

NHS Fife

2023/24 Annual Audit Report to the Board and the Auditor General for Scotland

June 2024



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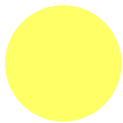
Key messages

Financial statements audit

Audit opinion	Our independent auditor's report is unqualified in all regards.
Key audit findings	<p>NHS Fife had reasonable administrative processes in place to prepare the annual accounts. We experienced some delays in the provision of working papers that supported the annual accounts and have raised recommendations for improvements to the process for providing these.</p> <p>We obtained adequate evidence in relation to the significant audit risks identified in our audit plan.</p> <p>The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p>

Audit adjustments	<p>Six adjustments have been identified and made through the course of the audit. These were:</p> <ul style="list-style-type: none">• Three adjustments to update PFI disclosures and correctly reflect the implementation of International Financial Reporting Standard 16 on Leases (IFRS 16) in year.• Two adjustments to account for changes in the funding levels due from the IJB and additional brokerage from the Scottish Government as a result of late identification of an overspend position.• An adjustment to account for an emerging VAT liability, linked to the management of the PFI. <p>Two unadjusted misstatements were also identified within the accounts:</p> <ul style="list-style-type: none">• A non-material classification error was noted between staff costs and non-pay expenditure. There is no net impact on the outturn position.• A non-material valuation error in the PFI calculations that would have increased noncore expenditure for the year. <p>We also identified some minor disclosure and presentational adjustments during our audit, which have been reflected in the final set of financial statements.</p> <p>Details of the adjusted and unadjusted misstatements are included at Appendix 2.</p>
Accounting systems and internal controls	<p>We applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess NHS Fife's processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where we identify any control weaknesses, we include these in this report.</p> <p>We identified no significant weaknesses in accounting and internal control systems during our audit.</p>

Wider scope of public audit

Financial Management Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.	Auditor judgement Risks exist to the achievement of operational objectives 
	NHS Fife met its key financial targets in the year, although for the second consecutive year repayable financial brokerage was required from the Scottish Government to achieve breakeven. For 2023/24, this amounted to £14million (2022/23 - £9.7million), including an additional late request of just under £3million to fund NHS Fife's share of Fife Integration Joint Board's year end overspend position. NHS Fife delivered just over £8.1million (54%) of the planned £15million cost improvement programme for 2023/24. This represents a decrease compared to the prior year where the Board delivered savings of £9.8million. This demonstrates the ever increasing difficulty of delivering annual cost savings of this scale.

Financial Sustainability

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

Auditor judgement


Significant unmitigated risks affect achievement of corporate objectives




NHS Fife is currently facing one of the biggest financial challenges in its history. The 2024/25 - 2026/27 financial plan shows that £125million of recurring savings are required over this three year period to discharge the board's statutory financial duties and achieve financial sustainability.

As part of this target, nearly £55million of savings are required in 2024/25. NHS Fife have developed a range of potential projects to save £25million, representing 3% efficiency savings. These projects have been approved by the board and initiated and further specific projects and actions still need to be developed to deliver the remaining £30million savings. These additional projects will require formal Board approval which is planned for the end of July 2024. The recently approved Re-Form, Transform, Perform framework provides an approach for identifying, selecting and implementing the required actions to achieve the savings.

We understand, based on a survey of other Scottish health boards, that NHS Fife's forecast financial gap is broadly typical across the country. NHS Fife also continues to be funded below the level suggested by the NRAC formula, which contributes to the financial pressures. Nevertheless, the current financial position will require the board to make difficult decisions and choices during the course of 2024/25 and beyond to transform services to make them financially sustainable. It is crucial that these decisions are made and enacted as a matter of urgency, in partnership with Fife Council and Fife IJB, to avoid the health board breaching its statutory financial duties.

<p>Vision, Leadership and Governance</p> <p>Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>Auditor judgement</p> <p>Effective and appropriate arrangements are in place </p> <hr/> <p>Governance arrangements throughout the year were found to be satisfactory and appropriate. We are satisfied that the Board continued to receive sufficient and appropriate information throughout the period to support effective and timely scrutiny and challenge.</p> <p>NHS Fife’s Blueprint for Good Governance improvement plan was formally approved by the Board in March 2024 and submitted to Scottish Government thereafter. Progress updates on delivery of the improvement plan will be presented to the Board biannually and externally reported to the Scottish Government.</p> <p>Good progress has been made in the development of appropriate arrangements to oversee and monitor the delivery and impact of the board’s five year Population Health and Wellbeing Strategy.</p>
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<p>Use of Resources to Improve Outcomes</p> <p>Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.</p>	<p>Auditor judgement</p> <p>Risks exist to achievement of operational objectives </p> <hr/> <p>NHS Fife continue to have appropriate performance management processes in place that support the achievement of value for money. Despite this, the pandemic has exacerbated what were already tough core service delivery challenges, and performance against the majority of KPIs have declined since last year.</p> <p>As mentioned in the financial sustainability section above, difficult choices require to be made by NHS Fife to achieve a financially sustainable position which may impact further on service performance.</p>
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Definitions

We use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope areas. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.



Introduction

Scope of audit

The annual external audit comprises the audit of the financial statements and other reports within the annual report and accounts, and the wider-scope audit responsibilities set out in Audit Scotland's Code of Audit Practice.

[Code of Audit Practice 2021 | Audit Scotland](#)

We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit and Risk Committee at the outset of our audit.

Responsibilities

NHS Fife is responsible for preparing an annual report and accounts which show a true and fair view of the results for the year and position at the year end, and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on, the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent, and our objectivity has not been compromised in any way.

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

Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.

Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team or to Audit Scotland.

Openness and transparency

This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Financial statements audit

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing.</p> <p>Our findings / conclusions to inform our opinion are set out in this section of our annual report.</p>	<p>The annual report and accounts were considered by the Audit and Risk Committee on 20 June 2024 and approved by the Board on 25 June 2024.</p> <p>Our independent auditor's report is unqualified in all regards.</p>
Going concern basis of accounting	<p>When assessing whether the going concern basis of accounting is appropriate, the anticipated provision of services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise NHS Fife's functions.</p> <p>Our wider scope audit work considers the financial sustainability of NHS Fife.</p>	<p>We reviewed the financial forecasts for 2024/25. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that NHS Fife will have continued provision of service for at least 12 months from the signing date. Our audit opinion is therefore unqualified in this respect.</p>
Regularity of income and expenditure	<p>We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.</p>	<p>We did not identify any instances of irregular activity.</p> <p>In our opinion, in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and</p>

Opinion	Basis for opinion	Conclusions
		guidance issued by the Scottish Ministers.
<p>Opinions prescribed by the Auditor General for Scotland:</p> <ul style="list-style-type: none"> • The audited part of the Remuneration and Staff Report • Performance Report • Governance Statement 	<p>We plan and perform audit procedures to gain assurance that the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement are prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.</p>	<p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p> <ul style="list-style-type: none"> • the audited parts of the Remuneration and Staff Report have been properly prepared. • the information given in the performance report is consistent with the financial statements and has been properly prepared. • the information given in the Governance Statement is consistent with the financial statements and our understanding of the organisation gained through our audit.

Opinion	Basis for opinion	Conclusions
Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> adequate accounting records have not been kept; or the financial statements and the audited parts of the Remuneration and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit; or there has been a failure to achieve a prescribed financial objective. 	We have no matters to report.

An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk Committee in December 2023. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to NHS Fife. This ensures that our audit focuses on the areas of highest risk (the significant risk areas). Planning is a continuous process, and our audit plan is subject to review during the course of the audit to take account of developments that arise.

In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. This includes:

- An evaluation of the Board’s and group’s internal control environment, including the IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including procedures outlined in this report in relation to our key audit risks.

Quality indicators

We have applied a suite of quality indicators to assess the reliability of the Board's financial reporting and response to the audit.

Metric	Grading (Mature / developing / significant improvement required)	Commentary
Quality and timeliness of draft financial statements	Mature	We received the unaudited financial statements of a good standard in line with our audit timetable, with the exception of PFI disclosures as explained on page 27. Revisions were provided promptly where required.
Quality of working papers provided and adherence to timetable	Mature	We encountered some delays in receiving initial working papers and experienced difficulty in a number of areas reconciling these schedules to the financial statements provided for audit resulting in pressures on the audit timetable. Further information was provided promptly where required.
Timing and quality of key accounting judgements	Mature	We did not identify any issues with the timing and quality of key accounting judgements.
Access to finance team and other key personnel	Mature	We received full access to the finance team and other key personnel. All audit queries and requests were responded to in a timely manner.
Quality and timeliness of the	Mature	We did receive the pension statement aspects of the audited part of the Remuneration and Staff Report late. This was due to delays with SPPA providing CETV calculator information and this issue impacted

Metric	Grading (Mature / developing / significant improvement required)	Commentary
<ul style="list-style-type: none"> • audited part of the Remuneration and Staff Report • Performance Report • Governance Statement <p>As well as the quality and timeliness of supporting working papers for those statements.</p>		<p>all NHS Scotland Boards. We are satisfied that NHS Fife did all that they could to mitigate this delay.</p> <p>We did not identify any other issues with quality and timeliness of the audited part of the Remuneration and Staff Report, Performance Report and Governance Statement.</p>
Volume and magnitude of identified errors	Mature	We identified six audit adjustments and two unadjusted misstatements in year. The unadjusted misstatements were not material to NHS Fife collectively. This is a slight increase in errors from the previous year but is broadly in line with our expectations.

Significant risk areas and key audit matters

Significant risks are defined by auditing standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Significant risks are those risks that have a higher risk of material misstatement.

Audit procedures are designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we considered the significant risks for the audit that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team (the 'Key Audit Matters'), as detailed in the tables below.

Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures.

Our opinion on the annual report and accounts is not modified with respect to any of the risks described below.

The table below summarises each significant risk. Detail behind each risk and the work undertaken is set out on the following pages.

Risk area	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
Management override of controls	Yes	Assess design & implementation	Low	No adjustment
Fraud in revenue recognition	Yes	Assess design & implementation	Low	No adjustment
Fraud in non-pay expenditure recognition	Yes	Assess design & implementation	Low	Non-Material miss-classification identified between Pay and Non-Pay costs. This has not been adjusted and was not indicative of fraud.
Refinancing of commitments under PFI contract	No	Assess design & implementation	Low	No adjustment
Valuation of land and buildings	No	Assess design & implementation	High	No adjustment
Provisions	No	Assess design & implementation	High	No adjustment
IFRS 16 implementation	No	Assess design & implementation	High	Adjustments made to update PFI figures to

Risk area	Fraud risk	Planned approach to controls	Level of judgement / estimation uncertainty	Outcome of work
for PPP/PFI arrangements				reflect the transition to IFRS16 in year and subsequent corrections to these amounts.

Significant risks at the financial statement level

These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Risk area	Management override of controls
Significant risk description	<p>Management of any entity is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk will vary from entity to entity, this risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk on all audits.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement: Very High</p>
How the scope of our audit responded to the significant risk	<p>Key judgement</p> <p>There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions.</p> <p>Audit procedures</p>

Risk area	Management override of controls
	<ul style="list-style-type: none"> • Documented our understanding of the journals posting process and evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determined criteria for selecting high risk and / or unusual journals. • Tested high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness, corroboration and ensured approval has been undertaken in line with NHS Fife’s journals policy. • Gained an understanding of the accounting estimates and critical judgements made by management. We challenged key assumptions and considered the reasonableness and indicators of management bias which could result in material misstatement due to fraud. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.
<p>Key observations</p>	<p>We have not identified any indication of management override of controls in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.</p>

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Key risk area	Fraud in revenue recognition
<p>Significant risk description</p>	<p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed, inherent risk on every audit unless it can be rebutted.</p> <p>The presumption is that NHS Fife could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.</p> <p>In respect of Scottish Government funding, however, we did not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate revenue of this nature. The risk of fraud in relation to revenue recognition was however present in all other income streams.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement:</p> <p>Revenue (occurrence): High</p>

Key risk area	Fraud in revenue recognition
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Documented our understanding of NHS Fife’s systems for income to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements. • Evaluated the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems. • Obtained evidence that income is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Substantively tested material income streams using analytical procedures and sample testing of transactions recognised for the year.
<p>Key observations</p>	<p>At the planning stage of our audit we concluded that the revenue recognition risk was present over the completeness and occurrence of all revenue streams except for NHS Fife’s revenue resource allocation from Scottish Government. Upon receipt of the final accounts we were able to rebut the risk over the completeness of income due to lack of incentive to omit or defer income from the accounts. Our conclusion regarding the risk relating to the occurrence of income, along with the judgement to rebut the risk of revenue recognition in relation to Scottish Government funding, remained the same throughout the audit.</p> <p>We identified no significant issues in testing income and debtors. We have gained sufficient assurance over the occurrence of income recorded in the accounts and are satisfied that income is fairly stated. We have identified no indication of fraud in revenue recognition.</p>

Key risk area	Fraud in non-pay expenditure recognition
<p>Significant risk description</p>	<p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement:</p> <p>Non-pay expenditure (completeness): High</p> <p>Accruals (completeness): High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals and expenditure around the year end.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Documented our understanding of NHS Fife’s systems for expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements. • Evaluated the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems. • Obtained evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. • Substantively tested material expenditure streams using analytical procedures and sample testing of transactions during the year. • Reviewed accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Key risk area	Fraud in non-pay expenditure recognition
<p>Key observations</p>	<p>At the planning stage of our audit we concluded that the risk of fraud in expenditure recognition was present over the completeness and occurrence of all non-pay expenditure streams. Upon receipt of the final accounts we were able to rebut the risk over the occurrence of expenditure based due to lack of incentive to overstate expenditure within the accounts. Our conclusion regarding the risk relating to the completeness of expenditure and accruals, along with the judgement to rebut the risk of fraud in expenditure recognition in relation to pay costs, remained the same throughout the audit.</p> <p>We identified no significant issues in testing expenditure and debtors. We have gained reasonable assurance on the completeness of expenditure and creditors and we are satisfied that expenditure is fairly stated in the financial statements.</p>

Key risk area	Refinancing of commitments under PFI contracts
<p>Significant risk description</p>	<p>The Board has two PFI contracts:</p> <ol style="list-style-type: none"> 1. Community Hospital and Health Centre in St Andrews. The contract is for a period of 30 years commencing 31 July 2009. 2. Phase 3 of Victoria Hospital in Kirkcaldy. The contract is for a period of 30 years commencing 28 October 2011. <p>These initiatives are recognised as non-current assets on the Board’s balance sheet with material net book values.</p> <p>The Board identified PFI hospitals, which are inflation linked, as a key cost pressure in 2022/23. In January 2023, a proposal for the re-financing of PFIs was approved as part of the Financial Improvement and Sustainability Programme. The deal on the re-financing agreement is closed in December 2023.</p> <p>Due to the complexity of accounting and the high value of the transactions, there is a risk that the Board’s financial statements do not show the correct accounting entries and related commitments for the PFI refinancing, and that the</p>

Key risk area	Refinancing of commitments under PFI contracts
	<p>unitary payments in relation to these facilities are not correctly accounted for.</p> <p>Inherent risk of material misstatement:</p> <p>PFI assets (valuations): High</p> <p>Lease liabilities (valuation): High</p> <p>Expenditure (valuation): High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>Boards are required to ensure PFI and related assets are held at a carrying amount that does not differ materially from the current value at 31 March, alongside appropriate additional disclosures.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Documented our understanding of the structure of the Board’s re-financed PFI contracts, including the models, and how these are accounted for. • Documented our understanding of the wider financial implications which the re-financing decision has on the Board. • Reviewed the Board’s calculation of unitary payments. • Reviewed the Board’s compliance with the FReM and NHS Manual for Accounts regarding PFI contract re-financing.
<p>Key observations</p>	<p>We reviewed the refinancing arrangement and are satisfied that appropriate Board approval was received on the decision and that the revised unitary payments have been incorporated appropriately into the PFI models. We also reviewed relevant aspects of the transactions against the NHS Scotland Capital Accounting Manual. No exceptions were identified.</p>

Key risk area	Valuation of land and buildings (key accounting estimate)
<p>Significant risk description</p>	<p>NHS Fife held land and buildings with a net book value of £522million at 31 March 2024 with external valuations on a five-year rolling basis.</p> <p>There is a significant degree of subjectivity in the measurement and valuation of land and buildings. This subjectivity and the material nature of the Board’s asset base represents an increased risk of misstatement in the financial statements.</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>Boards are required to ensure fixed assets are held at a carrying amount that does not differ materially from the current value at 31 March, alongside appropriate additional disclosures.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Evaluated management processes and assumptions for the calculation of the estimates, the instructions issued to the Valuation Office Agency (VOA) as valuation experts, and the scope of their (VOA’s) work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Considered the basis on which the valuation was completed and challenged the key assumptions applied. • Tested the information used by the valuer to ensure it is complete and consistent with our understanding. There were no specific changes to the assets in the year, however we have ensured that the impact of RAAC has been considered within the valuer’s work. • Confirmed that revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct.
<p>Key observations</p>	<p>We have gained assurance that the carrying value of the Board’s estate in the financial statements is in line with the reports received from the external valuers (VOA). The</p>

Key risk area	Valuation of land and buildings (key accounting estimate)
	<p>valuer prepared the valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates.</p> <p>We evaluated the competence, objectivity and capability of management’s expert in line with the requirements of ISA (UK) 500 and concluded that use of the expert was appropriate. We confirmed that the basis of valuation for assets is appropriate based on the usage and reviewed the reasonableness of valuation assumptions applied. Overall, the valuation movements were in line with supporting evidence.</p> <p>We reviewed the keys estimates and judgements that management made in respect to the valuation of land and buildings for any indication of bias and assessed whether the judgements used by management are reasonable. We concluded that estimates and judgements are balanced.</p> <p>Our audit work has not identified any issues in respect of the valuation of land and buildings as at 31 March 2024.</p>

Key risk area	Provisions (key accounting estimate)
<p>Significant risk description</p>	<p>The financial statements include provision for legal obligations in respect of participation in CNORIS (Clinical Negligence and Other Risks Indemnity Scheme).</p> <p>There is a significant degree of subjectivity in the measurement and valuation of these provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p> <p>Inherent risk of material misstatement:</p> <p>Provisions (valuation): High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of provisions around the year end.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Reviewed management’s estimation for the provision and related disclosures. • Considered compliance with the requirements of the FReM and NHS Manual for Accounts. • Considered the competence, capability and objectivity of the management expert.
<p>Key observations</p>	<p>We are satisfied that the amount recognised as a provision appropriately reflects the amounts notified by the Central Legal Office (CLO). We have assessed management’s estimation technique for the provision and related disclosures and are satisfied that these comply with the requirements of the FReM and NHS Manual for Accounts.</p> <p>We reviewed the key estimates and judgements that management made in respect to the provisions for any indication of bias and assessed whether the judgements used by management are reasonable. We have concluded that estimates and judgements are balanced.</p> <p>Audit Scotland undertake an annual review of the work carried out by the CLO to establish the extent to which the information they provide as a management expert can be used as audit evidence under ISA (UK) 500 and evaluate</p>

Key risk area	Provisions (key accounting estimate)
	<p>the appropriateness of the methodology adopted by Scottish Government to estimate the total national obligation. Audit Scotland has concluded that the CLO is objective, has sufficient expertise and the capability, time and resource to deliver reliable information.</p>
Key risk area	IFRS 16 implementation for PPP/PFI arrangements (key accounting estimate)
<p>Significant risk description</p>	<p>The mandatory adoption of IFRS 16 for PPP/PFI arrangements was implemented for NHS bodies from 1 April 2023.</p> <p>Under the new approach, there is an expectation that NHS bodies recognise variable lease payments, which are dependent on an index/ discount rate being applied on both transition and subsequent measurement, with changes needing to be accounted for appropriately. Therefore, there is an increased risk to the organisation that the incorrect rate is used when determining the lease payment.</p> <p>There is also an increased risk in respect of completeness of liabilities identified by the organisation on transition from IAS17 to IFRS16.</p> <p>Inherent risk of material misstatement:</p> <p>Lease liabilities (valuation): High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>The implementation of IFRS 16 required judgement as to the appropriateness of transitional adjustments.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Reviewed the completeness and accuracy of the data collected by the Board and used as part of implementation of IFRS 16 for PPP/PFI arrangements. • Reviewed the appropriateness of the discount rate used in the calculation of the lease liability.

Key risk area	IFRS 16 implementation for PPP/PFI arrangements (key accounting estimate)
	<ul style="list-style-type: none"> • Reviewed the appropriateness of the remeasurement of the lease liability resulting from a change in an index/rate used to determine those payments. • Reperformed the calculation of the lease liability and right of use asset for PPP/PFI arrangements with the aid of the NHS Bodies PFI Model. • Reviewed the accounting entries for both transition and subsequent measurement of the Board’s PPP/ PFI arrangements and confirmed they are in line with IFRS16 and the requirements of the Financial Reporting Manual (FReM), NHS Manual for Accounts and Scottish Government guidance. • Reviewed the accounting policy and related disclosures for IFRS 16 and confirmed these are in line with the requirements of the Financial Reporting Manual (FReM), NHS Manual for Accounts and Scottish Government guidance.
<p>Key observations</p>	<p>On receipt of the unaudited accounts, NHS Fife had not accounted for, or processed, the IFRS 16 transitional adjustments. We did not receive sufficient audit evidence to allow us to begin audit testing in this area until 6 weeks into the audit.</p> <p>In addition, further adjustments to the IFRS 16 transitional adjustments were required due to errors in the inputs used by NHS Fife in the IFRS 16 lease helper model.</p> <p>Once the above adjustments were made by management, we reviewed management’s estimations and related disclosures and are satisfied that these comply with the requirements of the FReM and NHS Manual for Accounts.</p>

Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor’s report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of NHS Fife and the needs of users. We reviewed our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Our initial assessment of materiality for the group financial statements was £29.534million and the Board’s financial statements was £29.513million. On receipt of the 2023/24 unaudited annual accounts, we reassessed materiality and kept it at the same level as our initial assessment. We consider that our updated assessment has remained appropriate throughout our audit.

	Group £million	Board £million
Overall materiality for the financial statements	29.534	29.513
Performance materiality (75% of materiality)	22.151	22.134
Trivial threshold	0.300	0.300

Materiality

Our assessment is made with reference to the group and Board’s gross expenditure. We consider this to be the principal consideration for users of the annual accounts when assessing financial performance.

Our assessment of materiality equates to approximately 2% of gross expenditure as disclosed in the 2023/24 unaudited annual report and accounts.

In performing our audit, we apply a lower level of materiality to the audit of the Remuneration & Staff Report and Related Parties disclosures.

For the Remuneration & Staff Report we consider any errors which result in a movement between the relevant bandings on the disclosure table to be material.

For Related Party transactions, in line with the standards, we consider the significance of the transaction with regard to both

<p>Performance materiality</p>	<p>NHS Fife and the Counter party, the smaller of which drives materiality considerations on a transaction by transaction basis.</p> <p>Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.</p> <p>Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.</p>
<p>Trivial misstatements</p>	<p>Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>

Group audit

NHS Fife prepares its annual report and accounts on a group basis. The group consists of NHS Fife, Fife Integration Joint Board (Fife IJB) and Fife Health Board Endowment Fund (Fife Health Charity).

As group auditors, under ISA (UK) 600 we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and regarding the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The table below sets out the components within the group.

As set out in our External Audit Plan we did not identify any components to be significant in the context of the group audit except NHS Fife. We revisited our assessment, following receipt of the unaudited accounts and our assessment remained the same.

Component	Significant	Level of response required
NHS Fife	Yes	Comprehensive
Fife Integration Joint Board (IJB)	No	Analytical
Fife Health Board Endowment Fund (Fife Health Charity)	No	Analytical

Comprehensive - The component is of such significance to the group as a whole that an audit of the component’s financial statements is required for group reporting purposes.

Analytical - the component is not significant to the group and audit risks can be addressed sufficiently by applying analytical procedures at the group level.

The Endowment Fund is fully consolidated. Fife IJB is deemed a joint venture with Fife Council and accounted for under the equity method. We do not consider the consolidated entities to be of individual financial significance to the group or, due to their specific nature, circumstances and basis of accounting, likely to include significant risks of material misstatement of the group financial statements.

As part of our audit we reviewed the consolidation entries made within the group accounts and confirmed those entries back to the financial statements.

Audit differences

Audit differences, both adjusted and unadjusted, identified during the audit are detailed in Appendix 2.

We also identified disclosure and presentational adjustments during the audit, which have been reflected in the final set of financial statements and are disclosed in Appendix 2.

Internal controls

As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these at Appendix 3. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Service auditor reports

The Board utilise a number of shared IT systems, IT applications and processes with other Scottish Health Boards. Assurance reports are prepared by service auditors in the health sector under ISAE (UK) 3402 covering the national systems/arrangements.

Shared service	Service assurance
<p>National IT contract</p> <p>This contract covers the services provided by ATOS IT Services UK Limited e.g. controls over the principal IT service delivery supporting eFinancials.</p>	<p>NHS National Services Scotland (NSS) procures a service auditor report from PwC. PwC reported a qualified audit opinion in relation to review of access controls, no actual breaches were noted. We have considered the findings of the report, and additional assurances sought by management from the service provider and are satisfied that the findings do not represent a material risk to our audit approach or conclusions.</p>
<p>National Single Instance (NSI) eFinancials</p> <p>NHS Ayrshire & Arran provide the eFinancials service with the IT service delivery being provided via the 'National IT contract' including the Real Asset Management system on behalf of all Scottish Health Boards</p>	<p>NHS Ayrshire and Arran procure a service auditor report from BDO. The service auditor report highlighted no critical or significant risk findings and reported an unqualified opinion.</p>
<p>Provision of payroll services</p> <p>National Services Scotland (NSS) provide payroll services for NHS Lothian, NHS Fife, NHS Forth Valley and the Scottish Ambulance Service.</p>	<p>NHS National Services Scotland (NSS) procures a service auditor report from PwC. PwC reported an unqualified audit opinion. We have considered the findings of the report and are satisfied that the findings do not have a material impact on our audit approach or conclusions.</p>
<p>National Practitioner and Counter Fraud Services</p> <p>This contract supports accurate payments and patient registration</p>	<p>NHS National Services Scotland (NSS) procures a service auditor report from PwC. PwC reported a qualified audit opinion in relation to review controls in place over payments. We have considered the findings of the report, and additional assurances sought by management from</p>

Shared service	Service assurance
for NHS services to GPs, dentists, pharmacists, and optometrists.	the service provider and are satisfied that the findings do not represent a material risk to our audit approach or conclusions.

Other communications

Other areas of focus

Area of focus	Audit findings and conclusion
Significant matters on which there was disagreement with management	There were no significant matters on which there was disagreement with management.
Significant management judgements which required additional audit work and / or where there was disagreement over the judgement and / or where the judgement is significant enough that we are required to report it to those charged with governance before they consider their approval of the accounts	There were no other significant management judgements which required additional audit work, where there was disagreement over the judgement or where the judgement is significant enough that requires reporting, in addition to those reflected in this report.
Prior year adjustments identified	There were no prior year adjustments identified.
<p>Concerns identified in the following:</p> <ul style="list-style-type: none"> • Consultation by management with other accountants on accounting or auditing matters • Matters significant to the oversight of the financial reporting process • Adjustments / transactions identified as having been made to meet an agreed system position / target 	No concerns were identified in relation to these areas.

Accounting policies

The accounting policies used in preparing the financial statements are unchanged from the previous year with the exception of IFRS 16 implementation for PPP/PFI arrangements.

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by NHS Fife.

The accounting policies, which are disclosed in the financial statements, are in line with the NHS Accounts Manual and are considered appropriate.

There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

Key judgements and estimates

As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements.

Consideration was given to asset valuations, impairment, depreciation and amortisation rates, provisions for legal obligations and doubtful debts, IFRS 16 implementation and accruals. Other than asset valuations, provisions for legal obligations in respect of clinical and medical obligations and IFRS 16 implementation for PPP/PFI arrangements we have not determined the accounting estimates to be significant. See the section above on “Significant risks at the assertion level for classes of transaction, account balances and disclosures” for detailed findings in relation to key accounting estimates.

We reviewed the key estimates and judgements that management made in respect to the identified key accounting estimates for indication of bias and assessed whether the judgements used by management are reasonable. Overall, we concluded that those key accounting estimates were balanced and appropriate.

Fraud and suspected fraud

We have previously discussed the risk of fraud with management and the Audit and Risk Committee. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

As part of our standard audit testing, we have reviewed the laws and regulations impacting NHS Fife. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations.

Written representations

We issued the final letter of representation to the Board to sign at the same time as the financial statements were approved.

Related parties

We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

All requested third party confirmations have been received.

Wider scope of public audit

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider-scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management

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

Auditor judgement

Risks exist to the achievement of operational objectives



Significant audit risk

Our audit plan identified the following significant risk in relation to financial management:

Financial management (extract from 2023/24 External Audit Plan)

Financial brokerage of £9.7million was required from the Scottish Government to allow NHS Fife to achieved its financial targets in 2022/23.

In March 2023, the Board approved the 2023/24 financial plan which showed a projected budget gap of £10.9million after an ambitious cost improvement plan totalling £15million.

The latest forecast (October 2023) projected a deficit of £22million, resulting from a high level of challenge associated with delivering the in-year savings target in full and an increasing level of spend on supplementary medical and nursing staff when compared to previous years. As at October 2023, only £5.6million of the £15million cost improvement plan had been delivered.

There is a continued risk that the 2023/24 financial target will not be achieved and a higher level of brokerage than outlined in the approved financial plan will be required to achieve financial balance.

Financial management (extract from 2023/24 External Audit Plan)

Our detailed findings on NHS Fife’s approach to identifying and responding to financial challenges faced during the year are set out below.

Financial performance 2023/24

All health boards have to work within the resource limits and cash requirements set by the Scottish Government.

NHS Fife met all its key financial targets in 2023/24, as shown in the table below. However, this position was achieved through receipt of the Board’s NRAC share of non-recurring additional UK Government consequential funding of £10.3million and a share of a national reduction to CNORIS costs of £2.3million. Additionally, for the second consecutive year, repayable financial brokerage was required from the Scottish Government. At £14million, the value of brokerage requested in 2023/24 was slightly higher than the amount budgeted of £10.9million.

The Chief Finance Officer of the Fife Integration Joint Board (IJB) advised in May 2024 that the final outturn position for the IJB, after full utilisation of reserves, was an overspend of £5.578million. This was not in line with the previously forecast IJB position and was notified too late for NHS Fife to be able to respond, other than by requesting further brokerage from Scottish Government.

NHS Fife’s share of the additional funding required to support the IJB’s overspend position under the risk sharing arrangement was £3.458 million. NHS Fife had already passed through an allocation of £0.466million to the IJB which left a balance of £2.992million for the Board to fund. Due to NHS Fife’s 2023/24 outturn position, an additional brokerage request was required to fund this amount to allow NHS Fife to maintain financial balance. This increased the total brokerage received in 2023/24 to £14million.

Performance against resource limits 2023/24

Financial target	Limit £000	Actual £000	Variance £000
Core revenue resource limit (RRL)	987,722	987,722	0
Non-core revenue resource limit	31,048	31,048	0
Core capital resource limit (CRL)	14,280	14,277	3

Financial target	Limit £000	Actual £000	Variance £000
Non-core capital resource limit	1,180	1,180	0
Cash requirement	1,078,382	1,078,382	0

At the start of the year, NHS Fife forecast a funding gap of £10.9million after the achievement of a challenging savings target of £15million.

Throughout 2023/24, significant deficit positions were forecast in each Financial Performance Report presented to the Finance, Performance and Resources Committee and the Board.

NHS Fife has recognised that the key drivers contributing to the decline in financial strength in 2023/24 included:

- High medical and nursing pay costs
- Material increases in volume and cost of drugs
- Funding allocation changes
- Increased costs associated with commissioning services from other NHS Boards, and
- High levels of inflationary increases across non-pay budgets.

In addition, delivery of a balanced in-year financial position continues to be recognised as a high risk, and above the board's risk appetite, in the corporate risk register. The impact in future years of not achieving the Board's statutory target of financial balance is considered further in the financial sustainability section below.

Cost improvement plans

In line with Scottish Government's Sustainability and Value Programme, NHS Fife's 2023/24 financial plan included a cost improvement programme to deliver recurring savings of 3% (£15million).

NHS Fife delivered £8.1million (54%) of the £15million cost improvement target. This represents a decrease compared to the prior year where the Board delivered savings of £9.8million. Of this £8.1million, only 36% represent recurring savings, which is a similar position to 2022/23. This means that the remaining savings will need to be achieved again in 2024/25 and future years. This failure to deliver recurring savings in the underlying cost base places substantial additional pressure on the future financial position of the Board and therefore requires careful management.

The table below shows performance against the cost improvement programme. The main areas that were not achieved relate to temporary staff net reduction and surge capacity reduction.

Cost improvement plans 2023/24

Plan	Target £million	Actual £million	Variance £million
Temporary Staff Net Reduction	10.000	0.352	(9.648)
Surge Capacity Reduction	5.000	0.000	(5.000)
Corporate Overheads	0.000	0.000	0
Medicines	0.000	1.875	1.875
Vacancy Factor (Corporate)	0.000	0.140	0.140
Public Health	0.000	0.006	0.006
Acute Services	0.000	0.596	0.596
Estate & Facilities	0.000	0.902	0.902
Major Contract Review	0.000	1.241	1.241
Balance Sheet Review	0.000	3.030	3.030
Total	15.000	8.142	6.858

Source: Financial Performance Report to 31 March 2024 - May 2024

Bank and Agency Staff

NHS Fife has previously identified increasing levels of spend on supplementary medical and nursing staff as one of its key financial risks. Work on delivering a more sustainable and cost-effective approach to the use of bank and agency staff has continued to be a high priority area for NHS Fife during 2023/24.

At the end of March 2024, the total spend on supplementary staffing for Health Board-retained services was £21.1million, representing a reduction of £2.4million compared with the previous year. The net saving was £0.538m, following investment in permanent staff roles to reduce reliance on supplementary staff.

The Board has undertaken a significant amount of work during 2023/24 to reduce supplementary staff costs. These initiatives included:

- International recruitment;
- The development of the new assistant practitioner role;

- Investment in additional consultant posts; and
- Investment in more cost-effective ways including Gateway doctors to replace junior locum spend and create a future pool of substantive staff to recruit from.

The Board has recognised that investment in staffing models and permanent posts took several months to deliver, which meant that anticipated supplementary staffing reductions only materialised in the final quarter of the financial year. This therefore continues to be monitored during 2024/25 when the full year impact of the changes is expected to be realised.

Systems of internal control

We have evaluated the Board's key financial systems and internal financial controls to ensure internal controls are operating effectively to safeguard public assets.

We did not identify any significant weaknesses in NHS Fife's accounting and internal control systems during our audit.

Internal audit

An effective internal audit service is an important element of a Board's overall governance arrangements. NHS Fife's internal audit service is provided by FTF Internal Audit Service. During our audit we considered the work of internal audit wherever possible to inform our risk assessment and our work on the governance statement.

Prevention and detection of fraud and irregularity

We found NHS Fife's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

Regular updates on fraud related matters (including Counter Fraud Services updates), and the National Fraud Initiative (NFI) are presented to the Audit and Risk Committee.

National fraud initiative

The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error. The most recent NFI exercise commenced in 2022, with matches received for investigation from January 2023. Matches required to be investigated by 30 September 2023 and the results recorded on the NFI system.

NHS Fife engaged well with the NFI exercise and we have concluded that its arrangements with respect to NFI are satisfactory. There was a good level of timely follow up activity, meaning that all matches were appropriately closed down. In addition, NHS Fife has strong governance arrangements in relation to



communication and transparency of NFI including presenting the results of the self-appraisal checklist and regular NFI progress updates and outcomes to the Audit and Risk Committee.

Financial sustainability

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

Auditor judgement

Significant unmitigated risks affect achievement of corporate objectives



Significant audit risk

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

Financial sustainability (extract from 2023/24 External Audit Plan)

The Board's medium term financial plan was approved by the Finance, Performance and Resources Committee and Board in March 2023.

The plan shows a cumulative financial gap, before mitigations, of £73.2million over the period 2023/24 to 2027/28. A breakeven position for 2023/24 and 2024/25 and a surplus from 2025/26 onwards is forecast; however, this is subject to the delivery in full of challenging cost improvement plans and receipt of brokerage in 2023/24 and 2024/25.

Work is currently ongoing to review planning assumptions to reflect the current financial environment which the Board operates in, as part of development of the 2024/25 budget and revised medium term financial plan.

NHS Fife continues to face major risks to achieving financial balance while responding to the unprecedented challenges of recovering from the COVID-19 pandemic. Due to risk and uncertainty in relation to funding levels, workforce-related cost pressures and delivery of cost improvement programmes, the board's ability to deliver services in a sustainable manner remains a significant challenge and risk.

Our detailed findings on NHS Fife's financial framework for achieving long term financial sustainability are set out below.

Medium Term Financial Plan

The Financial Plan 2024/25 – 2026/27 was approved by the board in March 2024 and shows that delivering breakeven at the end of this three year period, in line with the board’s statutory financial duties, will require achievement of £125.3million of cost savings.

The Scottish Government requires boards to achieve 3% annual efficiency savings, which would deliver £76.3million savings over the three years. In addition, a further 4% savings are required in 2024/25 and 2025/26 totalling £49million. These savings are set out in the table below.

We understand, based on a survey of other Scottish health boards, that NHS Fife's forecast financial gap is broadly typical across the country. However it still represents one of the biggest financial challenges NHS Fife has ever faced.

2024/25 to 2026/27 forecast financial position

	2024/25 £m	2025/26 £m	2026/27 £m	Total savings required £m
Underlying Deficit	-33.3	-29.8	-19.2	
In-year Cost Pressure Level	-21.5	-14.4	-7.1	
Financial Gap	-54.8	-44.2	-26.3	
3% efficiency savings required	25.0	25.0	26.3	76.3
4% development savings required	29.8	19.2	0	49.0
Total savings required	54.8	44.2	26.3	125.3

Source: Medium-Term Financial Plan 2024/25- 2026/27- May 2024

NRAC shortfall

The Scottish Government uses a formula developed by the NHS Scotland Resource Allocation Committee (NRAC) to assess how much funding each board should be allocated. The NRAC formula considers the demographics of each board area

including population size, deprivation levels and unavoidable geographical variations in the cost of providing services.

NHS Fife continues to be funded below the level suggested by the NRAC formula. Although there have been movements in funding towards NRAC parity in recent years, there remains an in-year shortfall of £4.7million in 2024/25. The cumulative effect of NHS Fife being funded below its NRAC share since the funding formula was introduced is estimated by the board to exceed £100m of recurring funding.

Financial Brokerage

Financial brokerage receipts from the Scottish Government are essentially repayable loans to help boards achieve breakeven. In December 2023, Scottish Government confirmed that Boards at level two of the NHS Scotland Support and Intervention Framework will have brokerage capped in 2024/25 with further cap reductions anticipated in future years. In 2024/25 the brokerage cap for NHS Fife was initially set at £5 million, this was however reduced to zero in February 2024 following confirmation of additional New Medicines Funding which for NHS Fife was higher than the previously advised brokerage cap of £5 million.

NHS Fife has been reliant on Scottish Government brokerage in both 2022/23 and 2023/24 to achieve financial balance. However, the value of brokerage required in previous years was based on funding gaps that were significantly smaller than forecast for 2024/25. This puts substantial pressure on NHS Fife to deliver unprecedented levels of recurring savings to achieve financial balance.

The medium term financial plan does not include repayment of the cumulative brokerage received of £23.7million during 2022/23 and 2023/24. The Board will require to factor repayment of this amount into future years' financial planning, which risks further increasing the underlying deficit position.

In April 2024, Scottish Government confirmed that they could not approve NHS Fife's medium term financial plan. This decision was driven by the financial plan not presenting:

- A financial position within the brokerage cap.
- A financial position showing an improvement on the prior year submitted plan.

The Scottish Government also communicated to Boards that if they cannot deliver a financial outturn within the brokerage cap then there would be an expectation that an overspend position would be presented within the financial statements, which could result in boards breaching their statutory financial duty to break even year on year.

Cost Improvement Plans

An update on medium term financial planning was presented to the Board in May 2024 outlining the level of work ongoing to reduce the deficit position as far as possible during 2024/25 and eliminate it over the 3 year term of the plan. As part of this, £54.8million of savings are required in 2024/25.

NHS Fife approved the projects required to save £25million (representing 3% efficiency savings) of the 2024/25 target in their consideration of the Medium-Term Financial Plan in March 2024. The additional projects required to close the remaining gap of £29.8 million need to be approved by the board and initiated. NHS Fife plans to review and approve these remaining projects at the end of July 2024.

The recently approved Re-Form, Transform, Perform framework provides an approach for identifying, selecting and implementing the required actions to achieve the savings. Transformation of services beyond the achievement of 3% efficiency savings is the second stage of this initiative which is currently in development. A proposal on the actions and transformation options required to bridge the residual financial gap are due to be presented to the Board in July 2024.

As detailed in the financial management section above, NHS Fife did not meet its savings target in 2022/23 and in 2023/24 achieved only 54% of its £15million cost improvement programme. Within our 2022/23 Annual Audit Report, we highlighted that transformational service redesign would be essential to medium and longer term financial sustainability and performance improvement. In our opinion, the board's financial sustainability is now at serious risk in the short and medium term.

NHS Fife has recognised that the level of challenge associated with the financial plan and delivering the Board's statutory financial targets is substantial and will require difficult choices to be made about the use of resources during the course of 2024/25 and beyond as part of a longer term programme of transformation. These decisions will need to be carefully risk assessed and closely monitored to ensure that the impact on service availability and quality is managed. It is crucial that this happens as a matter of urgency, in partnership with Fife Council and Fife IJB, to avoid the health board breaching its statutory financial duties.

Vision, leadership and governance

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

Auditor judgement

Effective and appropriate arrangements are in place



Leadership

The following changes in board composition occurred during the year:

- The Vice Chair, Alistair Morris, was appointed as Acting Chair from April 2023. Patricia Kilpatrick was appointed as the permanent Chair from February 2024.
- Mansoor Mahmood, non-executive director, left the board during 2023/24.
- Wilma Brown, Employee Director, left the board during 2023/24 and was replaced by Lynne Parsons.

We reviewed the induction process and concluded that it provides those charged with governance with the information and platform to do so effectively. The induction sessions included meetings with Executives and Board Members and covered areas including an introduction to the Board and its Committees, an overview of financial governance, stewardship and risk management, an overview of the services devolved to the Fife Health and Social Care Partnership and an overview of staff governance.

In addition, the Board continued to hold bi-monthly development sessions during 2023/24. From review of the Board development sessions, we have concluded that they provided board members with appropriate and relevant information and a suitable platform to continue to discharge their leadership responsibilities effectively.

Governance arrangements

The Board is responsible for ensuring the overall governance of NHS Fife. In driving forwards the strategic direction of NHS Fife and ensuring the governance framework is operating as intended, the Board continues to be supported by six committees:

- Audit and Risk Committee;
- Finance, Performance and Resources Committee;
- Staff Governance Committee;

- Public Health and Wellbeing Committee;
- Remuneration Committee; and
- Clinical Governance Committee.

All Committees are required to provide an Annual Statement of Assurance to the Audit and Risk Committee and Board describing their membership, attendance, frequency of meetings, business addressed, outcomes and extent of assurances provided. These statements seek to demonstrate how each Committee has fulfilled their roles and remit during the reporting year, which provides assurance over the effectiveness of the committees to the Board. The 2023/24 Annual Statements of Assurance are planned to be presented to the June 2024 Audit and Risk Committee.

Board and Committee meetings

Committee meetings have continued to be held virtually rather than in person, to comply with requirements for non-essential travel and physical distancing, and the preferred mechanism is now through MS Teams. Board meetings have continued to adopt a hybrid approach with development sessions taking place in-person.

Throughout 2023/24, we have seen evidence that the Board has maintained all key aspects of board governance, including its regular schedule of board and committee meetings.

Through our review of committee papers we are satisfied that there continued to be effective scrutiny, challenge and informed decision making through the financial period.

Blueprint for Good Governance

The refreshed Blueprint for Good Governance (second edition) was published by the Scottish Government in December 2022. The second edition of the Blueprint builds on the original guidance issued by Scottish Government in 2019 and sets out the methodology for assessing the effectiveness of the healthcare governance system against the principles of good governance.

From November to December 2023, NHS Fife engaged in a self-assessment of its governance against the terms of the second edition of the Blueprint for Good Governance. The self-assessment involved all Board members and routine attendees undertaking a detailed survey measuring the Board's current operations against the Blueprint functions. This was followed by a dedicated in-person Board development session held in February 2024, facilitated by Board Development colleagues from NHS Education for Scotland, to agree the Board's actions, collating these in the format of an improvement plan.

The Board's improvement plan was formally approved by the Board in March 2024 and submitted to Scottish Government thereafter. A series of actions were identified, including renewal of the Board's risk appetite statement, finalising a stakeholder engagement strategy, increasing the benchmarking information available to the

Board, and facilitating more opportunities for Board members to engage with staff and stakeholder groups. Monitoring the delivery of these actions will continue over the 2024/25 reporting year, with updates on delivery to be presented to the Board biannually, as well as external reporting to Scottish Government.

Population Health and Wellbeing Strategy

NHS Fife's Population Health and Wellbeing Strategy was approved by the Board in March 2023.

The strategy sets out the proposed strategic ambitions for NHS Fife over the next five years and recognises the challenges currently facing the health sector including the level of partnership working which is required to improve population health and wellbeing.

The strategy takes cognisance of the Board's overarching vision, values and principles and is structured under four strategic priorities:

- Improve health and wellbeing - to close the inequality gap ensuring that all people of Fife can flourish from cradle to grave.
- Improve the quality of health and care – to provide the safest and best possible health and care services.
- Improve staff experience and wellbeing - to value and look after staff.
- Deliver value and sustainability – to use resources wisely to ensure services are sustainable and meet the population's needs.

During Summer 2023, a deep dive was undertaken of the corporate risk associated with the implementation of the Population Health and Wellbeing Strategy. This focused on how NHS Fife provides assurance on progress of implementation to the Board. The output from this deep dive was that management committed to present mid-year and annual reports on the Population Health and Wellbeing Strategy each year. The Annual Report 2023/24 was presented at the May 2024 Board meeting.

The Annual Report for 2023/24 includes a summary of key metrics that will be monitored going forward and a progress update against the key actions outlined in the strategy including monitoring progress against "what we said we would do".

A significant amount of work has been ongoing at NHS Fife to identify appropriate indicators and metrics to monitor progress made and the impact of the strategy. A range of indicators and metrics have been identified, including population health and wellbeing metrics using data provided by Public Health Scotland (PHS) as well as NHS Fife Performance Metrics for 2023/24. We have reported on performance against NHS Fife's performance metrics in the use of resources section below.

As detailed in the Annual Report, for the PHS indicators with a Scotland comparator, 9% of indicators evidenced that NHS Fife's performance is significantly better than

Scotland, 64% evidence that performance is not statistically different to Scotland and 27% evidence performance that is statistically worse than Scotland.

We are satisfied that good progress has been made in developing appropriate arrangements to oversee and monitor the delivery and impact of the Population Health and Wellbeing Strategy.

Risk Management

NHS Fife has continued work during 2023/24 in developing its risk management arrangements. An updated Risk Management Framework was approved by the Board in September 2023. Previously, a Risk Register/Risk Assessment policy was also in place but the Board recognised that this was no longer required as key elements of the policy not already covered were added to the Framework. This approach was supported by the Risks & Opportunities Group and approved by the Audit and Risk Committee at its December 2023 meeting. The revised Framework and a Delivery Plan to support implementation are currently being developed and are expected to be completed in September 2024.

The risk appetite was reviewed as part of the Board Development Session in April 2024. This provided opportunity for the Board to discuss whether changes are required in terms of both the risk appetite descriptors, and the levels of risk the Board is prepared to tolerate or treat in the pursuit of its strategic priorities and the Population Health & Wellbeing Strategy.

The process towards risk deep dives was also reviewed as part of the Audit and Risk Committee Development Session in October 2023. Recognising that a key characteristic of a risk deep dive review is that it should be carried out at specific points during the life cycle of a risk, it was agreed to develop criteria for undertaking a deep dive review. Criteria were developed, and approved by the Audit and Risk Committee in December 2023, to identify instances where a risk deep dive should be carried out including:

- The creation of a new corporate risk.
- Materially deteriorating risks.
- The proposed de-escalation or closure of a corporate risk.

The Risks & Opportunities Group has continued to support NHS Fife with development of its risk management arrangements during 2023/24. The group presented a self-assessment of its own effectiveness to the Audit and Risk Committee in May 2024 which concluded that the activity undertaken during the year allowed the group to fulfil its remit.

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

Auditor judgement

Risks exist to the achievement of operational objectives



Performance Management Arrangements

Performance management framework

The Board has developed a performance management framework which comprises updates on key performance indicators (KPIs) at each meeting of the board and committees through the Integrated Performance and Quality Report (IPQR). This report provides assurance on the Board's performance against national standards and local KPIs.

The content and format of the IPQR is currently being refreshed to take into account the review of National Standards by Scottish Government. This review is aligned to the Delivery Progress Framework that will be used by Scottish Government to monitor Annual Delivery Plans for 2024/25.

Through review of board and committee papers, we concluded that performance is given the appropriate level of scrutiny and challenge.

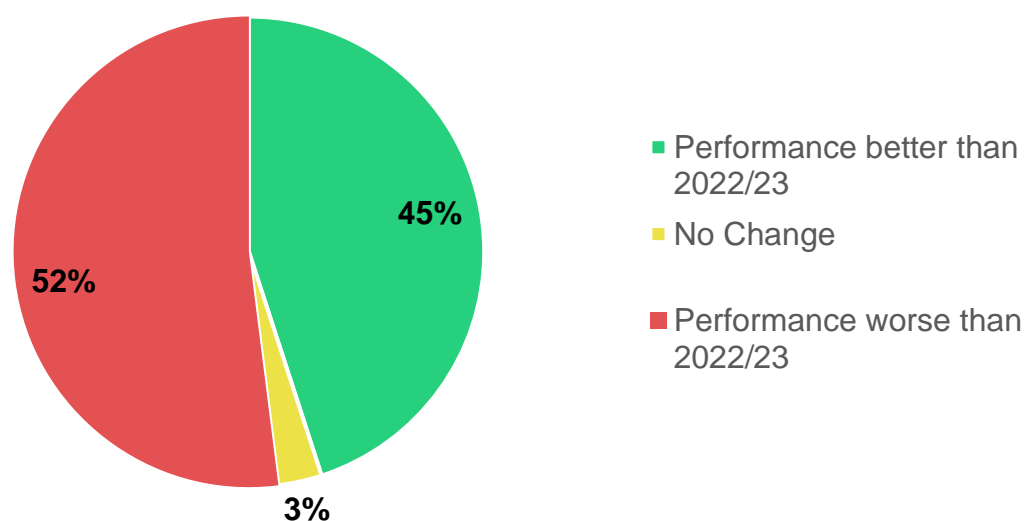
Performance in 2023/24

The 2023/24 IPQRs present performance against 39 KPIs. The May 2024 IPQR, which contains March 2024 performance data, was presented to the Board in May 2024.

Our analysis in the graph below shows a mixed picture of performance compared to the prior year. Performance for 45% of KPIs improved, 3% of KPIs were consistent with the prior year and 52% worsened since 2022/23.

This represents a similar position to 2022/23 where NHS Fife's performance against the majority of KPIs declined compared to the previous year.

Comparison of 2023/24 performance with 2022/23



Source: Fife Integrated Performance & Quality Report - May 2024

As detailed in the May 2024 IPQR, 8 of the 28 KPIs which had 2023/24 targets set, were on schedule to meet target, 1 was behind (but within 5% of) the target and 19 KPIs were more than 5% behind target.

In line with the previous year outcomes, the key performance indicators which were significantly behind the 2023/24 target are in relation to waiting and treatment times, where performance against the 2023/24 targets to date are as follows:

- 4-Hour Emergency Access (A&E): actual 72.5% (2023/24 target of 95%)
- 4-Hour Emergency Access (ED): actual 65.8% (2023/24 target of 82.5%)
- Patient TTG % <= 12 weeks: actual 36.7% (2023/24 target of 100%)
- New Outpatients % <= 12 weeks: actual 37.6% (2023/24 target of 95%)
- Diagnostics % <= 6 weeks: actual 54.4% (2023/24 target of 100%)
- Cancer 62-Day RTT: actual 75% (2023/24 target of 95%)
- Delayed Discharge % Bed Days Lost (Standard): actual 6.2% (2023/24 target of 5%)

As illustrated through the Board's performance reporting, the legacy of the COVID-19 pandemic continues to have a significant impact on the Board's activity, waiting times for services and the number of referrals. In addition, there continues to be significant risks nationally and locally around the delivery of the backlog of referrals which developed during the pandemic, with recovery plans being discussed within

the Board and with the Scottish Government. The Board has acknowledged that recovery against the backlog will require additional investment to deliver in full.

As described in the Financial Sustainability section, there is a risk that difficult choices require to be made by NHS Fife to achieve a financially sustainable position which may impact further on service performance availability and quality.

Best Value

All standing committees completed a Best Value Framework assessment alongside their Annual Statement of Assurance. The assessments set out the Best Value characteristics and list measures, expected outcomes and evidence against each characteristic. The results of the 2023/24 assessments are to be presented to the Audit and Risk Committee in June 2024.

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Appendix 1: Responsibilities of Boards and Auditors

NHS Fife responsibilities

The Code of Audit Practice (2021) sets out the following responsibilities:

Area	NHS Fife responsibilities
Corporate governance	<p>NHS Fife is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
Financial statements and related reports	<p>NHS Fife has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of the financial position of NHS Fife and its group and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support the balances and transactions in its financial statements and related disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and • preparing and publishing, along with the financial statements, an annual governance statement, governance compliance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements and prepared in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable. <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about NHS Fife and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p>

Area	NHS Fife responsibilities
	<p>NHS Fife is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. NHS Fife is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</p>	<p>NHS Fife is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p>
<p>Financial position</p>	<p>NHS Fife is responsible for putting in place proper arrangements to ensure its financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
<p>Best value</p>	<p>The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure Best Value. Accountable Officers are required to ensure accountability and transparency through effective performance reporting for both internal and external stakeholders.</p>

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland.

The Code outlines the responsibilities of external auditors and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to NHS Fife and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management

Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.



Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

Financial sustainability



Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance



Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes



Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.

Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Best Value

Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services. Through our wider scope audit work, we consider the arrangements put in place by the Accountable Officer to meet these Best Value obligations.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an Audit Quality Framework.

The most recent audit quality report can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202223>

Independence

The Ethical Standards and ISA (UK) 260 require us to give NHS Fife full and fair disclosure of matters relating to our independence. In accordance with our profession's ethical guidance and further to our External Annual Plan, we note the following matter to bring to NHS Fife's attention:

An Azets employee's father is a senior employee at NHS Fife (and disclosed in the Remuneration Report). We confirm that we have implemented internal safeguards to ensure this employee has no involvement in our audit work and that no members of staff working on the audit discuss any aspects of the audit with them.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

In particular:

Non-audit services: There are no non-audit services provided to the Board.

Contingent fees: No contingent fee arrangements are in place for any services provided.

Gifts and hospitality: We have not identified any gifts or hospitality provided to, or received from, any member of the Board, senior management or staff.

Relationships: Other than the disclosure noted above, we have no other relationships with the Board, its directors, senior managers and affiliates, and we are

not aware of any former partners or staff being employed, or holding discussions in anticipation of employment, as a director, or in a senior management role covering financial, accounting or control related areas.

Our period of total uninterrupted appointment as at the end of 31 March 2024 was two years.

Audit services

Our 2023/24 audit fee was set at £229,930. This is a 6% increase on the prior year agreed audit fee (£216,850) and reflects the overall NHS sector inflationary increase of 6%. The key factors we took into account when setting our 2023/24 audit fee were:

- NHS Fife's challenging financial sustainability and financial management position which will increase the amount of work we require to perform around our wider scope areas.
- The continued increase in the complexity and volume of audit work required to carry out audits in line with the revised auditing standards (ISA 240 and ISA 315).
- Dealing with accounting queries which arise during the financial year, including PFI refinancing and the impact of IFRS16 implementation on PFI arrangements (identified as significant risk areas).

Appendix 2: Audit differences identified during the audit

We are required to inform the Board of any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit. Material misstatements which have been adjusted for are summarised in the table below.

Adjusted misstatements

Details of items corrected following discussions with management are as below.

No	Detail	Assets	Liabilities	Reserves	SoCNE
		Dr / (Cr) £'000	Dr / (Cr) £'000	Dr / (Cr) £'000	Dr / (Cr) £'000
1.	PFI IFRS 16 - transitional adjustments.		(26,986)	26,986	
2.	PFI IFRS 16-remeasurement of 2023/24 liability.		(1,921)		1,921
3	PFI Model miscalculation - transitional adjustments		(10,466)	10,466	
4	IJB – accounting for overspend position				Contributions to IJB- 3,891 Income for services commissioned by IJB- (3,891)
5	IJB- transfer of additional funding under risk share arrangement		(2,992)	2,992	
6	PFI VAT Payable Recognition		(2,638)	2,638	
	Net impact on (income)/expenditure				7,551

Net impact on net assets	(45,003)
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Unadjusted misstatements

We identified two exceptions during our audit which have remained uncorrected by management, as detailed below:

No	Detail	Assets	Liabilities	Reserves	SoCNE
		Dr / (Cr) £'000	Dr / (Cr) £'000	Dr / (Cr) £'000	Dr / (Cr) £'000
1.	Misclassification of costs between pay and non pay expenditure.				
	Staff Costs				(502)
	Expenditure				502
2.	PFI Model miscalculation-remeasurement of 2023/24 liability				
	Finance Costs				383
	PFI liability		(383)		
	Net impact on (income)/expenditure				383
	Net impact on net assets				(383)

Misclassification and disclosure changes

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by NHS Fife.

We identified a number of reclassification adjustments and some minor presentational issues in the accounts, and these have all been amended by management. Details of all disclosure changes amended by management following discussions are as below.

No	Detail
1.	Governance Statement- various minor disclosure points
2.	Staff Report- updates to correct sickness absence and exit packages
3.	Annual Report and Financial Statements- various minor disclosure points identified from completion of disclosure checklist
4.	IJB- additional narrative to support amounts recognised in notes 3 and 4
5.	RoU assets- update to the depreciation disclosures
6.	Remuneration Report- Updates to 2023/24 and 2022/23 Remuneration Report to reflect national consistency guidance issued by Audit Scotland and NHS Technical Accounting Group (TAG)
7.	Pension costs- updated to reflect SPPA recommended text for NHS Pension Scheme (Scotland) disclosure
8.	Losses and special payments- to reflect appropriate split between losses and special payments

Overall, we found the disclosed accounting policies, significant accounting estimates and the overall disclosures and presentation to be appropriate.

Appendix 3: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our 2023/24 audit.

The recommendations are categorised into three risk ratings:

Key:

- 1. Significant deficiency**
- 2. Other deficiency**
- 3. Other observation**

1. Accounts Production Process	Other deficiency
<p>Observation</p>	<p>As part of undertaking our audit we experienced a number of difficulties in reconciling the disclosures made in the financial statements with the supporting information provided, most significantly within the income and expenditure notes.</p> <p>These issues arose as a result of adjustments being required by the Board to ensure that the nature of the transactions held within the Trial Balance were included within the appropriate financial accounts mapping. This therefore required some transactions and balances to be manually realigned for financial reporting purposes.</p> <p>However, this process was completed without a clear audit trail, resulting in additional work for the audit team to understand the adjustments made to ensure that the populations to be tested would provide sufficient appropriate audit assurance over the balances disclosed within the financial statements.</p> <p>Work completed to understand the adjustments made by management identified that the adjustments were to reallocate costs as a result of a mixture of historic mappings which were no longer correct and aligning transactions to overarching budgets. We concluded that the classification of transactions was materially correct, in line with the high level account coding, and no classification errors were identified as a result of our substantive testing. We did however identify a minor, £502k misclassification error between pay and non-pay costs, which remains unadjusted in the financial statements. This adjustment understates pay expenditure and overstates non pay expenditure, there is nil net impact on overall performance.</p>
<p>Implication</p>	<p>There is a risk that inappropriate adjustments are made to NHS Fife’s financial statements and these are not able to be detected through management’s usual control procedures.</p>
<p>Recommendation</p>	<p>1. We recommend that NHS Fife undertakes a review of general ledger account codes, and the</p>

1. Accounts Production Process	Other deficiency
	<p>associated mappings into the financial statements. This review should look to understand where all codes are mapping to, and where this is inappropriate, take necessary steps to ensure that transactions are appropriately recorded in the financial statements.</p> <p>2. Where management identifies that adjustments are required to the financial statements, these should be clearly documented and approved in line with standard adjustments to the financial statements, such as manual journals.</p>
<p>Management response</p>	<p>The year-end mapping required between the Trial Balance and the Financial Statements has been a process which has occurred consistently over a number of years. We will review this going forward and make the necessary arrangements for improvement as suggested by the auditor. We suggest that an early planning meeting with the auditor in advance of the 2024/25 audit process is arranged to ensure both parties are satisfied with any changes made.</p> <p>Responsible officer: Director of Finance & Strategy</p> <p>Implementation date: December 2024</p>

Appendix 4: Follow up of prior year recommendations

There were no recommendations raised as a result of the 2022-23 audit that require follow up in the current year.



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