is an increased risk of fraud or error if there is no control to document the authorisation of journals.

Recommendation 1

A process for recording the authorisation of journals remotely should be introduced.

45. We also substantively tested ledger access permissions and considered compensating controls for the late submission of employee termination information. We identified no errors and so we concluded that these weaknesses have not had a material impact on the financial statements.

Budget processes and financial management is effective

46. We reviewed NHS Lanarkshire's budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and Board members receive regular, timely and up to date financial information on the board's financial position. The budget monitoring reports presented to each Board meeting clearly show the extent of the board's reliance on non-recurring savings and the content and format of the reports allow members to perform their scrutiny role.

47. The finance report presented to each meeting of the NHS Lanarkshire Board also includes an analysis of the movements in the board's RRL since the previous finance report. This provides Board members with sufficient detail on the nature of changes to the board's funding allocation as a description is provided for each change to the funding allocation along with the monetary values.

48. During 2020/21 internal audit carried out a review of financial management (May 2021) which included an assessment of the board's budgetary control arrangements and to confirm that they provide robust financial governance in terms of reporting, remediation and data accuracy across NHS Lanarkshire. Internal audit concluded that based on the examination of the control structure and the procedures in place, they considered the system provides substantial assurance that the objectives of the review were met. There were no findings arising from this review.

49. The 2020/21 Internal Audit Annual Report presented to the Audit Committee meeting on 1 June 2021, highlights that all of the internal audit reports issued during 2020/21 in relation to financial governance provided substantial assurance, i.e. there is a robust framework of controls in place which ensure objectives are likely to be achieved. There were no weaknesses identified that impact on the annual accounts or our audit work.

50. We concluded that NHS Lanarkshire has effective budgetary monitoring and control arrangements that allow both members and officers to carry out effective scrutiny of the board's finances.

Lease costs have been incurred on a property no longer needed by the board. Lease break clauses should be kept under review

51. The board intended to give notice of intention to exercise the break option on a lease on a property following a review of its delivery model as a result of Covid-19. On 1 October 2020, notice of intention to exercise the break option on the lease was served. However, the minimum requirement for serving notice was 9 months prior to 18 May 2021, and it should have been notified by 18 August 2020. As a result, the break option was missed and the board is now contractually liable for the full lease payments until May 2026. Maximum recurring costs are £0.515 million over the next 5 years. The board is now trying to negotiate an early exit from the lease with the landlord at a reduced rate. This issue was discussed at the Board meeting held in March 2021 as a result of its inclusion in the corporate risk register as a very high risk. The risk has been reviewed each month and in the report to the Board meeting in May 2021, the risk rating had been reduced to medium as action had been taken to review other leases and ensure this could not be a wider risk. It was noted at the March 2021 Board meeting that a full report on the contract extension negotiations (and lease arrangements) would be provided to the Board in due course.

Recommendation 2

Given the fact that future service delivery models may mean that the board needs to rationalise its estate, the board should ensure that lease break clauses are known and considered regularly alongside any estate management plans.

Shared systems can be relied on for recording board costs

- 52.** The NHS in Scotland procures a number of service audits covering shared systems. NHS Ayrshire & Arran procured a service audit of the National Single Instance (NSI) eFinancials service. The service auditor assurance report in relation to the NSI eFinancials was unqualified.
- 53.** NHS National Services Scotland (NSS) procured service audits covering payments to primary care contractors (Practitioner Services), Payroll services and national IT services. The service auditor assurance reports for Payroll Services and national IT Services were unqualified, although in relation to national IT Services there was an emphasis of matter to highlight the additional matters taken into consideration to achieve that opinion, and improvements required. However, the Practitioner Services service auditor assurance report was qualified. The service auditor has provided a qualified opinion on the system of controls in place in Practitioner Services and has identified a number of matters where controls could be enhanced.
- 54.** As a result of these issues, NSS management commissioned additional Practitioner Services testing by the Internal Audit to provide assurance on the processes and controls over practitioner payments made as a result of the Scottish Government's financial measures to support practitioners during the Covid-19 pandemic. Internal audit concluded that transactional service payments and, where necessary, reclaimed funds were appropriately calculated, monitored and processed accurately. No significant issues were noted in respect of the calculation and processing of payments although it was noted that evidence of independent checks was not always clear throughout all processes.
- 55.** NSS advised its board that a sub-committee of the NSS Audit and Risk Committee has been established to oversee the action plan outlined in the management response to the Practitioner Services service auditor assurance report.
- 56.** In June 2021 the Audit Committee considered the issues identified in the service auditor assurance reports and concluded that they do not represent significant governance issues that would materially impact on NHS Lanarkshire's 2020/21 Annual Accounts. A statement to that effect has been included in the Governance Statement which is included within the board's 2020/21 Annual Accounts.
- 57.** The auditor of NSS has reviewed the work of the service auditor of Practitioner Services and reported to us that, *'The service auditor has provided a qualified opinion on the system of controls in place in Practitioner and Counter Fraud Services in terms of the requirements of ISAE 3402 and has identified a number of matters where controls could be enhanced. I conclude from my review of KPMG's service audit work on Practitioner and Counter Fraud Services that this has been performed satisfactorily and that assurance can be placed thereon to support user auditors' own assessments under ISA (UK) 402.'*

58. The auditor of NSS also reported to us that, '*Internal audit gave an overall report rating of "significant assurance with minor improvements" for the audit of practitioner payments made as a result of the Covid-19 pandemic. I conclude from my review of KPMG's internal audit work on "PCFS COVID-19 Transactions Testing" that this has been performed satisfactorily and that assurance can be placed thereon to support user auditors' own assessments.*'

3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services.

Main judgements

NHS Lanarkshire has effective financial planning arrangements in place but its financial plans show increasing pressures on services.

In line with Scottish Government guidance NHS Lanarkshire developed a one-year financial plan for 2021/22. The pandemic has had a significant impact on the short-term finances of NHS Lanarkshire and the impact of this in medium/longer term planning is still to be evaluated.

To achieve breakeven in 2021/22 savings are required of £30.693 million. Some of these savings have yet to be identified.

The medium-term financial plan identifies funding gaps and will need to be updated to reflect the impact of Covid-19. The board's reliance on non-recurring savings is not sustainable.

NHS Lanarkshire is finding it difficult to recruit staff and relies on supplementary staff to fill gaps, at a high cost to the board. Expenditure on agency staff is £17.2 million.

The site for the University Hospital Monklands Replacement Project (MRP) was approved by the Scottish Government in January 2021 following an evaluation of potential sites which included consultation with members of staff and the public.

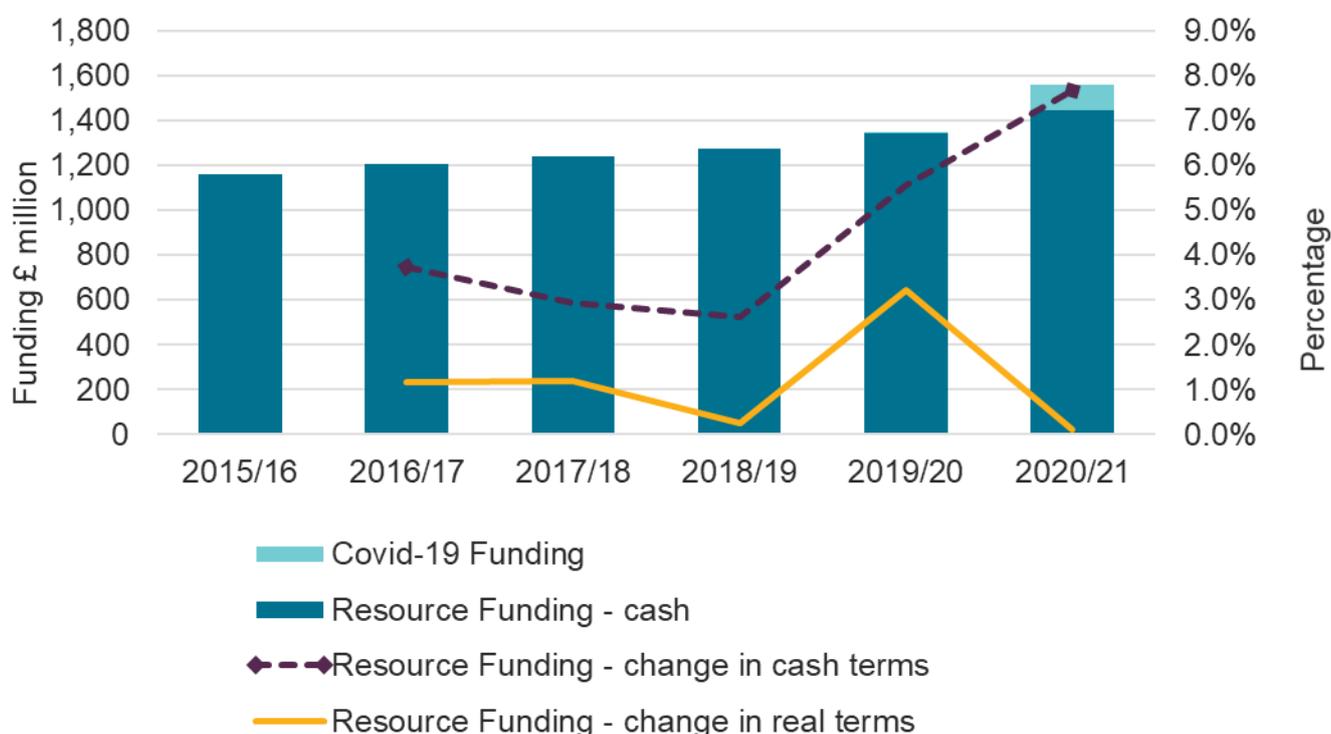
Additional Covid-19 funding has driven a 7.1 per cent increase in total revenue funding in real terms

59. Core revenue funding (excluding additional Covid-19 funding) to NHS Lanarkshire in 2020/21 from the Scottish Government has grown by 7.7% in cash terms and 0.1% in real terms compared to 2019/20 ([Exhibit 5](#) overleaf). If the £115.133 million extra funding for Covid-19 in 2020/21 is included, funding has grown by 16% in cash terms and 7.9% in real terms compared to 2019/20. The current 2021/22 Scottish budget includes a further rise in baseline funding for NHS Lanarkshire of £19.006 million (1.5%). A further £869 million of additional Covid19

related funding will also be distributed across NHS Scotland in 2021/22.

Exhibit 5

Movement in cash and real term core revenue funding to NHS Lanarkshire



Source: NHS Lanarkshire Annual Report & Accounts/Audit Scotland

NHS Lanarkshire has prepared a one-year financial plan for 2021/22 as required by the Scottish Government. The medium-term financial plan will be revised to reflect the impact of the Covid-19 pandemic

60. The requirement to produce three-year financial plans as part of the medium term financial framework has been paused due to the pandemic. NHS boards were asked to complete a one-year plan for 2021/22.

61. NHS Lanarkshire's financial plan for 2021/22 was approved by the Board in March 2021. The financial plan estimated that the board would start 2021/22 with an estimated £17.356 million recurring funding gap. The financial plan highlights that the board's 2021/22 funding settlement from the Scottish Government settlement brings a 1.5% uplift to the base RRL. This equates to £19.006 million of which £4.219 million will go to North Lanarkshire IJB and £2.910 million to South Lanarkshire IJB.

62. Efficiency savings play a crucial part in filling funding gaps. The board's 2021/22 financial plan identifies a funding gap of £30.693 million and that efficiency savings schemes totalling £4.920 million have been identified with £3.076 million being planned on a non-recurring basis. The remaining £25.773 million of the total efficiency savings required have yet to be identified.

63. The financial plan highlights that the remaining £25.773 million funding gap between projected costs and income is the largest financial risk facing the board. The plan also stresses that the fact that services are recovering slower may temporarily reduce the gap but there are also factors which could increase the gap, including:

- a higher pay rise than assumed for staff groups outside Agenda for Change with no further Scottish Government funding. Every 1% increase would equate to £1.1 million
- new drugs costs resuming previous rate of increase faster than modelled, a potential increase of £2.4 million
- EU withdrawal having an impact on supplies inflation. Every 1% increase would equate to around £1.07 million
- full funding not being available for the additional costs of responding to Covid19, although this risk is judged to be low.

Recommendation 3

The board should ensure that savings plans are developed identifying how the remaining £25.773 million of savings in 2021/22 will be made.

64. Due to the ongoing pandemic, NHS Boards have replaced Annual Operational Plans (AOPs) for 2021/22 with Remobilisation Plans (RMP). The board's draft RMP for 2021/22 was developed and submitted to the SGHSCD in February 2021. While the draft RMP was reviewed by the board's Corporate Management Team, due to time constraints, it was not formally agreed by the Board, Area Partnership Forum or Area Clinical Forum ahead of submission to the Scottish Government. However, Board members were provided with a copy and there was an opportunity to discuss the direction of travel and content of the draft RMP at the Board Member Briefing Session held on 17 March 2021.

65. Following Scottish Government approval of the board's draft RMP in April 2021, the RMP was approved by the Board in May 2021. The RMP is supported by the board's 2021/22 financial plan. The Scottish Government will look to assess the board's progress against its 2021/22 financial plan through the formal Quarter 1 review process, when the in-year Covid-19 funding and costs will be clearer. As part of this review the Scottish Government will look for an update

as to the revised financial projections for 2021/22 and the progress the board has made in taking forward savings plans.

NHS Lanarkshire has a medium-term financial plan, but is yet to develop a longer-term plan

66. As noted earlier, in March 2020 the Board approved the financial plan for 2020/21 and forecasts for 2021/22 and 2022/23 which showed a breakeven position over a three-year period.

67. The board is waiting for national and regional financial frameworks to be published, before developing an updated, detailed medium to long term financial plan. When the Scottish Government's funding plans are clearer, it will progress a plan which will include scenario planning and modelling. This will reflect the impact on services of Covid-19.

The site for the University Hospital Monklands Replacement Project (MRP) has been approved by the Scottish Government

68. In 2020 as part of the site selection for the MRP, the board undertook a scoring process to evaluate the non-financial aspects of the site options for the new hospital. The exercise was designed and run by the Consultation Institute (tCI), an independent not for profit organisation which specialises in public engagement and consultation. The consultation was undertaken using a combination of postal, telephone and online scoring to allow it to be undertaken during the Covid-19 pandemic and the results were combined with the financial benefits for each site to identify a preferred option.

69. In December 2020, following the public engagement and a significant number of Board briefings, the Board approved the MRP Site Selection Process Report. The Board recommended to the Cabinet Secretary for Health and Sport that Wester Moffat as the preferred site for the location of the new University Hospital Monklands. In January 2021, the Scottish Government confirmed the site's approval.

70. In April 2021 the Board approved the MRP governance arrangements:

- The establishment of a Monklands Replacement Project Leadership Group
- The establishment of a Monklands Engagement Forum (MEF) with the membership and terms of reference constructed to reflect its role as the primary public advisory route for the MRP. Patient and public consultation stakeholders will be invited to join the MEF to ensure this is representative of our population as a whole. The MEF will also be engaged in the establishment and monitoring of the MRP's communications and engagement plan
- The Planning, Performance and Resources Committee terms of reference and agendas to be updated to reflect its new role in

providing feedback on the Outline Business Case (OBC) as it is developed

- The recruitment of a Non-Executive Board member with capital expertise and skills to support the Board in its oversight and assurance role
- These arrangements will be subject to review.

71. A Board Development Session was held immediately after the Board meeting to discuss the OBC, which will be divided into 5 segments (strategic, economic, commercial, financial and management cases) and it is intended that segments will be reviewed before the OBC is submitted to the Board for final approval. The target date for the OBC to be presented to the Board for approval is late November 2021. The recurring and non-recurring financial implications for the new hospital will be described within the OBC. The MRP team costs are being covered through specific allocations from the SGHSCD

72. A twelve week public consultation will form part of the process of seeking planning consent for the new development. This will flow from the board's engagement with North Lanarkshire Council's planning department, who will advise on all information required on all relevant matters, including road infrastructure and public transport provision, to assist the formal planning process.

NHS Lanarkshire relies on supplementary staff to fill gaps

73. Total staff costs have increased from £595.085 million in 2019/20 to £669.900 million in 2020/21 (13% increase). This was due to a number of factors, including additional staff to deal with Covid-19, £500 thank you payment to staff, backdated 2021/22 pay rise to 2020/21 and a roll out of staffing using the Primary Care Investment Fund.

74. The supplementary staffing level at March 2021 was 6.35%, against a target of 6%. Supplementary staffing levels are bank, agency, overtime and excess hours.

75. Supplementary staffing levels are highest in Nursing (9.43%) and Support Services (9.08%). However, fill rates (the rate at which requests for bank staff shifts have been filled) have improved from a low of 62.2% in January 2021 for registered nursing to 73.3% in March 2021. There is ongoing review of supplementary staffing workforce and bank staff fill rates to inform future recruitment campaigns (e.g. Healthcare Support Workers).

76. Although the board has taken measures to reduce its reliance on agency staff, agency staff costs have remained steady, £17.228 million in 2019/20 to £17.232 million in 2020/21. Agency staff usage peaked in February 2021 with a reduction in March 2021. The board is continuing to look at ways of reducing its reliance on agency staff.

Workforce planning

77. The board depends on having the appropriate number of staff, in the right place, with the appropriate skills. The three-year Workforce Plan 2017-2020 (approved in August 2017) is supported by an annual Everyone Matters: 2020 Workforce Vision Implementation Plan and the board's latest annual workforce plan for 2019/20. New national guidance was launched in December 2019 which introduced three-year integrated workforce planning but due to Covid-19, these plans have been delayed until 2022. The board submitted an Interim Workforce Plan for 2021/22 to the Scottish Government by the end of April 2021 to complement the RMP. The 2021/22 Interim Workforce Plan was presented to the Board meeting in May 2021.

78. The Workforce Report presented to the Board meeting in May 2021 shows that at 31 March 2021, the board had 10,661.3 WTE staff in post, with a total WTE vacancy rate of -2.04% (i.e. over establishment), excluding medical and dental. This is within the board's vacancy tolerance rate of 6%. The report highlights that the Administration Services (including Senior Managers) recruited extra fixed term staff for Test and Protect and the Covid-19 vaccination programme, which led to them being 8.19% over establishment at March 2021.

79. Since December 2020 the board has prioritised recruitment for the Acute Division and the Covid-19 Vaccination Programme. There have been various recruitment campaigns to support the Covid-19 vaccination programme. With some campaigns repeated as the initial staffing complements were not fully met.

80. The board has been successful in recruiting to fill consultant vacancies in Public Health, Care of the Elderly and multiple posts within General Adult Psychiatry. Thirty-four consultant and nineteen locum consultants have been appointed during 2020/21. Multiple locum vacancies were also advertised in January 2021, including Orthopaedic Surgery, Oral and Maxillofacial, and Ophthalmology with interest being shown in all posts. There is ongoing recruitment to both substantive and locum consultants within Public Health to assist the team in addressing Covid-19. Specialty doctor recruitment continues to receive a mixed response, although the board has been successful in recruiting to Palliative Care, Dermatology and General Surgery.

81. During 2020/21 internal audit carried out a review of workforce planning (May 2021) which covered:

- Planning and implementation of the 2020 workforce vision for a sustainable workforce and delivery of everyone matters
- Congruence with 'Achieving Excellence' and IJB strategic plans
- Monitoring of the delivery of the board's workforce plan and robustness of assurance structures.

82. Internal audit concluded that based on the examination of the control structure and the procedures in place, they considered the system provides substantial assurance that the objectives listed above were met.

Sickness absence levels are higher than the Scottish average

83. NHS Lanarkshire like most NHS boards is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence despite measures to maximise attendance at work. As at March 2021 the sickness absence rate was 5.5% compared to 5.7% at March 2020. The highest levels are in nursing (6.92%) and support services (7.37%). The sickness absence rate across NHS Scotland at March 2021 was 4.7%.

84. Due to Covid-19 the Attendance Programme Board has been put on hold, although where possible the Human Resources Directorate/Occupational Health Department are taking forward the actions agreed.

85. Absence rates have not altered significantly during Covid-19. Although in recognition of the impact on staff's health and well-being a number of additional support mechanisms have been introduced locally by Occupational Health, Spiritual Care and Psychology. The Human Resources Directorate/Occupational Health Department are now remobilising its services. Options for continued support for staff are being considered, e.g. the Occupational Health Helpline. The board is considering recruiting a dedicated Case Manager through Occupational Health to support staff absent with long Covid-19.

86. In March 2020 the Once for Scotland (OFS) Attendance Policy was introduced across the NHS in Scotland. This was supported by awareness sessions and the development of an ongoing training programme but these were impacted by Covid-19. Work is commencing on the development of a suite of training materials to support the OFS Attendance Policy.

The uncertainty from EU Withdrawal is being monitored and managed by the board

87. The board has reflected the risks from EU withdrawal on its services, in the corporate risk register and in a separate EU withdrawal risk register. During the transition period ending 31 December 2020, the EU Withdrawal risk register was subject to continuous review through the Corporate Management Team. The EU Withdrawal risk register was reported to the Board in December 2020. There are currently 40 risks recorded on the EU Withdrawal risk register, 5 of which are categorised as "High" risk.

The board is meeting the reporting requirements of the Equalities Act

88. The board is currently meeting the requirements of the Equalities Act (2010) in terms of reporting. The board's Equality and

Diversity Mainstreaming Report 2017-2021 was presented to the Board in April 2021 and provides detailed information on work that has been performed as well as work planned in order to meet the general and specific duties as set out in the 2010 Act, and subsequent 2012 Regulations. Specifically, this includes:

- Equality outcomes 2017-2021 progress report
- New equality outcomes for 2021-2025 including evidence for setting such outcomes
- Gender pay gap information
- Statements on occupational segregation
- An equal pay statement
- Workforce equalities data.

89. At the meeting of the Board in January 2021, a paper was approved in relation to engaging with and supporting Black, Asian and Minority Ethnic (BAME) staff. This paper provided an update on actions and progress relating to the development of a BAME Forum for staff working in NHS Lanarkshire. The paper also provided an update on the collation of BAME staff survey analysis, BAME staff data, patient data and risk assessments for the board's BAME staff. The Board Chair provides regular updates on this issue to meetings of the Board.

90. The Equality & Diversity section of the website is easily accessible, and provides all necessary information for service users, including a key contact for comments and queries. Furthermore, the Equality and Diversity Mainstreaming Report 2017-2021 provides details of various community engagement exercises undertaken by the board. This demonstrates that the board is committed to engaging the wider community in achieving their duties under the 2010 Act.

91. The board is taking positive steps to ensure that equalities are embedded within its service delivery. Any policy that is reviewed, updated or written in future will be subject to an Equality & Diversity Impact Assessment, with every paper presented to the Board being considered in terms of equality impact also, demonstrating that equalities have been standardised as part of policy setting. Overall, we are satisfied that the board can demonstrate a commitment to embedding its equality duties within service delivery.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information.

Main judgements

In March 2020, the board implemented emergency arrangements for services in response to the Covid-19 pandemic. Following direction from the Scottish Government non-urgent treatments were largely paused and, even after restrictions relaxed, never resumed previous levels.

NHS Lanarkshire has effective governance arrangements in place that support good governance and accountability. Changes to the arrangements in response to the Covid-19 outbreak in March 2020 are set out in the Governance Statement in the accounts.

The board's executive and non-executive members demonstrate effective leadership, challenge and scrutiny of the board's activity and performance.

The board has appropriate arrangements in place to prevent fraud and corruption.

The governance arrangements and controls operating throughout the Covid-19 pandemic have been effective

92. The Board of NHS Lanarkshire is supported by a number of committees and the Remuneration sub-committee. The minutes of committee and sub-committee meetings are presented to the Board. In addition, minutes from meetings of North Lanarkshire IJB and South Lanarkshire IJB are presented to Board meetings as appropriate. Non-executive Board members are also members of selected committees and are represented at both IJBs.

93. Board members provide adequate scrutiny and challenge at regular bi-monthly meetings to ensure the Board's performance is effectively reviewed. There has been no significant change to the board's governance arrangements during 2020/21, with the exception of specific comments below on the response to the Covid-19 outbreak in March 2020.

94. Through our attendance at Audit Committee meetings we concluded that committee papers were well prepared (and in sufficient time of advance of meeting for review), adequate time was allowed to discuss the issues on the agenda and committee members were well-prepared and asked appropriate questions. This enables the Audit Committee to exercise effective scrutiny.

95. The NHS Scotland Corporate Governance Blueprint says that NHS boards should annually assess the effectiveness of the corporate governance system, conducting a self-assessment to review progress, and develop an action plan, identifying any new and emerging issues or concerns.

96. NHS Lanarkshire piloted a self-assessment survey, which was completed by executive and non-executive Board members in 2019. A Corporate Governance Improvement Plan was developed and presented to the Board in March 2019 and the Scottish Government in April 2019. The areas for improvement include streamlining the overall mission, purpose and objectives of the board onto a strategy map and reviewing the key strategic planning processes of the board and the IJBs. The latest regular update report was considered by the Board in May 2020 and highlighted that, due to Covid-19, a number of actions have been paused until the board has ceased operating on an emergency basis.

97. The Internal Audit Annual Report for 2020/21 presented to the Audit Committee on 1 June 2021 highlights that the majority of the internal audit reports issued during 2020/21 in relation to corporate governance provided substantial assurance, i.e. there is a robust framework of controls in place which ensure objectives are likely to be achieved.

Good practice

98. In October 2020 Board members received audit committee training. The session focussed on the roles and responsibilities of the audit committee and its members, the nature of relationships between the audit committee and its stakeholders and ways in which the committee and its members could increase their effectiveness. The session was attended by the audit committee members, non-executive directors and some executive managers. A reflection session was then held in February 2021 to discuss the learning from the training and a report with the recommendations of the event was taken to the Audit Committee meeting in March 2021. The agenda of the same meeting also included discussion of the audit committee's self-assessment of the arrangements in place. We have always found the audit committee to be effective and these actions represent good practice in demonstrating a clear commitment to continuous improvement.

99. In August 2020, Audit Scotland published a [Covid-19 Audit and Risk Committees guide](#) which was intended to help audit committee members and other non-executives with the type of questions to ask about the risks arising from Covid-19 and the

mitigating action taken by bodies. This was discussed by the Audit Committee in September 2020. The completed checklist was then presented to the Audit Committee in January 2021. This highlighted one red area relating to the longer term impact of Covid-19 on the board's financial sustainability. Financial risks specific to Covid-19 are recorded in the board's Covid-19 risk register and corporate risk register. We view the completion of this checklist as good practice and demonstrates the board's commitment to improving governance and scrutiny.

The governance arrangements were changed in March 2020, to respond to the challenges from the Covid-19 pandemic

100. The impact of Covid-19 from March 2020 has been set out in the Governance Statement in the board's annual report and accounts. These were significant and allowed the board to respond to the unprecedented nature and scale of the threat to its communities and staff.

101. The following steps were taken by NHS Lanarkshire in response to Covid-19:

- On 2 March 2020, the board implemented a command and control structure under its established pandemic flu arrangements to manage the immediate response to Covid-19. The gold–silver–bronze command structure used for major operations by the emergency services was activated, Gold is Strategic, Silver is Tactical and Bronze is Operational.
- To allow a redirection of resources, non-urgent procedures were stopped in March 2020.
- In recognition of the Public Health emergency, formal approval to revise governance arrangements across NHS Boards was issued by the Scottish Government Director of Health Finance on 25 March 2020. In April 2020 the Board endorsed a paper on proposals for revised governance arrangements. This included a full description of the command and resilience arrangements, updates from each of the Covid-19 tactical command groups, the terms of reference of the ethical advisory group to be set up, information on the recovery programme, risk assessments on services plus papers on the corporate and Covid-19 risk register.
- In April 2020 the previous Nurse Director presented a review of services that has been stood down or altered to the Board. This is to help build a process for future recovery.
- In April 2020 the Board endorsed suspending the Performance, Planning and Resource Committee (PPRC) replacing it with a focussed monthly Board meeting. The three governance committees covering staff, audit and clinical governance continued to meet as necessary with a focus on Covid-19. It was proposed that a further assessment of risks should be undertaken by the Audit Committee at its meeting on 16 June 2020, at which the assessment was undertaken.

- Board meetings were held virtually so were not available to the public and the Board Chair invited questions or comments in advance of the meetings.
- The Scheme of Delegation (SOD) and Standing Financial Instructions (SFIs) continued to apply as far as possible. Any decision to override SFIs or SOD was to be reported to Gold Command and then to the next Board meeting.
- Every week there was an e-mail round up for Board members including key Gold Command Issues, key Scottish Government guidance, data and trends and any other pertinent information.
- On 25 March 2020 the Board received and endorsed a suite of papers that covered NHS Lanarkshire's "response to date, preparedness going forward and key risks, and also attempts to describe what is a variation from normal practice that (a) the Board needs to be sighted on and (b) the Board should endorse/approve to provide governance and assurance".
- On 22 May 2020 the Gold Command held a structured debrief intended to expand upon the lessons learned from the first 2 months of the emergency response.
- In July 2020, the Board agreed that the Acute Governance Committee and Population Health, Primary Care and Community Services Committee should be stood up. In addition, it was agreed that the Board should continue to meet on a monthly basis and the PPRC should continue to be stood down.
- In November 2020, the Board agreed to stand down these Governance Committees (Acute and Population Health, Primary Care and Community Services) from 1 November 2020. The PPRC continued to be stood down.
- At its meeting on the 31 March 2021 the Board considered a letter from the Scottish Government confirming that NHS Scotland will remain on an emergency footing until at least 30 June 2021.
- A paper was presented to the Board meeting in May 2021 which highlighted that it is now possible to stand up the Acute Governance Committee and Population Health, Primary Care and Community Services Committee and that these Committees have started to meet again. The paper also sought approval for the PPRC to be stood up from June 2021 and for meetings of the Board to revert to bi-monthly meetings.

102. We concluded that the board's arrangements after the impact of Covid-19 are appropriate and they support good governance and accountability. Board members provide adequate scrutiny and challenge at regular meetings to ensure the board's performance is effectively reviewed.

Executive and non-executive members demonstrate effective leadership, challenge and scrutiny of the board's activity and performance

103. NHS board chief executives and senior teams are responsible for the delivery of critical day-to-day services as well as leading the changes to how services are accessed and delivered in their boards. This places significant demands on senior leadership teams.

104. The board has had a stable senior officer structure in place in recent years and although some senior officers retired at the end of March 2020, these posts were all filled promptly. In January 2020, the Chief Executive was appointed as Turnaround Director at NHS Greater Glasgow and Clyde (NHSGGC). The Chief Executive then started a 6 month secondment to NHS Lothian in June 2020 but was appointed permanently to the role in July 2020. The Director of Acute Services provided Chief Executive cover throughout this period and was appointed permanently to the post in September 2020. There have been no significant changes to non-executive Board membership in the year. We have reviewed the skills and capacity in the board's finance function and we have no concerns to highlight.

105. We have concluded that the board's executive and non-executive members demonstrate effective leadership and scrutiny of the board's activity and performance.

The board conducts its business in an open and transparent manner

106. There continues to be an increasing focus on demonstrating the best use of public money. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources.

107. NHS Lanarkshire's commitment to transparency is demonstrated by:

- public availability of board papers and minutes of committee meetings
- the annual accountability review (where members of the public can attend)
- the form and content of annual reports.

108. We highlighted in our 2019/20 Management Report (presented to the Audit Committee meeting in June 2020) that we previously encouraged the board to consider improving transparency by holding committee meetings in public. The board has responded that it would prefer to focus on improving public attendance at Board meetings. We acknowledge the board's position on this. Since December 2020 each meeting of the Board has been streamed live

on YouTube which has increased transparency and demonstrates good practice.

109. As an alternative to public access to committee meetings, minutes of all meetings are available through the Board papers. To improve transparency, the papers and minutes of committee meetings should be available independently of Board papers to ensure they are visible to and searchable by the users of the board's website. In response our 2019/20 Management Report, the board agreed to address this point but this has not yet been implemented due to the impact of Covid-19. Despite this one area for consideration, we concluded that the board conducts its business in an open and transparent manner.

Internal audit operates in accordance with Public Sector Internal Audit Standards

110. The internal audit function is provided as part of a managed service, overseen by Fife, Tayside and Forth Valley Audit and Management Services (FTF). We reviewed the board's internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors), to determine the extent we could use the work of internal audit. Overall, we concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

111. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2020/21 we planned to place formal reliance on internal audit work in the following areas for the financial statements audit:

- Property Transaction Monitoring and Property Disposals
- Financial Process Compliance
- Service Contract Income
- Service Contract Expenditure

112. However, the scope for formal reliance was restricted by the timing of the internal audit work although we have considered the findings from this work. In addition, we considered internal audit report findings in relation to financial management and workforce planning as part of our wider dimension work.

The board has appropriate arrangements in place for prevention and detection of fraud and error

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

114. The board has a range of established procedures in place designed to maintain standards of conduct, prevent and detect bribery and corruption and prevent and detect of fraud and error. These include codes of conduct for members and officers, a whistleblowing policy, a fraud, theft, bribery and corruption policy and response plan. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

115. Instances of fraud and corruption can be particularly prevalent in the procurement function. The board maintains a separate fraud risk register covering three distinct areas: financial governance; governance, leadership and information; and staff governance. The risk of fraud, bribery and corruption within the board's procurement function is a risk featuring in the board's fraud risk register for financial governance. Although the fraud risk register is only subject to a formal review every three years, the Audit Committee receives regular fraud risk register updates which reflect the emerging fraud risks due to the pandemic, consideration of the Public Sector Counter Fraud Journal, the Government Counter Fraud Measures Toolkit, Government guidance, Audit Scotland guidance on Covid-19 emerging fraud risks, risk assessments, consultation with Counter Fraud Services, and information from officers. The risk that NHS Lanarkshire fails to prevent, appropriately identify, investigate and report fraud, bribery and corruption features in the corporate risk register. The assigned senior risk owner for this risk is the Director of Finance, with the Audit Committee being the assigned assurance committee. The Audit Committee review this risk at each meeting and receive detailed fraud and procurement reports which feature as a standing agenda item.

116. Mitigating controls to manage the risk of fraud in procurement include the: SFI's, Code of Conduct, Scheme of Delegation, Internal Audit, on-going fraud campaign, a gifts and hospitality policy, a gifts and hospitality register and enhanced checks which exist for procurement waivers. Clear guidelines are in place on the acceptance of gifts and hospitality. The register of commercial interests requires a declaration of interest for each member of staff prior to each individual tender or selection process. The policy requires that any relationship, friendship, associate, close relatives and current/former employees, to be disclosed at this stage.

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

Cyber security has been strengthened

118. In response to two high profile cyber-attacks which caused disruption in 2017, NHS Lanarkshire strengthened IT and cyber security arrangements. In September 2018 the board achieved Cyber Essentials accreditation.

119. The board categorises cyber security as a critical function and reports on cyber security issues to the Information Guidance Committee. A dedicated Cyber Security Group has been established and a programme

is in place to oversee the board's involvement in the NIS Directive (EU-wide legislation on cybersecurity) and accreditation for Cyber Essential Plus. NHS Lanarkshire is connected for real-time advanced threat protection, to the National Cyber Security Operations Centre (NSOC). Whilst cyber security remains on the corporate risk register extensive mitigation is in place with appropriate oversight and scrutiny. We understand that the board is still working towards accreditation for Cyber Essential Plus with an added requirement to renew the certification annually.

NHS Lanarkshire have agreed and concluded revised integration schemes with all partners

120. The Public Bodies (Joint Working) (Scotland) Act 2014 required a review of the integration schemes by March 2021. NHS Lanarkshire agreed a revised integration scheme with North Lanarkshire IJB in February 2020 which was approved by the Board in March 2020. The revised integration scheme for South Lanarkshire IJB was agreed in September 2020 and approved by the Board in October 2020.

121. In February 2021 Audit Scotland published [NHS in Scotland 2020](#), which identified that the Scottish Government needs to work with its partners to consider how services will be delivered differently in the future, and how this will affect the shape of the health and social care workforce in the longer term. The report was discussed at the Audit Committee meeting on 2 March 2021.

122. In response to the Scottish Government's Ministerial Strategic Group (MSG) direction both North Lanarkshire and South Lanarkshire IJBs submitted national self-evaluation submissions to the Scottish Government in May 2019. Both submissions were presented to the Board, it was agreed that detailed action plans would be completed and overseen by the Population Health & Primary and Community Services Governance Committee. Progress was due to be reported in May 2020 but has been delayed due to Covid-19.

Clinical governance

123. Clinical governance is the system through which the NHS works to monitor and improve the quality of the care and services they deliver. Health Improvement Scotland works to ensure that NHS boards have a clear and consistent approach to clinical governance in healthcare across Scotland. Audit Scotland's audit role is restricted to reporting on whether the board has governance arrangements that are appropriate and operating effectively, which includes the clinical governance arrangements.

124. The Sharing Intelligence for Health & Care Group is a partnership involving Healthcare Improvement Scotland, NHS Education for Scotland, the Care Inspectorate, the Scottish Public Services Ombudsman, the Mental Welfare Commission for Scotland, Public Health and Intelligence and Audit Scotland. This group discussed NHS Lanarkshire's performance in December 2020.

125. Feedback from the Sharing Intelligence for Health and Care Group highlighted that a number of the partner agencies on the Group reported positive engagement with senior leaders in NHS Lanarkshire. A joint inspection of services for children and young people in South Lanarkshire found that leaders shared a common purpose and worked well together. The feedback also highlighted that the senior leadership teams of both Health & Social Care Partnerships in Lanarkshire were agile in their response to the Covid-19 pandemic.

5. Value for money

Using resources effectively and continually improving services.

Main judgements

Covid-19 has impacted significantly upon the board's activity and waiting times for services. The board has published a remobilisation plan to address backlogs caused by the Covid-19 pandemic and the restoration of health services.

The board has an effective performance management in place which supports continuous improvement.

Officers report to members on the arrangements in place to secure Best Value which demonstrates good practice.

The board's focus on trying to reduce delayed discharge bed days has led to a reduction in delayed discharges this year.

NHS Lanarkshire's remobilisation plan has a series of actions designed to address backlogs caused by the Covid-19 pandemic and restore performance levels

126. The Scottish Government has requested NHS boards to produce and regularly revise Remobilisation Plans (RMP) outlining plans for the restoration of normal health services. Following Scottish Government approval of the board's draft RMP in April 2021, the RMP was approved by the Board in May 2021.

127. NHS Lanarkshire's RMP sets out the areas where the board will focus its collective responses and actions to address backlogs caused by Covid-19, recognising the ongoing uncertainty in relation to Covid-19. This work primarily relates to acute care and hospital services, more specifically cancer and scheduled care and progressing the regional programme.

128. In order to progress the implementation of the RMP, in April 2021 the board's Corporate Management Team (CMT) approved the establishment of a Recovery, Remobilisation & Redesign Co-ordinating Group (RRRCG). The purpose of the RRRCG is to consider service recovery proposals presented by the operating divisions (Acute, North Lanarkshire and South Lanarkshire HSCPs) to ensure that any unintended consequences have been identified and addressed. This includes the identification of additional resources, e.g. staff, equipment, accommodation and finance. While it will be the responsibility of the operating divisions to identify clinical priorities, based on Scottish

Government clinical priority guidance (awaited) and local pressures, the RRRCG has an oversight role to ensure a balance in service recovery across the whole system. Once satisfied that all aspects have been considered, the RRRCG forwards the service recovery proposal to CMT for consideration and approval. The CMT considers service recovery proposals on a weekly basis and will provide service recovery progress reports to the Board and PPRC on a monthly basis.

An effective performance management framework is in place which supports continuous improvement

129. In November 2020 the Scottish Government published the Framework for Clinical Prioritisation providing guidance for prioritising elective care whilst ensuring appropriate Covid19 safety and priority measures are in place. While the duties under the Patient Rights (Scotland) Act 2011 still apply, the framework is the primary tool for monitoring service performance during the pandemic.

130. From 2018/19 boards were required to produce Annual Operational Plans (AOPs) which replaced Local Delivery Plans (LDPs). The board's 2020/21 AOP contains 16 key performance targets. The AOP targets include waiting times for accessing treatment such as the proportion of patients that were seen within 12 weeks, otherwise known as the Treatment Time Guarantee. NHS Lanarkshire has adopted 10 of the former LDP standards, not included in the AOP, as Locally Agreed Standards. Due to Covid-19, the board's draft AOP for 2020/21 was not agreed with the Scottish Government.

Service performance against national waiting time standards continues to be publicly reported

131. The Board is kept well informed of performance across all areas. The detailed review and scrutiny of performance has been delegated to the Planning, Performance and Resources Committee (PPRC) which meets quarterly. However, at the start of the Covid-19 pandemic in April 2020 the Board endorsed suspending meetings of the PPRC and replaced them with focussed monthly Board meetings to provide scrutiny, assurance and oversight on key aspects of performance.

132. Board members who sit on the PPRC can access performance information held on an electronic dashboard Integrated Corporate Performance Framework (ICPF). Performance is reported on a traffic light system using an electronic dashboard of around 100 key performance indicators (including the 16 AOP performance targets for 2020/21 and 10 Locally Agreed Standards) mapped to the Scottish Government's three quality ambitions. ICPF reports contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance. PPRC members can view the online electronic dashboard at any time. Reporting of performance was done on a quarterly basis to meetings of the Board during 2020/21.

133. In addition, Board members receive supplementary reports on specific aspects of performance including waiting times and the financial position. These enable members to focus on key risks relating to access to treatments and financial sustainability.

134. The Director of Planning, Property & Performance worked with the Board Secretary and the Strategy & Performance Manager to review the Integrated Corporate Performance Framework (ICPF) in late 2018/19. A paper was considered at the Board meeting in May 2019 to revise the respective responsibilities, accountability and reporting arrangements at the board for performance management. This involved individual governance committees becoming responsible for the production and submission of appropriate performance assurance (exception) reports to the Board/PPRC comprising those key performance indicators rated 'red' or 'amber' with narrative against each provided by its lead Executive Director. However, at the start of the Covid-19 pandemic in March 2020 governance committees were stood down and the changes were delayed.

135. During 2020/21, changes were made to the corporate objective reporting template, performance targets were revised to reflect the board's Covid-19 response. Covid-19 response targets are monitored on a daily basis and reported to the CMT. Specific performance targets have not been set as such, which is a reasonable approach given the emerging situation. However, the monitoring reports indicate, through an arrow system, whether rates have increased, decreased or remained the same. This allows the CMT to effectively monitor the data and performance progress over time.

136. We concluded that the NHS Lanarkshire has an effective performance management framework in place helping the board achieve value for money and supporting its improvement in services.

Covid-19 has impacted significantly upon the board's activity and waiting times for services

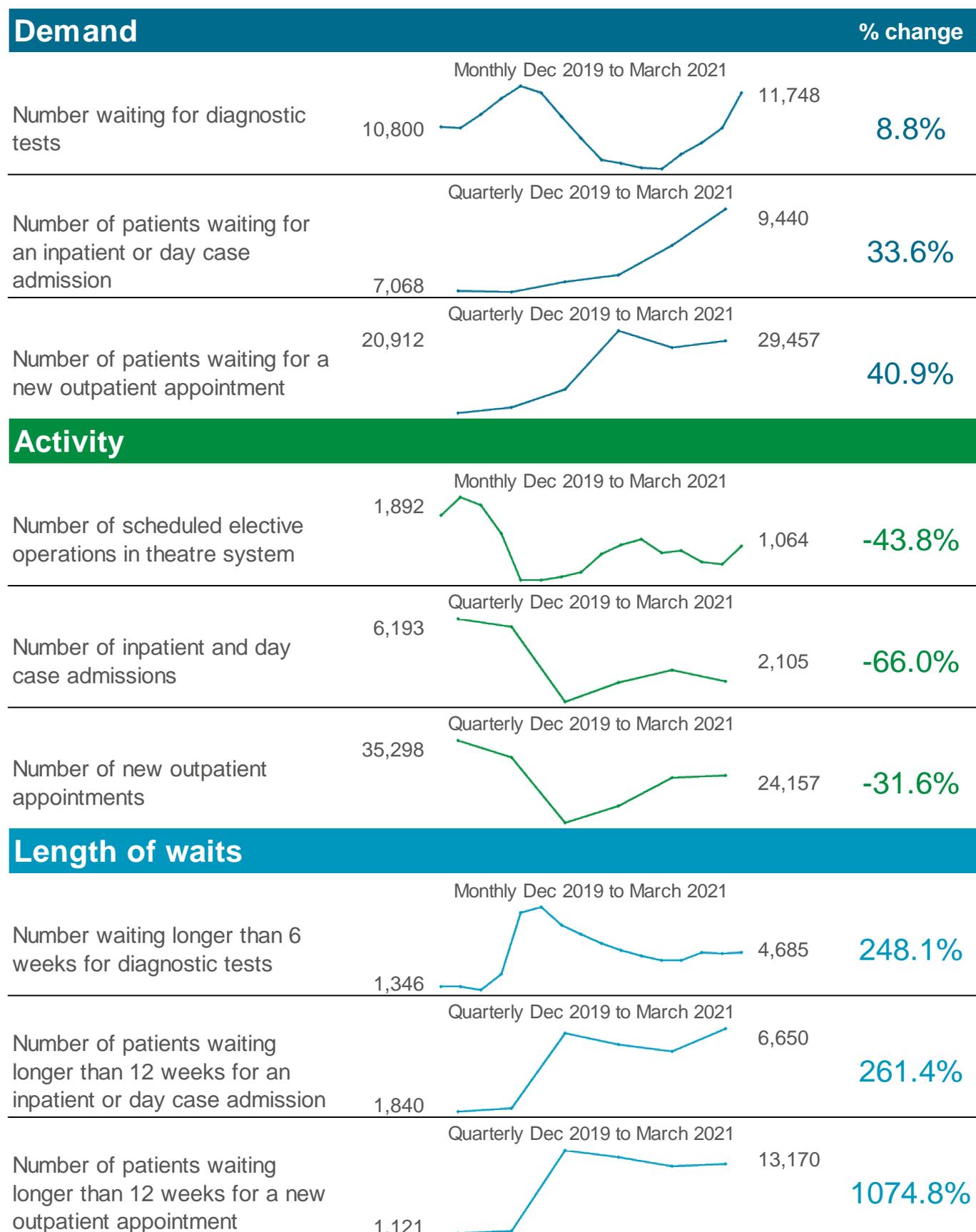
137. The 2020/21 annual report and accounts reports on the board's performance against its national waiting time standards. While these are not currently the board's primary focus for performance monitoring, they provide context for the scale of the impact of the pandemic of the delivery of health services. [Exhibit 6](#) (on page 43) demonstrates how activity and waiting times for acute services have been impacted by Covid-19 and [Exhibit 7](#) (on page 44) provides a comparison of current waiting times compared to prior years.

138. The largest increases in [Exhibit 6](#) are in relation to waiting times, with the most significant being the number of people waiting more than 12 weeks for a new outpatient appointment which has increased by almost 1,075% from December 2019 to March 2021. The impact of this increase is reflected in [Exhibit 7](#) which shows the percentage of outpatients waiting less the 12 weeks has reduced from 92.3% in March 2020 to 55.3% in March 2021. As highlighted earlier in this report, the board's RMP sets out the areas where the board will focus its collective responses and actions to address backlogs caused by Covid-19. This work primarily relates to acute care and hospital services, more specifically cancer and scheduled

care and progressing the regional programme to address the increases in waiting times and demands for services.

Exhibit 6

Trends in demand and activity for acute services



Source: Public Health Scotland

Exhibit 7

Impact of Covid-19 on national waiting time standards

Target/standard	Performance at March 2019	Performance at March 2020	Performance at March 2021 ¹
Cancer 62 Day RTT Proportion of patients that started treatment within 62 days of referral	96.3%	96.9%	88.5%
18 Weeks RTT Proportion of patients that started treatment within 18 weeks of referral	84.5%	88.8%	72.4%
Patient Treatment Time Guarantee (TTG) Proportion of inpatients or day case that were seen within 12 weeks	62.1%	66.5%	63.6%
Outpatients waiting less than 12 weeks Proportion of patients on the waiting list at month end who have been waiting less than 12 months since referral at month end	89.7%	92.3%	55.3%
A & E attendees Proportion of A & E attendees who were admitted, transferred or discharged within 4 hours	91.7%	86.3%	82.8%
Cancer 31 Days RTT Proportion of patients who started treatment within 31 days of decision to treat	99%	98.3%	97.2%
Drug and Alcohol 21 days Proportion of drug and alcohol patients that started treatment within 21 days	97.9%	99.3%	99.6%
CAMHS Waiting Times Proportion of patients seen within 18 weeks of referral	80.9%	65.2%	70%

Note. 1: Where March 2021 data is not yet available, the most recent data is used.
 Source: Public Health Scotland.

Officers report to members on the arrangements in place to secure Best Value which demonstrates good practice

139. [*Ministerial guidance to Accountable Officers*](#) for public bodies and the [*Scottish Public Finance Manual*](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. During 2020/21 the board carried out a detailed review of its arrangements to secure Best Value across the seven characteristics set out in guidance issued to Accountable Officers by the Scottish Government. The primary focus of the review was to look at the strategy, policy or assurance mechanism that the Board or its committees have in place to ensure the expected feature of Best Value is delivered. The results of the review were presented to the meeting of the Audit Committee held in January 2021. The review identified that there were some areas where further work required, particularly as a result of changing pressures arising from the Covid-19 response. However, we feel that the review carried out by the board is thorough and comprehensive and is an example of good practice of an NHS Board demonstrating best value being achieved.

Local performance studies

The board's focus on trying to reduce delayed discharge bed days has led to a reduction in delayed discharges this year

140. In 2016/17 we undertook a review of the board's arrangements in place for managing delayed discharges and identified a number of areas where improvements could be made. We highlighted that the board could only reduce delayed discharges by working closely with North and South Lanarkshire IJBs. Our final report was issued to the board in September 2017 with an action plan that had been agreed by the board and its' IJB partners.

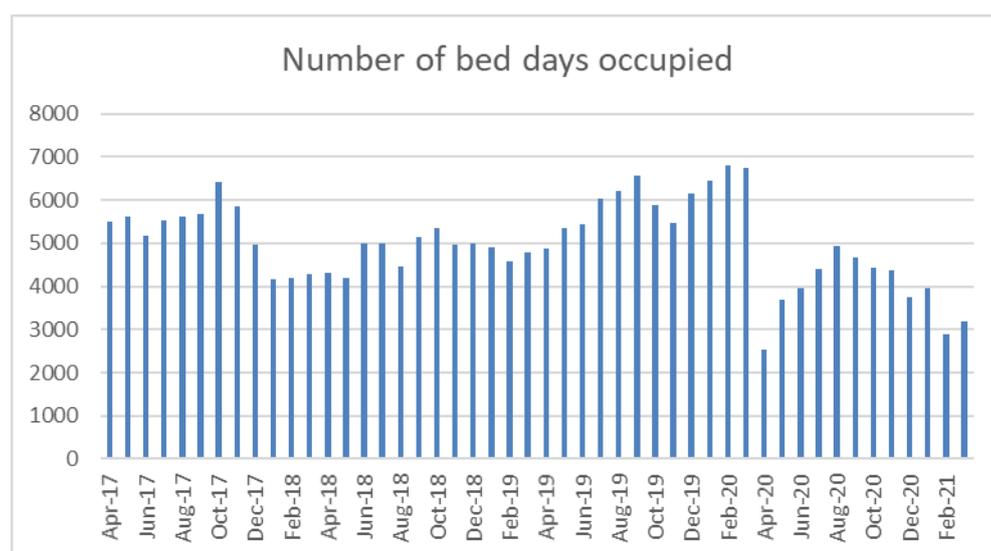
141. We reported progress in 2018/19 and again in 2019/20. We found that there is a clear focus on trying to reduce delayed discharges across the three partners. Officers are acutely aware of the detrimental impact delayed discharges can have on patients both in terms of their wellbeing and future service needs.

142. All recommendations have been taken forward with some being completed and some revised to reflect emerging issues. The action plan is monitored by the Unscheduled Care and Delayed Discharges Programme Board. In addition, delayed discharge performance is routinely reported to the North and South IJBs and respective performance committees. Examples of actions taken to reduce delayed discharges include the introduction of discharge lounges in the 3 acute hospital sites which allows patients to vacate their beds while waiting on transport, medication, etc. required for discharge that day, dynamic daily discharge which allows patients to be discharged without needing to see a consultant, the introduction of Acute Care of the Elderly nurses (ACE) in accident and emergency departments to provide tailored solutions for elderly patients when they present at hospital and the introduction of the frailty unit in

University Hospital Monklands to manage the needs of patients considered to be frail.

143. As a result of this activity, [Exhibit 8](#) shows that the number of delayed discharge bed days occupied during 2020/21 has decreased significantly from the previous year, with 3,178 bed days occupied at March 2021 compared to 6,749 bed days occupied at March 2020. A performance report presented to the Board in May 2021 highlighted that North Lanarkshire IJB performed well against the 2020/21 target trajectory, with 24,948 non-code 9 delayed discharge bed days occupied against the 29,020 target, 4,072 fewer bed days than anticipated. South Lanarkshire IJB has also performed well with a significant reduction in non-code 9 delayed discharge bed days occupied during 2020/21, 17,285 against a target of 21,344, 4,059 fewer bed days than anticipated. This may, in part, be attributed to the improving hospital delayed discharge workstream.

Exhibit 8 Delayed Discharges – All Delays



Source: Public Health Scotland

144. Overall, the board and its partners have taken positive steps to address delayed discharges and should continue to work on realising sustainable reductions going forward. Both IJBs advised that the discharge of adults with incapacity continues to present challenges and there is renewed focus in this area.

National performance audit reports

145. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of direct interest to the board and are highlighted in [Appendix 3](#). The appendix includes a link to the recently published Audit

Scotland briefing [Covid-19 Personal Protective Equipment](#) looking at how the Scottish Government and NSS managed PPE arrangements during the Covid-19 pandemic. The briefing highlights that the rise in PPE prices at the start of the Covid-19 pandemic increased costs to the NHS by over £37 million. The Auditor General for Scotland concluded that, “The Scottish Government and NSS worked well together under extremely challenging circumstances to set up new arrangements for the supply and distribution of PPE to health and social care settings. The challenge now will be in developing a longer-term approach to PPE supply and distribution that includes both business as usual needs as well as preparing for future pandemics.”

146. The NHS Overview Report on the 2020/21 audits will include a review of the response to the Covid19 pandemic by the NHS in Scotland along with a report on financial and operational performance. This is due to be published early 2022.

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Authorisation of journals</p> <p>Our sample testing of journals found that there was not always evidence that they had been authorised when they are processed remotely.</p> <p>Risk – There is an increased risk of fraud or error if there is no control to document the authorisation of journals.</p>	<p>A process for recording the authorisation of journals remotely should be introduced.</p> <p>Paragraph 44</p>	<p>Working remotely has made the usual process of authorising journals using physical signatures more difficult, although they are being checked. Additionally, through monthly management accounts and variance analysis, the related risk is relatively low, which the audit work carried out confirms. Due to some of the practicalities involved, journals will now be batched approved by e-mail retrospectively in order to provide better evidence.</p> <p>Deputy Directors of Finance Immediate</p>
<p>2. Property leases</p> <p>The break option on a property leased by the board which is no longer needed was missed and the board is now contractually liable for the full lease payments or a negotiated settlement.</p> <p>Risk – The board incurs unnecessary property lease costs.</p>	<p>Given the fact that future service delivery models may mean that the board needs to rationalise its estate, the board should ensure that lease break clauses are known and considered regularly alongside any estate management plans.</p> <p>Paragraph 51</p>	<p>Following identification of this issue, PSSD reviewed the lease tracker to cross reference the details of the lease break options for the Salus estate as they are detailed in the lease tracker against the actual lease documents and any minutes of variation or extension to provide assurance on the accuracy of the information contained in the tracker. This process has now been completed. The NHS Lanarkshire lease tracker is a live document and is subject</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>to regular review by PSSD's Head of Property Services and is updated following occurrence of lease events – such as completion of a rent review, exercising a lease break option or taking on a lease for a new property. The lease tracker is also reviewed at NHS Lanarkshire Property Strategy Group (PSG) meetings to forward plan for any upcoming lease events and to review the estate holding against service delivery and estate management plans. Following the issue that has been experienced with the Salus lease break, it has been identified as a gap that Salus are not attendees of the Property Strategy Group. To close this gap, Salus and PSSD have now established a Salus Property Group, which meets monthly, and Salus will also be invited to attend the wider NHS Lanarkshire Property Strategy Group.</p> <p>Director of Planning, Property & Performance</p> <p>Immediate</p>
<p>3. Efficiency savings</p> <p>For 2021/22 the board is required to deliver £30.693 million of savings. The board has yet to identify £25.773 million of the savings required for next year.</p> <p>Risk – The board may not be able to deliver the targeted savings in 2021/22.</p>	<p>The board should ensure that saving plans are developed identifying how the £25.773 million of savings in 2021/22 will be made.</p> <p>Paragraph 63</p>	<p>Given the current prioritisation of managing Covid-19 and related service pressures as pent up demand emerges the Board does not feel able to make significant inroads during quarter one though continues with good housekeeping and scanning for opportunities. The board plans to review the financial position after Quarter 1 of 2021/22 to reassess the gap</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>and to formulate an action plan.</p> <p>Director of Finance</p> <p>September 2021</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>4. Financial plan 2020/21</p> <p>The board's financial plan was developed before the Covid-19 pandemic occurred in March 2020.</p> <p>Risk – The assumptions made in the board's financial plan are out of date and don't take into account the financial impact of Covid-19.</p>	<p>The board should review its medium-term financial plan following the Covid-19 pandemic to reflect its impact on the board's finances going forward, including scenario planning of key financial assumptions.</p>	<p>Outstanding</p> <p>The planned review after Quarter 1 of 2021/22, alongside the remobilisation plan will start to look at pace of transition to new arrangements and from that point work will be ongoing on developing the longer term plan. The one year pay deal and one year allocation mean it may be March 2022 before a meaningful update to the medium term financial plan can be submitted to the NHS Board.</p> <p>Director of Finance</p> <p>March 2022</p>

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the financial statements and those relating to our wider responsibility under the Code of Audit Practice 2016.

Risks of material misstatement in the financial statements***

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Results: Audit testing of journal entries, accruals and prepayments was completed. We also reviewed accounting estimates and transactions for appropriateness. We did not identify any incidents of management override of controls.</p> <p>Conclusion: Satisfactory.</p>
<p>2. Estimation and judgements: Non-current assets</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account area, non-current assets. In 2019/20 an explanatory paragraph was included in the independent auditor's report, in respect of the valuation of land and buildings, due to the</p>	<p>Review of the Valuer's Report for land and buildings.</p> <p>Focused substantive testing of the valuation of assets.</p>	<p>Results: We reviewed the Valuer's Report and performed testing of the valuation of assets. No issues were identified with the competency of the expert advisers and no material misstatements were identified.</p> <p>Conclusion: Satisfactory.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>economic uncertainty arising from Covid-19 disruption.</p> <p>The impact of Covid-19 continues in 2020/21 so there is a risk that estimations and judgements are changeable. This therefore represents a risk of material misstatement in the accounts.</p>		

Other financial statements risks

Audit risk	Assurance procedure	Results and conclusions
<p>3. Estimations and judgements: Provisions</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account area, provisions. In previous years we have identified some errors in the provisions balances in the accounts.</p> <p>This subjectivity and the prior year errors, represent a risk of material misstatement in the accounts.</p>	<p>Review of information provided by the Central Legal Office.</p> <p>Focused substantive testing of provisions.</p>	<p>Results: We reviewed the information provided by the Central Legal Office and performed testing of the provisions. No issues were identified with the competency of the expert advisers and no material misstatements were identified.</p> <p>Conclusion: Satisfactory.</p>
<p>4. Staff costs</p> <p>Staff costs amounted to £598 million in 2019/20. Controls in place around payroll processing are essential to ensure that only valid payments are made. Our planning process found three areas of potential risk to the staff costs incurred by the board:</p> <ul style="list-style-type: none"> The board's response to the pandemic saw it recruit in excess of 1,000 additional employees in a very short period. This put pressure on payroll, HR and managers to process the new starts quickly and we are advised that there 	<p>Focused substantive testing on new starts, leavers and payments for untaken annual leave.</p>	<p>Results: No significant issues were identified that have a material impact on the 2020/21 accounts.</p> <p>Conclusion: Satisfactory.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>were some instances of payment being made to the wrong employee.</p> <ul style="list-style-type: none"> In previous years we have reported delays in notifying payroll of employee terminations which can give rise to salary overpayments. We understand this has been an issue again in 2020/21. In response to the demands on staff as we move through the pandemic, the Scottish Government advised that staff can exchange some or all untaken annual leave from 2019/20 for salary or carry the holidays forward into 2020/21. Discussions are ongoing as to whether a similar approach will be taken in respect of untaken annual leave from 2020/21. This will require payroll to implement measures to ensure that only valid payments are made for untaken annual leave. <p>While none of the issues set out above are likely to have a material impact on the costs in the accounts individually, collectively, there is the potential for the integrity of staff costs in the accounts to be undermined.</p>		

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>5. Impact of Covid-19</p> <p>The pandemic, and the board's response to it, has wide ranging impact on the</p>	<p>Review the board's response to the wider impact of the pandemic in terms of learning lessons, Covid-19 recovery plans, managing the financial</p>	<p>Results: The board has appropriately considered the wider impact of the pandemic in terms of learning lessons, Covid-19 recovery plans,</p>

Audit risk	Assurance procedure	Results and conclusions
<p>operations of the board. The board's financial pressures, governance arrangements and the way in which services are delivered have all changed. A key challenge in the short-term is achieving financial balance, as the board has been unable to realise the planned efficiency savings set out in the 2020/21 financial plan, due to those being based on pre-pandemic service delivery models.</p>	<p>pressures in 2020/21, medium-term financial planning, service delivery and performance reporting arrangements.</p>	<p>managing the financial pressures in 2020/21, medium-term financial planning, service delivery and performance reporting arrangements. The details are set out in the body of this report.</p> <p>Conclusion: The board should continue to monitor and report on the wider impact of Covid-19.</p>
<p>6. Impact of EU withdrawal</p> <p>The transitional arrangements in place following the United Kingdom's exit from the European Union end on 31 December 2020. There is significant uncertainty around the impact of EU withdrawal at this time as there has been no agreement on what the future relationship will be with the European Union.</p> <p>There is a risk that EU withdrawal will have a significant impact on health boards and their ability to deliver services efficiently.</p>	<p>Review the board's assessment of impact of EU withdrawal on its operations and the mitigating controls in relation to this risk as set out in the board's corporate risk register.</p>	<p>Results: The board has appropriately considered the possible impact of the EU withdrawal on its ability to deliver healthcare services. Board members are also updated regularly on the work being undertaken by officers in response to this risk.</p> <p>Conclusion: The board should continue to monitor and report on the impact of EU withdrawal and how this risk is being managed.</p>

*** - In our Annual Audit Plan for 2020/21 which was presented to the Audit Committee in January 2021, we identified two risks of material misstatement in the financial statements caused by fraud in both income recognition and expenditure. However, on completion of our interim audit work for 2020/21 we reconsidered both of these risks taking into account the results of our interim audit work and the requirements laid out in auditing standards. As a result, we have now rebutted the presumption that a material risk exists from fraud for both income recognition and expenditure. This is on the basis of the extent of income and expenditure which is received and issued to other parts of the public sector, including Scottish Government Funding, expenditure on the IJBs and other NHS boards.

For the areas that are subject to some risk, we have considered the incidence of fraud using National Fraud Initiative and Counter Fraud Service outcomes. We have assessed that the volume of transactions, that would need to be fraudulent to prove a material risk, is implausible. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We also review controls over key areas of risk.

Appendix 3. Summary of 2020/21 national performance reports

April 2020

[Affordable housing](#)

June 2020

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July 2020

[The National Fraud Initiative in Scotland 2018/19](#)

January 2021

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February 2021

[NHS in Scotland 2020](#)

March 2021

[Improving outcomes for young people through school education](#)

June 2021

[Covid-19 Personal Protective Equipment](#)

NHS Lanarkshire

2020/21 Annual Audit Report

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