



NHS Fife

Annual report on the 2013/14 audit

Prepared for the Board of NHS Fife and the
Auditor General for Scotland

July 2014



Contents

Key messages.....	1
Introduction.....	4
Financial statements.....	6
Financial position.....	9
Governance and accountability.....	13
Best value, use of resources and performance.....	19
Appendix I Summary of Audit Scotland reports 2013/14.....	23
Appendix II Significant audit risks.....	24
Appendix III Action plan.....	26

Key contacts

Gillian Woolman, Assistant Director

gwoolman@audit-scotland.gov.uk

Bruce Crosbie, Senior Audit Manager

bcrosbie@audit-scotland.gov.uk

Anne Marie Machan, Senior Auditor

amachan@audit-scotland.gov.uk

Audit Scotland
18 George Street
Edinburgh
EH2 2QU

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

Key messages

Financial statements

- Unqualified auditor's report on the 2013/14 consolidated annual accounts.
- Audited consolidated annual accounts submitted to Scottish Government by 30 June 2014.

Financial position

- All financial targets in 2013/14 met.
- Surplus of £0.3 million against total Revenue Resource Limit.
- Savings target of £16.2 million achieved, although only £11.2 million from recurrent sources against a target of £14.5 million.
- Financial management remains strong with a robust budget setting process in place.

Governance & accountability

- The Board had sound governance arrangements in place.
- The Board has an effective Internal Audit function and sound anti-fraud arrangements.
- Improved procedures for registering interests and hospitality are being considered.

Best Value, use of resources & performance

- The Board has a well developed framework in place for monitoring and reporting performance, although there is scope for improvement in reporting performance to the public.
- In 2013/14 the Board only met 44% of its HEAT targets.

Outlook

- A break even position in each of the next five financial years is forecast. This will only be achieved if a combination of efficiency savings and new or increased income are realised to bridge the funding gap.

Financial statements

We have given an unqualified audit opinion on the financial statements of NHS Fife for 2013/14.

The Board achieved all of its financial targets in 2013/14 and returned a surplus against its total Revenue Resource Limit of £0.3 million. The Board achieved its planned savings of £16.2 million, however only £11.2 million of the savings achieved were from recurrent sources against a target of £14.5 million. The Board did not request brokerage from the Scottish Government Health and Social Care Directorates (SGHSCD) and repaid £2.2 million which had been received in the previous two years.

Financial position

Overall, financial management remains strong with a robust budget setting process and challenge evident in agreeing and monitoring the financial position of the Board. Within this, however, the Acute Services Division has experienced significant overspends in recent years.

The Board's financial plan includes cost savings of £16.7 million for 2014/15, £15.5 million of which is planned from recurring sources. These savings include £6.0 million of cash releasing savings required to break even. The plan gives indicative savings requirements for 2015/16 to 2018/19, anticipating the need for cumulative savings of £70.4 million over the period including £23.8 million of cash releasing savings in order to break even.

The Board recognises the challenging operating environment. It

has good arrangements in place through the Project Management Office (PMO) to identify efficiency plans and to monitor progress to ensure the efficiencies are achieved.

In response to the Acute Services Division overspends, a financial recovery plan is being developed to try to manage this position more proactively. It is recognised that the delivery of the recovery plan may take up to two years.

Governance and accountability

Overall, the Board had sound governance arrangements in place in 2013/14. This was achieved despite a significant upheaval in Board membership following the introduction of the Health Boards (Membership) (Scotland) Regulations 2013. The Board also had an effective Internal Audit function and sound anti-fraud arrangements.

Internal Audit has recommended that the Clinical Governance Committee takes steps to finalise a robust Clinical Governance Strategy/Framework for approval by the Board.

NHS Fife also plans to review its Code of Corporate Governance to identify where enhancements can be made around the register of interests and gifts and hospitality. This is in response to issues noted during our audit relating to the use of inconsistent documentation and the completeness and availability of registers of interest and hospitality and gifts.

Best Value, use of resources and performance

The Board has a well established Best Value framework in place and a well developed framework for monitoring and reporting

performance. The Board Executive Performance Report, which is presented at each meeting of the Board, provides members with assurance of the overall performance of NHS Fife. There is scope for improvement in reporting performance to the public.

The Board's performance reports show that the Board is finding it challenging to meet its HEAT targets. In 2013/14 the Board met or exceeded only 44% of its HEAT targets. Targets which the Board failed to achieve include delayed discharges, staff sickness absence and the waiting time target for cancer treatment. The Board also failed to meet the 12 week Patient Treatment Time Guarantee.

Outlook

The Board is predicting a balanced budget position in each of the years from 2014/15 to 2018/19. However, this is dependent on the delivery of efficiency savings each year to compensate for the gap between available funding and the cost of services. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years.

The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. Achieving sustainability in the medium term will require innovation and vision to design and deliver the services needed to serve the future needs of citizens.

Based on recently updated NHSScotland Resource Allocation Committee (NRAC) projections, NHS Fife remains below 'parity' in regards to its NRAC funding, although, following NRAC remodelling, to a lesser degree than was previously assessed. This continues to present a challenge to the Board in achieving financial balance.

Health and social care integration is a key component of the Scottish Government's public sector reform. It is important that the Board, along with its partner Fife Council, work jointly and effectively to make integration a success.

Introduction

This report is a summary of our findings arising from the 2013/14 audit of NHS Fife. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.

Our responsibility, as the external auditor of NHS Fife, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The management of NHS Fife is responsible for:

- preparing financial statements which give a true and fair view
- implementing appropriate internal control systems
- putting in place proper arrangements for the conduct of its affairs
- ensuring that the financial position is soundly based.

This report is addressed to the Board and the Auditor General for Scotland and should form the basis of discussions with the Audit and Risk Committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.

This report will be published on our website after it has been

considered by the Board. The information in this report may be used for the Auditor General's annual overview of NHS financial performance. The overview report will be published and presented to the Public Audit Committee of the Scottish Parliament later this year.

A number of **local and national reports**, have been issued during the course of the year. These reports (**appendix I**) include recommendations for improvements. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of NHS Fife.

The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks, some of which involved a high degree of judgement by management, and some of which had the potential to have significant impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix II** sets out the **key audit risks** identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Appendix III is an **action plan** setting out the issues, risks and recommendations arising from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response".

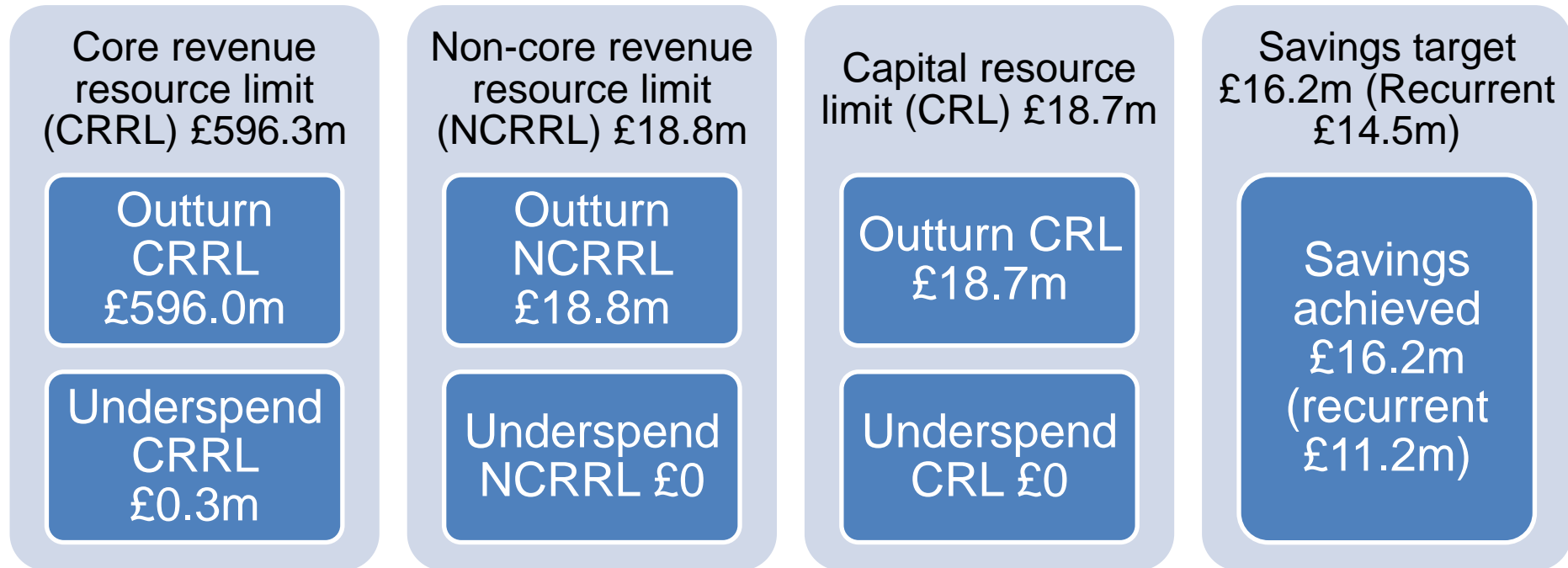
We recognise that not all risks can be eliminated or even

minimised. What is important is that NHS Fife understands its risks and has arrangements in place to manage these risks. The Board and Accountable Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures. Consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements



Audit opinion

We have given an unqualified opinion that the financial statements of NHS Fife for 2013/14 give a true and fair view of the state of its affairs and of its net operating cost for the year.

Other information published with the consolidated annual accounts

Auditors review and report on other information published with the

consolidated annual accounts, including the Operating and Financial Review, Governance Statement and the Remuneration Report. We have nothing to report in respect of these statements.

Regularity

The Public Finance and Accountability (Scotland) Act 2000 requires auditors to certify that, in all material respects, the expenditure and income shown in the accounts was incurred or applied in

accordance with relevant legislation and guidance issued by Scottish Ministers. We addressed the requirements of the Act through a range of procedures, including obtaining written assurances from the Accountable Officer. No issues require to be reported.

Accounting issues arising

A number of presentational issues were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements.

In addition, a small number of financial mis-statements were identified during the course of the audit which, if adjustments were made, would have a net effect of increasing operating costs for the year shown in the statement of consolidated comprehensive net expenditure by £0.2 million. The net impact on the consolidated balance sheet would be that net assets would decrease by the same amount. Management has chosen not to correct these mis-statements on the grounds that any adjustments would not be material to the financial statements.

The 2013/14 accounts manual required host boards to consolidate NHS endowment funds established by the National Health Service (Scotland) Act 1978, where material, into their financial statements. NHS Fife consolidated the endowment fund accounts. There were no issues arising from the consolidation process.

Report to those charged with governance

We presented to the Audit and Risk Committee, on 20 June 2014, our report to those charged with governance (ISA 260). The primary purpose of this report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. Key points raised in the ISA 260 are set out in the following paragraphs.

Equal pay

The National Health Service in Scotland has received around 5,900 claims for equal pay of which 302 relate to NHS Fife (517 2012/13). Such claims are referred to the NHS NSS Central Legal Office (CLO).

In common with other NHS boards, NHS Fife has not been able to quantify the extent of its liability for equal pay claims and has disclosed an unquantified contingent liability. There is a risk that as these claims progress they could have an impact on the Board's financial position (**Action plan no. 1**).

Pension costs

Following national guidance from the Scottish Government, Note 24 of the accounts: Pension Costs reflects the most recent actuarial valuation for the year 31 March 2004. A more recent actuarial valuation was carried out at 31 March 2008, but the publication of this valuation has been placed on hold by HM Treasury pending the outcome of public sector pension reforms. This therefore means there is uncertainty over future levels of employer and employee contribution rates. An updated actuarial

valuation has now been carried out and the results are expected to be published soon and reflected in the 2014/15 accounts.

Non current asset - valuation

An asset under construction, with construction costs of £5.348 million, became operational in March 2014. The capital accounting manual indicates that any new assets should be revalued before the end of the financial year in which it is created. NHS Fife's practice is to arrange valuations to be undertaken in the quarter after an asset becomes operational and once all final costs are known. As this practice is not in accordance with the requirements of the capital accounting manual there is a risk that the asset value is incorrect, in particular that it is overvalued in the consolidated financial statements as at 31 March 2014. The Director of Finance has advised us that once received, were the asset valuation to show a downward revaluation, the SGHSCD would issue a revised Revenue Resource Limit to match that impairment, thus neutralising any impact on the achievement of the financial target.

Outlook

The financial statements of the Board are prepared in accordance with the Government financial reporting manual (the FReM). The main new standards to be adopted in 2014/15 are:

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosures of interests in other entities

Compliance with FReM is mandatory, however the impact of the adoption of the new standards is unlikely to be significant to the financial statements of NHS Fife.

Financial position

NHS Fife is required to work within the resource limits and cash requirement set by the SGHSCD. The final Revenue Resource Limit (RRL) and Capital Resource Limit (CRL) were agreed with the SGHSCD on 25 April 2014.

The Board achieved all of its financial targets in 2013/14. During the year, concern was noted on whether NHS Fife would achieve its RRL financial target. The December 2013 financial monitoring return reported a 2013/14 outturn position ranging from an 'optimistic forecast' of break even to a 'pessimistic forecast' of a £3.6 million overspend (with a 'realistic forecast' of a £1.7 million overspend). However, with continued financial vigilance, the break even target was met and the Board achieved a cumulative surplus of £0.3 million against a budgeted break even for its core RRL in 2013/14.

Total efficiency savings of £16.2 million were delivered in line with planned efficiencies for 2013/14. However £5.0 million of these were of a non recurring nature against a planned non recurring level of £1.7 million. £5.4 million of the efficiency savings were cash releasing savings which contributed to the Board achieving its break even target.

Throughout 2013/14, the Acute Services Division experienced the most significant overspends, totalling £7.9 million (4.6%) against its budget by the year end. This was offset by underspends elsewhere

including £4.1 million in Board Administration and Other Non-Clinical Services and £2.5 million due to slippage on earmarked commitments. Cost pressures, particularly in the Acute Services Division are stemming from medical agency costs, nursing staff costs (including bank nursing costs) and additional supply costs associated with increased levels of activity.

NHS Fife did not request brokerage from the SGHSCD in 2013/14 and repaid £2.2 million received in the previous two years.

Capital expenditure and investment

The Board spent a total of £20.8 million on capital projects during 2013/14. £18.7 million was funded from its total CRL and the remainder was funded from capital receipts. The Board reported an underspend of £5k against its CRL.

Financial sustainability

The Board's Local Delivery Plan (LDP) for 2014/15 aligns strategic priorities with financial plans, workforce plans and asset plans. The Board's financial planning arrangements include regular monitoring, reporting and updating of financial information and the corporate risk register to ensure that focus is maintained on financial performance and that action is taken on any emerging issues. Financial information is reported to the Board and the Finance and Resources Committee on alternate months and provides a summary of the financial position at the end of each month, including the position for each of the delivery units such as the

Acute Services Division and each of the Community Health Partnerships. Information is also provided on efficiency savings achieved against the targets set.

The Board's five year financial plan for the period 2014/15 to 2018/19 indicates a break even position in each of the five years. The plan assumes annual efficiency savings ranging between £16.7 million and £18.1 million in each of the 5 years, totalling £87.1 million over the five year period. Break even in each of the years is dependent on achieving cash releasing savings of £6.0 million in 2014/15, £8.7 million in 2015/16, £10.9 million in 2016/17 and £2 million in 2017/18 and 2018/19.

The anticipated base uplift is 2.7% for 2014/15 and 1.8% thereafter. NHS Fife will receive an additional uplift of 0.75% in 2014/15 and 0.40% in 2015/16 from the National Resource Allocation (NRAC) formulae allocations.

Based on the financial position for the first two months of 2014/15 the Board has identified £4.0 million of efficiency savings out of the £16.7 million target, leaving £12.7 million still to be identified. The Board has good arrangements in place through the Project Management Office (PMO) to identify efficiency plans and to monitor progress to ensure the efficiencies are achieved and is confident that it will be able to identify the further savings required during 2014/15. There remains a risk however, that the efficiency savings are not achieved.

The Acute Services Division has experienced significant overspends in recent years, including £5.3 million in 2012/13 and

£7.9 million in 2013/14. In response a financial recovery plan is being developed to try to manage its financial position more proactively. The Board has recognised that the delivery of the plan may take up to two years.

The achievement of savings targets remains a challenge for NHS Fife, particularly as a result of the significant overspends experienced in recent years. Expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage (**Action plan no. 2**).

Workforce management

The workforce agenda is one of the key challenges currently facing the Board. The Board's risk register highlights a risk relating to its ability to recruit medical staff, noting emergency medicine as a particular concern. Medical recruitment issues are not unique to NHS Fife, and similar to other boards, this can create risks around service delivery and increased budgetary pressures arising from the need to use medical locums to cover vacancies.

NHS Fife is increasingly using agency/bank staff to provide flexibility and temporary cover for vacancies and staff absence (a 19% increase in costs compared with 2012/13). However, these arrangements have contributed to the significant overspend in the Acute Services Division and continued reliance on such staff could significantly impact on the Board's ability to achieve the savings required for long term financial sustainability (**Action plan no. 3**).

The national sickness absence target of 4% remains a challenge for NHS Fife, as it does for all Scottish NHS boards. The NHS Fife absence rate peaked in January 2013 at 6.0% and consequently NHS Fife put additional measures in place to manage the level of sickness absence. Over the course of 2013 and 2014 the sickness absence figure has reduced, remaining in the main below 5%. The reported figure at April 2014 is 4.6% (**Action plan no. 4**).

In our 2012/13 Annual Report we commented on the low level of completed Knowledge and Skills Framework/Personal Development Plans (KSF/PDPs). The level of completed KSF/PDPs at 31 March 2013 was 45% against the Scottish Government expectation of 80% (based on a previous HEAT target). There has been some improvement over the last year, however, the overall completion rate is still well below the expected 80% level. As at 4 April 2014, 60% of KSF/PDPs had been completed. The 60% completion rate is an average, which includes completion rates of between 50% and 72% across different parts of NHS Fife. Internal Audit, through the departmental reviews, has also reported concerns over KSF/PDPs in five out of the seven reviews undertaken in 2013/14. One of the reviews noted 63% of staff did not have a completed KSF/PDP (**Action plan no. 5**).

There have been improvements in both the sickness absence level and the level of completed KSF/PDPs. However, workforce management challenges remain an issue for NHS Fife, which are exacerbated by medical recruitment issues. We will continue to monitor the workforce management arrangements within the Board.

Cost of pension provision

Following the advice of the Scottish Government, Note 24 in the consolidated annual accounts for 2013/14 on Pension Costs reflects the 2004 actuarial valuation. While there was a more recent actuarial valuation carried out at 31 March 2008, the publication of this valuation was postponed by HM Treasury pending the outcome of public sector pension reforms. Given that periodic actuarial valuations are key to determining the adequacy of employer and employee contributions to the scheme, publication of the latest actuarial valuation will bring clarity as to the adequacy of current contributions to meet the future commitments of the scheme. Future, potentially increased, contribution rates will need to be managed as part of the cost base.

Changes in pension legislation came into force in 2012 requiring that all eligible employees must be automatically enrolled into a workplace pension scheme.

PFI/PPP costs

NHS Fife has two PFI/PPP schemes: St Andrews Community Hospital and Victoria Hospital. The capital value of these contracts is £196.7 million. The future commitments related to these projects are disclosed in Note 23b of the consolidated annual accounts at £469.5 million, including interest payments of £285.9 million (net amount £183.6 million).

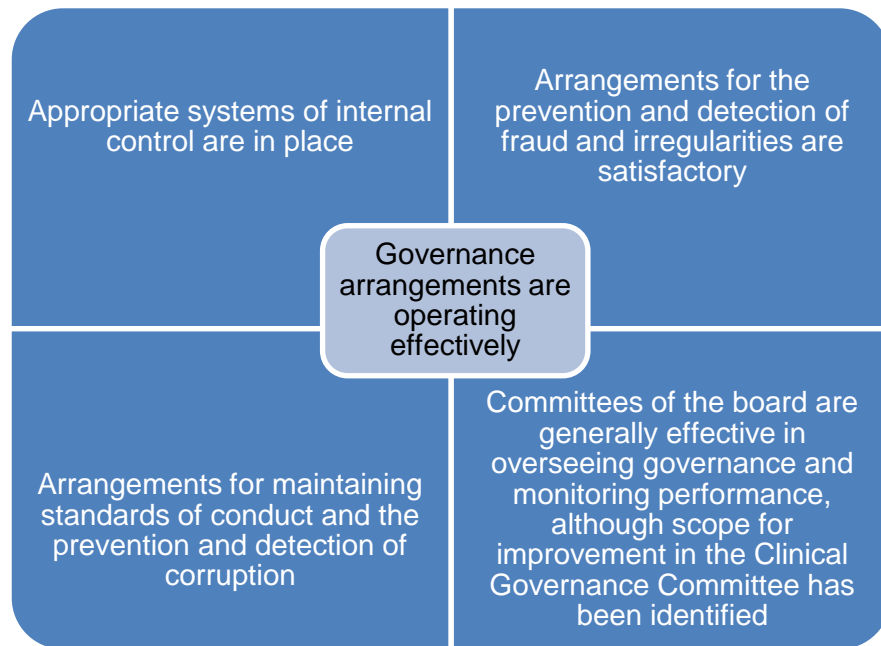
Outlook

The Board is predicting a balanced budget position in each of the years from 2014/15 to 2018/19. However, this is dependent on the delivery of efficiency savings each year to compensate for the gap between available funding from current sources and the cost of services. The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years.

The approved capital programme as detailed in the Local Delivery Plan (LDP) anticipates capital expenditure over the period 2014/15 to 2016/17 of £47.7 million, to be partly funded from £7.1 million of capital receipts and the remainder funded from CRL. The LDP notes a high risk around the ability to realise these receipts as there have been difficulties encountered in trying to sell identified assets. If it is not possible to sell all the identified assets there is a risk that NHS Fife will not be able to deliver all the necessary capital works as planned.

The updated NRAC position was published earlier this year and indicates that whilst NHS Fife is still £4.1 million below parity, this is a smaller gap than was assumed under the previous NRAC model (£12.2 million). This position places continuing pressure on the Board's ability to achieve financial balance.

Governance and accountability



The Board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHS Fife and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

The corporate governance framework within NHS Fife is centred on the Board which is supported by a number of standing committees.



Based on our observations and audit work, our overall conclusion is that the governance arrangements within NHS Fife are operating effectively.

The introduction of the Health Boards (Membership) (Scotland) Regulations 2013, changed the composition of the Board membership from 31 December 2013, resulting in all twelve elected board members being required to stand down. Temporary arrangements were approved by the Board in December 2013 to maintain the operation of the Board and its committees from 1 January 2014 pending the appointment of new members through the public appointment process. The temporary arrangements were challenging but were managed effectively. Four new Board members have been appointed with effect from 1 June 2014, with one vacancy due to be filled later this year. There is a risk that in

the short term the Board's governance arrangements may not be fully effective as the new members settle into their roles.

Internal Audit undertook a review of the Clinical Governance Committee during 2013/14 and assessed it as adequate, stating that improvements are required to enhance the adequacy and/or effectiveness of governance, reflecting their recommendations as priority 1 (significant matters relating to factors critical to the success of the organisation). Internal Audit concluded that there was an absence of a clear, formal conceptual framework for providing assurances on clinical governance and recommended that the Clinical Governance Committee considers this issue in detail and agrees and monitors a clear timetable for the finalisation of a robust Clinical Governance Strategy/Framework for approval by the Board. Internal Audit is planning a further review in this area during 2014/15.

Internal control

As part of our audit we reviewed the high level controls in NHS Fife's key systems that impact on the financial statements. This audit work covered the systems for payroll, trade payables, capital accounting, trade receivables, general ledger, family health services and banking and included a high level review of key controls to confirm they were still operating effectively. Additionally, we formally relied on Internal Audit's work on aspects of trade payables and family health services. Our overall conclusion was that the key controls within the Board's main financial systems

were operating satisfactorily during 2013/14.

Internal Audit

Internal audit provides the Board and the Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. In addition, in an effort to avoid duplication, we place reliance on Internal Audit work where appropriate. We are required by international auditing standards to make an assessment of Internal Audit to determine the extent to which we can place reliance on its work.

The review of Internal Audit was carried out in December 2013 and concluded that the Internal Audit service operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

ICT audit

We have reviewed the Board's arrangements for User Identity and Access Management (UIAM). The Board has an extensive and well designed information security management framework in place, supported by well developed policies and written procedures. However, we identified areas where there is scope for improvement in controls to ensure that users' access remains appropriate and in the oversight of users with wide-ranging access to information or powerful elevated privileges. An action plan has been agreed with management in response to the issues reported.

NHS Fife has recently taken part in the Your Business at Risk

(YB@R) information security awareness survey. YB@R is a web-based survey that helps bodies quickly assess procedural, cultural and ethical compliance risks that have the potential to undermine the effectiveness of their information governance policies. All ICT users were invited to participate in the survey to assess their awareness of security issues and their role in reducing risk to the organisation, however progress with the survey has been slow. 528 survey responses were completed from across all directorates, equating to 6% of the potential survey population. This is a disappointing response rate (the lowest response rate we have seen compared to other similar organisations where this survey has been used). We will provide a report and full results of the survey to management in due course.

Business continuity

Internal Audit undertook an audit on 'Data Management, Security and Business Continuity' during the year. Part of the audit considered the results of how NHS Fife was placed compared to the Independent Technical Assurance Review commissioned by the Scottish Government and NHS Greater Glasgow & Clyde after the business continuity incident that occurred at NHS Greater Glasgow & Clyde in October 2013. Internal Audit noted that NHS Fife did not comply in full with all aspects of five of the eight recommendations made in the report (but recognising that rationale was provided for non-completion). NHS Fife management have explained that they are awaiting the conclusion of negotiations on a national contract as part of their consideration to progress this

matter.

Arrangements for the prevention and detection of fraud

The Board's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

NHS Fife participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that NHS Fife has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI exercise. No instances of fraud or error were identified from the work undertaken.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

The arrangements for the prevention and detection of corruption in NHS Fife are in the main satisfactory. Similar to last year, we noted some weaknesses in our report on the Review of Governance Arrangements and Internal Controls 2013/14. These related to the inconsistent use of documentation to record declarations of interests and hospitality and gifts and the completeness and availability of registers of such declarations. NHS Fife, as well as

providing further advice to all departments on the correct processes to be followed, plan to review the Code of Corporate Governance to identify where enhancements to the processes can be made.

Patient safety

Healthcare Improvement Scotland (HIS), through their Healthcare Environment Inspectorate (HEI), carried out an announced cleanliness and safety inspection visits to the Cameron Hospital site in September 2013. Overall, HEI found evidence that NHS Fife is complying with the majority of the quality standards to protect patients, staff and visitors from the risk of acquiring an infection. Two requirements and two recommendations were noted and an improvement action plan was prepared to implement improvements.

Care of older people

An announced inspection of care for older people at Victoria Hospital was carried out in 2013/14 by HIS. The inspection identified two areas of strength and 15 areas for improvement. An improvement action plan was drawn up to ensure corrective actions are taken. Internal Audit noted in the Annual Internal Audit Report that the terms of reference of the Clinical Governance Committee include the specific requirement 'to monitor the implementation of the recommendations from Health Improvement Scotland (HIS) reviews and visits'. Internal Audit noted that the Committee did receive regular updates on HIS activity throughout

the year, but the Committee has not monitored the implementation of actions arising from reports on the Care of Older People during 2013/14 (**Action Plan no. 6**).

Integration of adult health and social care

The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. The integration process will be complex and challenging and the Board, working jointly with Fife Council, are faced with a significant challenge to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose. This will require:

- The establishment of a local integrated partnership and related governance arrangements
- Integrated budgets for health and social care
- Joint responsibility for strategic and locality planning in the area served.

NHS Fife and Fife Council have operated a Health and Social Care partnership for many years and in response to the proposed legislation they established a Shadow Health and Social Care Joint Board in 2013 based on a 'Body Corporate' model. As part of this process Fife Council's Executive Director for Social Work and Lead for Health was appointed as the Interim Director of Health and Social Care Partnership in April 2013, reporting to the Chief Executives of both organisations. Recently, a permanent

appointment has been made into the post of the Fife Director of Health and Social Care Partnership. The new post holder takes up his appointment in September 2014 and will be responsible for continuing the work on integration.

Other recent integration developments include:

- The formation of a Transition Team from staff from across NHS Fife and Fife Council to support integration
- A risk register has been developed for the integration programme.

An indicative integrated revenue budget of £293.9 million (£151.3 million from the Board and £142.6 million from the council) has been identified based on the 2014/15 budgets for the services considered to be in scope. The indicative budget reflects only direct service costs at this stage, excluding overheads and support service costs. The budget is likely to be subject to further review as service integration evolves. Budget pressures are likely to pose a significant challenge for the new integrated partnership.

The Board and Fife Council have recognised that they may have to revisit integration decisions, dependent on the contents of guidance, which is expected to be finalised by the Scottish Government by December 2014. This is a very challenging agenda for public sector organisations.

Equality Act 2010

The Equality Act 2010 introduced a new public sector 'general duty'

which encourages equality to be mainstreamed into public bodies' core work. To allow the public to assess an organisation's performance on equality the Act requires publication of information on actions taken and the progress made to achieve equality outcomes. The Board must review its outcomes and publish a review by April 2015.

The stated purpose of the Board's Equality Report and Plan for 2013 - 2017 is to demonstrate how NHS Fife will deliver a long standing commitment to promote equality and eliminate discrimination. It explains that NHS Fife continues to build a constructive and engaging relationship with service users and the wider community. It also notes that service and employee outcomes have been developed with the involvement of people with one or more of the nine protected characteristics which make up equality and diversity.

In terms of equality legislation, the Board is required to publish information about its equality outcomes, the actions taken by the Board and the progress made to achieve them. This is to enable the public to assess the organisation's performance on equality. Consequently, the Board must publish a report on the progress made no later than 30 April 2015.

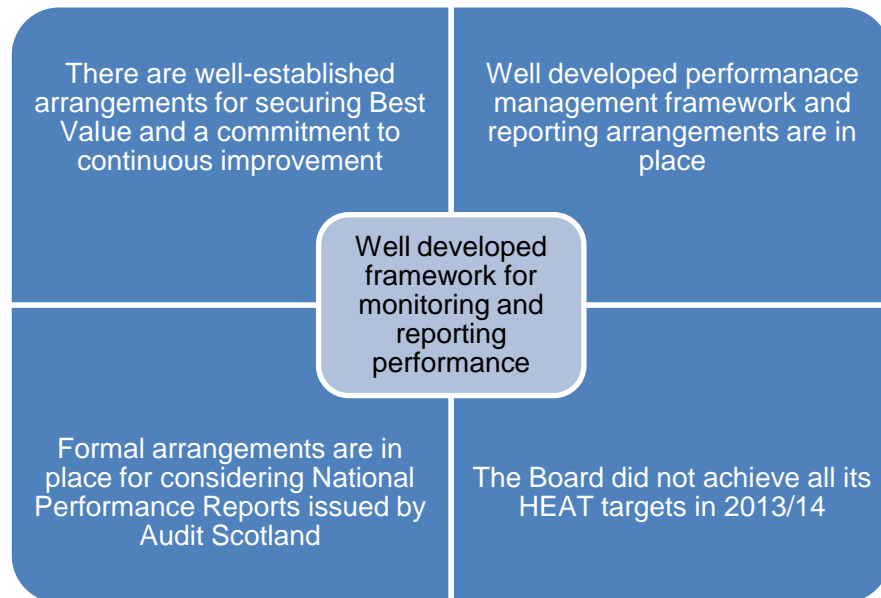
A steering group chaired by a non-executive Board member, with members of the public and the Equalities and Diversity Strategy Group will monitor progress in achieving these outcomes on a regular basis. An annual update report to the Board is planned for August 2014 with a final report to be produced in April 2017.

Outlook

Integration of health and social care is a complex and challenging process. The Scottish Government has commenced work on the Regulations relating to the Act and the underpinning statutory guidance. This work will not be completed until late 2014. When a final set of regulations is produced, the Scottish Government will consult with partnerships before they are introduced to Parliament.

The lead-in time for integration is gradually reducing thereby adding further pressure on the Board and Fife Council to deliver. Health and social care integration will be implemented from 1 April 2015 while full integration arrangements must be in place by 1 April 2016. There is a risk that integration arrangements may not be fully developed by the required timescales (**Action plan no. 7**).

Best Value, use of resources and performance



Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

Arrangements for securing Best Value

The Board is committed to the principles of Best Value and continuous improvement. In their 2013/14 annual report, Internal audit noted that the Board continues to maintain a Best Value

Framework and assessed the Board's arrangements as category A (which is considered to represent best practice).

The Board's framework provides the basis for assurance on the seven themes of Best Value and includes a self assessment process where each standing committee of the Board prepares an Annual Statement of Assurance on the achievement of Best Value during the year. These statements were considered by the Audit and Risk Committee prior to approving the 2013/14 consolidated annual accounts. We consider the arrangements to be appropriate and sufficient.

We will continue to monitor the board's arrangements for demonstrating its commitment to Best Value and continuous improvement.

A key element of Audit Scotland's approach to the audit of best value is the use of audit toolkits which cover the fundamental principles of best value. As agreed with management, we applied a best value toolkit on public performance reporting (PPR) as part of our planned audit work for 2013/14. The toolkit focussed on a series of questions based on identified best practice in three main areas:

- The extent to which the Board's culture and practices promote effective and stakeholder focused PPR
- The extent to which the Board can demonstrate that it has arrangements in place to meet statutory requirements and guidance and support effective PPR
- The extent to which public performance reports provide good

quality information for effective public accountability.

Overall, we assessed that NHS Fife's public performance reporting arrangements fall within the 'basic practices' category (standards are sufficient to allow the organisation to demonstrate sound performance). However we noted that there is scope for improvements to the PPR arrangements to enable stakeholders easier access to performance information, including better signposts to online performance information through the Board's website. We have encouraged management to develop an action plan to address the areas for improvement.

Performance management

The Board has a well-developed Performance Management Framework in place. A key component of the Board's performance management and reporting framework is the Board Executive Performance Report (BEPR) which is presented at each board meeting. The purpose of the BEPR is to provide assurance to the Board on overall performance against its key performance targets i.e. HEAT targets and standards set by the Scottish Government and local priority targets. The BEPR focuses on key aspects of performance - financial position, balanced scorecard and performance summary - and includes narrative explaining trends in performance as well as improvement actions.

In addition, prior to consideration by the Board, the Strategic Management Team receive reports showing performance against monthly LDP trajectories to enable progress to be monitored.

For the first time in December 2013, the Board held a 'Person-Centredness' session which brings together key performance information in the form of a 'Health check' summary and includes a patient and staff story. Key performance information in the 'Health check' includes: activity levels; mortality rates; reported incidents; achievement against key targets such as the 4 hour emergency access target; the 4 Cs (comments, concerns, complaints and compliments); staff sickness and patient experience feedback results. This is a good source of summarised performance information forming part of the Board papers at each Board meeting. It is intended that it will provide an early alert mechanism to potential emerging issues.

We are satisfied that appropriate performance management arrangements were in place within NHS Fife for 2013/14.

National performance audit reports

The Board has developed a framework for considering Audit Scotland's national reports. All national reports are considered and action plans prepared where considered appropriate. Progress against the action plans is reported on a bi-annual basis to the Strategic Management Team and a summary report is presented to the Audit and Risk Committee, most recently in May 2014.

NHS Fife plans to develop action plans in response to Reshaping care for older people (February 2014) and Scotland's public sector workforce (March 2014).

A summary of national performance audit reports is included in

appendix I.

Management of patients on NHS waiting lists

Audit Scotland carried out a review of waiting times across the health service in Scotland following reported misuse of patient unavailability codes at NHS Lothian. The review recognised the need for independent assurance on the management of waiting times to restore public confidence in the system.

A follow up review was published in December 2013. The review found that the trend of reducing use of unavailability codes noted in the original report continued during 2012 and 2013. The review also noted that boards were improving controls and audit trails in the systems used to manage waiting lists. In particular, there is a stronger focus on how boards record and monitor the reasons for patient unavailability.

NHS Fife plans to develop an action plan in response to this report.

Overview of performance targets in 2013/14

The final 2013/14 BEPR presented to the Board in April 2014 showed that the Board had achieved all its local targets. It also showed, however, that the Board was less successful in achieving the national HEAT targets with 13 of the 23 targets (56%) not being met (including 3 which although not met, were 'within tolerable standards'). Targets which were not met include: delayed discharges (no patients waiting more than 4 weeks in delay when medically ready for discharge to a more appropriate care setting but

is prevented from doing so); staff sickness absence target (4.82% against a standard of 4% although showing an improving position); and the standard to treat 95% of patients urgently referred with a suspicion of cancer within 62 days. NHS Fife also failed to meet the 12 week patients' treatment time guarantee.

Delayed discharge

The BEPR shows that performance against the delayed discharges target can vary from month to month, with the lowest number of patients in delay reported as 52 at November 2013. The March 2014 position showed 79 patients in delay. Figures for May 2014 show a worsening position, with 96 patients in delay. The May 2014 BEPR explained that the vast majority of delays are due to waiting for the completion of pre-assessment and assessment of home care and residential care and the commissioning of packages of care.

Staff sickness absence

As noted in the workforce management section above, sickness absence performance continues to be a challenge for the Board. However absence rates have been improving over the course of 2013 and 2014 with the figure for April 2014 reported as reducing further to 4.57%.

Cancer treatment waiting time

Performance against the cancer waiting time standard (95% of patients starting treatment within 62 days) has deteriorated slightly from 91.1%, reported at the end of 2013, to 90.2% in June 2014. The factors noted as affecting performance against this standard

include managing the treatment of cancer patients at the same time as the competing priority of the treatment time guarantee and the poor response to the effort to recruit, posing a challenge to the capacity moving forward.

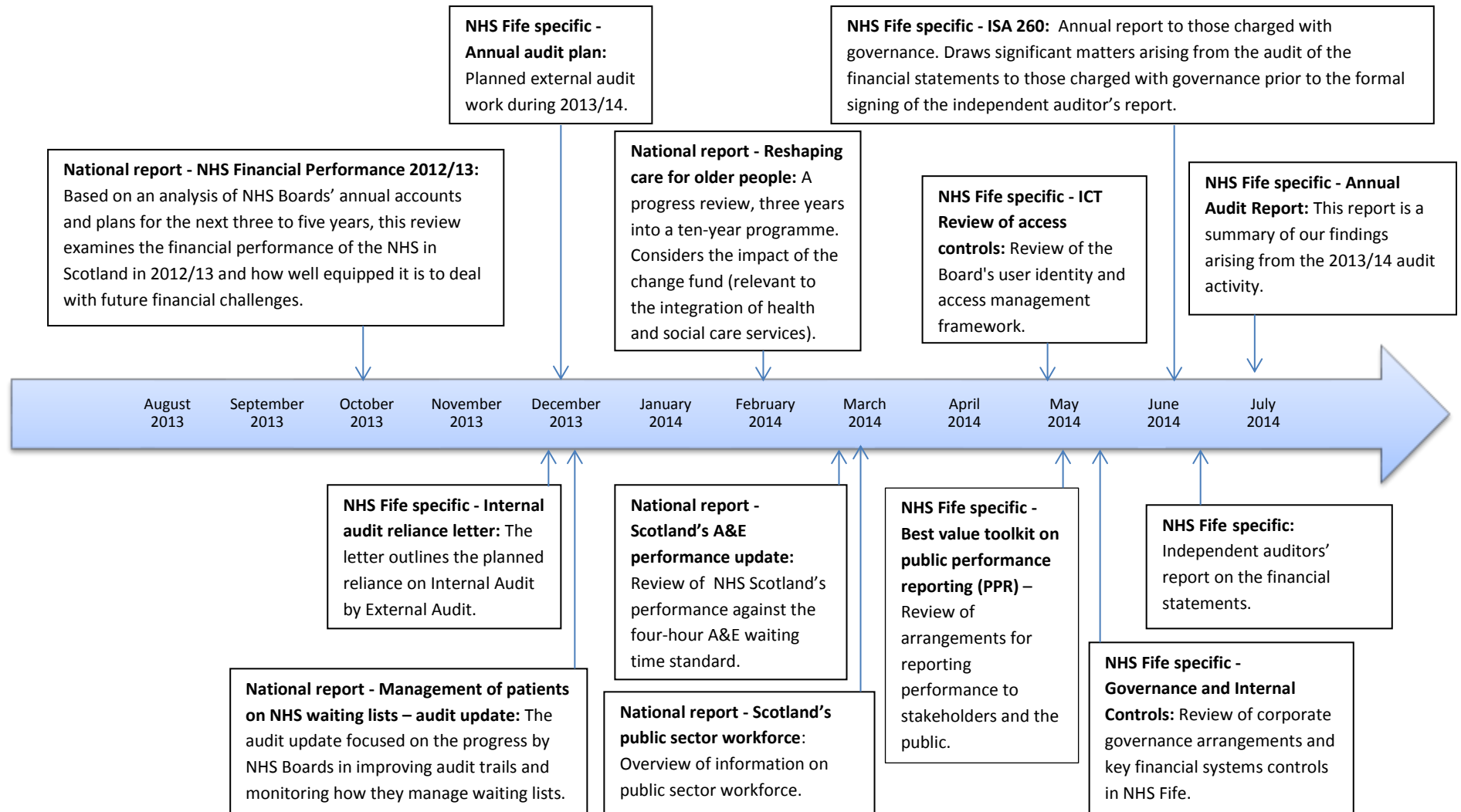
Treatment time guarantee

The Patients Rights (Scotland) Act 2012 introduced a statutory 12 week treatment time guarantee for eligible patients. This became effective from 1 October 2012. Over the course of the year, performance against this target has improved. 3 breaches were reported in February 2014 and March 2014, and local management information indicates that there was 1 breach in April 2014.

Outlook

In common with other NHS boards, NHS Fife faces unprecedented demand for increased and improved services arising from changing demographics, lifestyles, health inequalities and increasing public expectations, while at the same time it faces cost pressures from the availability of new drugs, treatments and technologies and the impact of health service specific inflation. It will be a continuing challenge for the Board to respond to these demands, including consideration of service redesign to improve quality, while also making services more efficient and sustainable (**Action plan no. 8**).

Appendix I –Summary of Audit Scotland reports 2013/14



Appendix II: Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
Failure to meet financial targets.	Funding allocations agreed to the Scottish Government final allocation letter dated 25 April 2014.
	Audit testing, on a sample basis, confirmed that items of expenditure and income were valid and correctly classified between revenue and capital.
	The capital to revenue transfer for backlog maintenance agreed to final allocation letter and to supporting evidence.
The endowment fund accounts are not properly accounted for.	Agreed the disclosures against the accounting requirements.
	Confirmed the disclosed endowment balances to the Endowment Fund Accounts.
	We undertook procedures to assure ourselves that we could place reliance on the work of the Endowment Fund external auditor.
	The external auditors of NHS Fife's Endowment Funds issued an unqualified audit opinion which was reported to the Audit and Risk Committee on 20 June 2014. The Endowment Funds Accounts were subsequently approved by the board on 24 June 2014.
Equal pay liabilities have a significant impact on the Board's financial position.	Agreed the disclosures against the accounting requirements. The Board has included an unquantified contingent liability in its accounts.

Audit Risk	Assurance procedure
	Confirmed the number of cases to CLO correspondence. The number of claims have reduced from 517 in 2012/13 to 302 in 2013/14.
Staffing challenges caused by high sickness absence and low levels of completed KSF/PDPs impact on service delivery and quality of patient care.	Obtained information from management on measures put in place to manage the risk.
	Monitored performance throughout the year.
Standards of conduct and arrangements for the prevention and detection of corruption are not fully adhered to.	Undertook follow up work to assess compliance with the arrangements.
The Board's risk management arrangements are not fully effective.	Monitored developments throughout the year.
	Obtained assurances from Internal Audit's reports (B11/14 and B15/13 and the Annual Internal Audit Report 2013/14).
The effectiveness of the Board's governance arrangements are undermined during the transition period prior to the appointment of new Board members.	Monitored developments throughout the year.
	Obtained assurances from Internal Audit's Annual Report 2013/14.
Information access and security protocols are not fully adhered to.	Our review of access controls revealed that the Board has an extensive and well designed information security management framework in place.
The Health and Social Care Integration model does not achieve its goals and outcomes.	Monitored development throughout the year through a review of the Fife Health & Social Care Shadow Joint Board reports presented to the NHS Fife Board.

Appendix III – Action plan

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/7	<p>Equal pay</p> <p>NHS Fife, in common with other NHS bodies, has not been able to quantify the extent of its liability for compensation in respect of equal pay claims.</p> <p>Risk</p> <p>Settlement of equal pay claims could have a significant impact on the Board's future financial position.</p> <p>Recommendation</p> <p>The Board should continue to work with the CLO to establish its potential exposure to successful claims for compensation payments.</p>	<p>Agreed</p> <p>The Finance and HR departments are working together to gather information requested by CLO to take this matter forward.</p>	Directors of Finance and HR.	In line with target dates set by CLO for various returns.

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
2/10	<p>Financial sustainability</p> <p>The Board faces a wide range of financial challenges, including being able to deliver its planned efficiency savings and its financial recovery plan for the Acute Services Division. £12.7 million of the 2014/15 savings target (£16.7 million) has not yet been identified.</p> <p>Risk</p> <p>The longer term financial plan remains at risk of not being affordable and is a significant challenge to the Board moving forward. Whilst the Board is confident that it will be able to identify the further savings required for 2014/15, there remains a risk that the required efficiency savings will not be achieved.</p> <p>Recommendation</p> <p>The Board should ensure that formal plans are produced covering all the required savings for 2014/15.</p>	<p>Agreed</p> <p>The risk of recognising and then delivering the required level of savings is clearly noted in all savings schemes. The level of risk is recoded and monitored through the PMO to ensure that sufficient savings are identified in total.</p>	<p>Assistant Director of Finance - Management Accounting for recording but all managers for delivery.</p>	<p>On going through out the year but to be delivered by 31 March 2015.</p>

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
3/10	<p>Agency workers</p> <p>The spending on agency/bank staff increased significantly (19%) in 2013/14. Whilst the use of such staff provides flexibility to the care system and provides temporary cover for vacancies and staff absence, it is important that controls are in place and that trend and patterns are managed and monitored closely.</p> <p>Risk</p> <p>Continued reliance on agency workers to this extent could have a significant impact on the board's plans to achieve the savings required for longer term sustainability.</p> <p>Recommendation</p> <p>The board should continue to monitor the cost of agency staff and manage the requirement with a view to reducing their cost.</p>	<p>Agreed</p> <p>The use of bank staff within nursing and the use of Agencies for Medical staffing is being closely scrutinised.</p> <p>Generic adverts have been placed to attempt to fill both Medical and Nursing posts on a permanent basis to reduce the usage of bank and agency staff.</p> <p>Fife is also working with other Boards to look at new ways of filling posts across the region and for the joint academic appointments for medical staff.</p>	<p>Various managers supported by HR colleagues depending on where vacancies lie.</p>	<p>Ongoing.</p>

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
4/11	<p>Sickness absence</p> <p>Although the Board has reduced its sickness absence in 2013/14 to 4.82% it is finding it difficult to achieve the national target of 4%.</p> <p>Risk</p> <p>A high sickness absence level will impact on the Board's ability to achieve its financial and non – financial performance targets and could adversely impact on safe and efficient service delivery.</p> <p>Recommendation</p> <p>The effectiveness of the measures introduced to reduce absence levels should be assessed to ensure they are appropriate and can deliver the necessary reductions.</p>	<p>Agreed</p> <p>Every effort is made to reduce sickness absence levels across the whole system with specific additional effort going into the areas with the highest levels.</p>	<p>All managers are responsible for managing sickness levels through use of the HR policies.</p>	<p>Ongoing.</p>

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
5/11	<p>KSF/PDPs</p> <p>The level of completed KSF/PDPs at 31 March 2013 remains low at 45%. Although this had increased to 60% by April 2014, the completion level is still well below the Scottish Government expectation of 80%.</p> <p>Risk</p> <p>The skills and knowledge of staff may not be adequately developed, which may impact adversely on their effectiveness and ultimately on patient safety.</p> <p>Recommendation</p> <p>Steps should be taken to improve the take up of KSF/PDPs by the Board's staff.</p>	<p>Agreed</p> <p>All managers will continue to be reminded to ensure that they arrange for the completion of KSF/PDP's for staff within their areas of responsibility.</p>	<p>Director of Organisational Development will issue regular reminders.</p>	<p>March 2015 for improved performance.</p>

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
6/16	<p>Care of older people (Victoria Hospital)</p> <p>Although the Clinical Governance Committee received regular updates on HIS activity throughout the year, the Committee did not monitor the implementation of actions arising from the report on the Care of Older People at Victoria Hospital during 2013/14.</p> <p>Risk</p> <p>Improvement actions may not be implemented as agreed, resulting in continuing weaknesses in the Hospital's care provision.</p> <p>Recommendation</p> <p>Progress against the agreed improvement action plan should be monitored by the Clinical Governance Committee.</p>	<p>Agreed.</p> <p>Future HIS reports will be taken to the CGC as a matter of routine and extant action plans are going to the Q2 meeting of the CGC with an update on progress.</p>	Director of Nursing.	September 2014.

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
7/18	<p>Health and social care integration</p> <p>The integration of health and social care services in Scotland requires to be implemented from 1 April 2015. The associated regulations and statutory guidance being prepared by the Scottish Government are not expected until late 2014.</p> <p>Risk</p> <p>There is the risk that the Board and Fife Council will not be fully prepared for the integration of health and social care from 1 April 2015. This could adversely impact on the effectiveness of service delivery.</p> <p>Recommendation</p> <p>The Board should continue to work closely with Fife Council in preparation for the significant reform of health and social care services.</p>	<p>Agreed</p> <p>Numerous staff are currently involved in various workstreams, Committees and working groups to ensure that all required actions are being worked on to reach the outcomes required for various stages in the move to the Integrated partnership.</p>	<p>Ultimately the Chief Executive but supported by all the SMT responsible for aspects of work.</p>	<p>Different dates for different pieces of work in line with Local and National timescales.</p>

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
8/22	<p>HEAT performance targets</p> <p>The board did not achieve all its HEAT performance targets in 2013/14.</p> <p>Risk</p> <p>In a climate of reducing funding and competing priorities, performance targets may not be achieved and sustained.</p> <p>Recommendation</p> <p>The Board should monitor investments in new initiatives aimed at improving performance and determine whether specific areas / specialities require more detailed scrutiny or additional actions to be taken.</p>	<p>Agreed</p> <p>The Strategic Management Team review all the HEAT targets on a monthly basis to look at actions required to bring about improvements. This is reported on at every Board meeting with remedial actions for improvement discussed.</p>	<p>Ultimately the Chief Executive.</p>	<p>Ongoing.</p>