



NHS Fife

2014/15 Audit

Annual audit report for the
Board of NHS Fife and
the Auditor General for
Scotland

June 2015

The Auditor General for Scotland appoints external auditors to NHS bodies in Scotland.
(www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Auditor General has appointed Gillian Woolman as the external auditor of NHS Fife for the period 2011/12 to 2015/16.

This report has been prepared for the use of NHS Fife and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the health board. The information in this report may be used for Audit Scotland's annual overview report on the NHS in Scotland published on its website and presented to the Public Audit Committee of the Scottish Parliament.

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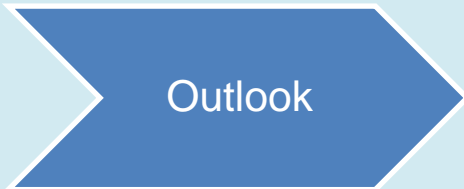
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Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified independent auditor's report on the 2014/15 financial statements.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• Despite consistent forecasts of a revenue overspend throughout the year, all financial targets in 2014/15 were met.• A surplus of £0.2 million was achieved against the Core Revenue Resource Limit (CRRL). A major factor in achieving the surplus was the acceleration of £1.5m additional 2015/16 National Resource Allocation Committee (NRAC) funding from the Scottish Government as well as funding from the national New Medicines Fund. This additional funding was received late in the year.• Total savings of £17.3 million were achieved (£9.9 million on a recurrent basis).• The board has sound financial management arrangements.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• The board has well-established governance arrangements in place.• Systems of internal control operated effectively during 2014/15.• The board has an effective internal audit function and robust anti-fraud arrangements.• A chief officer and senior management team has been appointed to oversee health and social care integration.

 <p>Best Value</p>	<ul style="list-style-type: none">• The board has well-developed arrangements for securing best value and continuous improvement.• The board has a well developed performance management framework in place.• The Board receives regular updates on performance and the improvement actions being taken.• Not all targets and standards were achieved in 2014/15. There was a general deterioration in performance in comparison to the previous year.
 <p>Outlook</p>	<ul style="list-style-type: none">• The board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less, at the same time as having to make major changes to service delivery such as the Scottish Government's 2020 Vision and health and social care integration and achieve challenging performance targets and standards. Achieving sustainability will require innovation and vision to design and deliver the services needed to serve the future needs of citizens.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of NHS Fife. The report is divided into sections which reflect our public sector audit model.
2. 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.
3. Our responsibility, as the external auditor of NHS Fife, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of 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 should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. 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.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

<p>Audit opinion</p>	<ul style="list-style-type: none"> We have completed our audit and issued an unqualified opinion that the financial statements of NHS Fife for 2014/15 give a true and fair view of the state of its affairs and of its net operating cost for the year.
<p>Regularity of income and expenditure</p>	<ul style="list-style-type: none"> In our opinion, in all material respects the expenditure and income in the financial statements was incurred or applied in accordance with relevant legislation and guidance.
<p>Other information</p>	<ul style="list-style-type: none"> We review and report on other information published with the financial statements, including the Management Commentary, Governance Statement and Remuneration Report. We have nothing to report in respect of these statements.
<p>Consolidation template</p>	<ul style="list-style-type: none"> The board's consolidation template has been audited to confirm that the figures are consistent with the audited financial statements. The template and accompanying assurance statement will be submitted to the Scottish Government by 30 June 2015.

Submission of financial statements for audit

9. We received the unaudited financial statements on 1 May 2015, in accordance with the agreed timetable. The working papers were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit to deadline.
10. Finance staff have made a number of significant improvements to the accounts notably the exclusion of Scottish Financial Returns (SFRs) and the removal of superfluous information (e.g. large numbers of rows and columns containing zeroes). This is consistent with the good practice note issued by Audit Scotland in its publication Improving the quality of NHS annual report and accounts (December 2014).

Overview of the scope of the audit of the financial statements

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Risk Committee on 18 December 2014.
12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

13. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law or a transaction with a value which could change the surplus into a deficit).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit work. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of NHS Fife we set our planning materiality for 2014/15 at £6.9 million (1% of gross expenditure). Performance materiality was calculated at £4.1 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level. We report all misstatements greater than £70,000.
18. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

Evaluation of misstatements

19. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The monetary adjustments did not impact on the reported 2014/15 underspend.

Significant findings from the audit

20. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
 - Significant difficulties encountered during the audit
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management
 - Written representations requested by the auditor
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
21. During the course of the audit we identified two significant issues that, in our view, require to be communicated to you. These are noted in the table below.

Significant findings from the audit

Issue	Resolution
<p>Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) provision: Following an Audit Scotland review of consolidated accounting for CNORIS at Scottish Government (SG) level, guidance was issued to NHS boards by the SG confirming a change in the accounting treatment of CNORIS. The main change was that each board was required to create an additional provision in 2014/15 representing their share of the total liability of NHS Scotland in respect of CNORIS. Also, to ensure consistency of accounting treatment, NHS boards were asked to make equivalent adjustments to prior year figures in the accounts in order to comply with <i>International Accounting Standard (IAS 8): Accounting Policies, Changes in Accounting Estimates and Errors</i>.</p>	<p>A CNORIS provision of £20.2 million was included in the 2014/15 accounts representing the board's share of the total liability of NHS Scotland as at 31 March 2015. The board correctly processed opening balance and retrospective adjustments in line with IAS 8 and as advised by the Scottish Government. The board has received Annually Managed Expenditure (AME) funding to cover the accounting changes so that there is no impact on the board's outturn position.</p>
<p>Equal Pay: In previous years, we commented that the board, on advice from the Central Legal Office (CLO), was not able to provide any financial quantification of equal pay claims. Consequently, equal pay claims were disclosed as an unquantified contingent liability in the accounts.</p> <p>We note that there have been developments in 2014/15 including the offer for settlement in relation to certain claims. Based on this new information, and advice received from the CLO, the Director of Finance of NHS Scotland has advised that equal pay claims should now be included as a provision in the accounts of NHS boards. NHS Fife has been advised of the estimated value of the provision.</p>	<p>The provisions note in the board's accounts includes an amount in respect of the board's estimated liability arising from equal pay claims and the board have followed appropriate guidance.</p>

Future accounting and auditing developments

Revisions to the financial reporting manual

22. The financial statements of the board are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:
- The adoption of IFRS 13 Fair value measurement.
 - Restructuring the annual report and accounts.
23. **(IFRS) 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. The 2015/16 FReM requires surplus assets to be measured at fair value in accordance with IFRS 13. The board will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.
24. **Restructuring of the annual report and accounts:** the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:
- a performance report which will give a fair, balanced and understandable analysis of the board's performance and

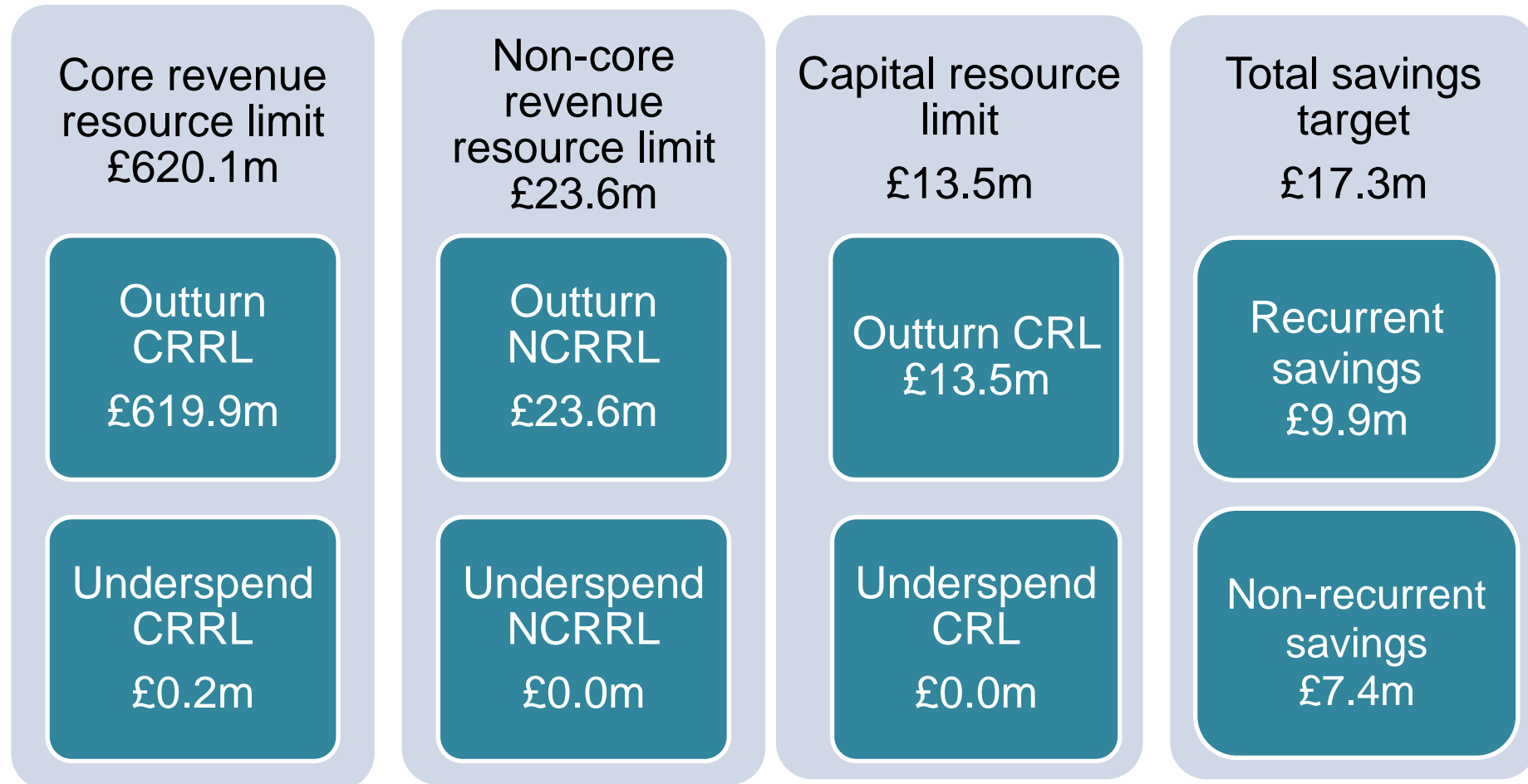
will include an overview section and a performance analysis section.

- an accountability report incorporating the following three main sections:
 - corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
 - remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
 - parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.

Health and Social Care Integration

25. Integration Joint Boards (IJBs) will be accountable for overseeing the provision of functions within the scope of health and social care integration on, or before, 1 April 2016.
26. IJBs will be required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the UK.

Financial management and sustainability



Financial management

27. In this section we comment on NHS Fife's financial outcomes and assess the board's financial management arrangements.
28. Budget funding is agreed with the Scottish Government Health and Social Care Directorates (SGHSCD). It is a statutory requirement for the board to ensure expenditure is within the Revenue Resource Limit (RRL) and Capital Resource Limit (CRL) set by the SGHSCD. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

29. Health boards are required to work within the resource limits and cash requirements set by the SGHSCD. The board's final RRL (£620.1million) and CRL (£23.6 million) were agreed with the SGHSCD on 29 April 2015.
30. The board achieved all of its financial targets in 2014/15. It delivered total efficiency savings of £17.3 million, £0.6 million in excess of its £16.7 million target.
31. The board had originally budgeted to break-even against its Revenue Resource Limit in 2014/15, but as the year progressed the board began to forecast that this may not be achieved. However, after a challenging year, an underspend of £0.2 million was subsequently achieved, mainly due to additional revenue allocations from the SGHSCD. The additional allocations included: the acceleration of £1.5 million of 2015/16 NRAC funding into 2014/15; £1.6 million from the national new medicines fund; and £0.9 million as an SGHSCD approved transfer of an underspend on the non-core RRL (non-cash) into core RRL (cash).
32. Budget pressures for the board included pressures from the Acute Services Division which reported a year end overspend of £10.6 million (2013/14 £7.9 million), mainly due to staffing cost e.g. medical locums and nurse bank cost and costs associated with additional surge capacity. This represents 5.9% of its budgeted expenditure in this area. The overspend was offset, in the main, by underspending on board administration and other services (£3.3 million), non-Fife and other service providers service level agreements (£1.5 million) and unused corporately held flexibility/savings (£5.7 million).

Action plan, point 1

33. Budget pressures were exacerbated by the board incurring a shortfall of £2.3 million in its cash releasing savings against a target of £6.0 million for 2014/15.
34. Of the £17.3 million of efficiency savings achieved in 2014/15, £9.9 million was on a recurring basis, and £7.4 million on a non-recurring basis. The level of non-recurring savings, combined with the £2.3 million shortfall in 2014/15 cash releasing savings creates greater budgetary pressures for 2015/16 and beyond.

Capital expenditure 2014/15

35. A budget of £14.1 million was set for 2014/15. This was to be funded by a CRL allocation of £13.5 million from the SGHSCD and £0.6 million of capital receipts.
36. The board fully utilised its CRL allocation in 2014/15, mainly on investment in the ongoing General Hospital and Maternity Services project (£5.7 million), further small building schemes (£2.5 million), new and replacement medical equipment (£2.9 million) and eHealth (£1.3 million).
37. Due to circumstances outwith the board's control an asset sale fell through resulting in a shortfall of £0.5 million in capital receipts. This meant that some adjustments to the planned capital programme were required.

Financial management arrangements

38. As auditors, we need to consider whether health bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - the Director of Finance has sufficient status to be able to deliver good financial management
 - standing financial instructions are comprehensive, current and promoted within the board
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders

- monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
39. We reviewed the board's standing financial instructions, which are updated annually, and concluded that they are comprehensive and current. The board's standing financial instructions are also available to all staff on NHS Fife's intranet.
 40. Financial monitoring reports (both revenue and capital) are submitted to all meetings of both the Board and the Finance and Resources Committee. Reports are comprehensive and transparent and contain service performance information at board and delivery unit level. More detailed monthly financial monitoring reports are provided to budget holders.
 41. As auditors we attend a number of Board and committee meetings each year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.
 42. As mentioned previously, the board experienced significant budgetary challenges in 2014/15, forecasting for much of the year, the possibility of a revenue overspend at year end. This position was reported to Board members as part of the regular meeting schedule. In addition two special Finance and Resources Committee meetings were convened to ensure members were informed of the budgetary pressures and the possibility of an overspend at the year end.

Conclusion on financial management

43. We have concluded that the board has sound financial management arrangements that support the review and scrutiny of financial performance. Nevertheless, without the receipt of late additional funding, the board would not have been able to meet its RRL breakeven target.

Financial sustainability

44. Financial sustainability is concerned with whether the board has the capacity to meet the current and future healthcare needs of the communities it serves. In assessing financial sustainability we consider the board's financial performance, financial planning, capital programmes and asset management and workforce management.

Financial planning

45. The board is required to prepare a Local Delivery Plan (LDP) each year which aligns strategic priorities with financial plans, workforce plans and asset plans. The LDP recognises that the vast majority of resources are already committed on a recurring basis before the start of each year and there is limited flexibility available to the board.
46. The board's five year plan for the period 2015/16 to 2019/20 is a key element of the LDP. The plan has been compiled to reflect a break-even position in each of the five years. The plan also recognises the significant cost pressures facing the board going forward,

notably staff pay costs, the growing costs of drugs and other new technologies and rising pension costs. Also, there is a rising demand for services due to demographic changes. All these pressures exacerbate a tightening financial position.

47. While facing significant cost pressures the board will also have to deal with reduced funding, in real terms, over the period of the five-year plan. The basic funding uplift for 2015/6 is 1.8%, although an additional funding uplift of 1.4% has been made available. The majority of this funding is to cover the integration fund, new drugs, and delayed discharges as well as providing NRAC parity for the board going forward. In each subsequent year the funding uplift is assumed to be a flat rate of 1.8%.
48. Savings will therefore play a significant part in maintaining financial balance over the five year period. The 3% Scottish Government efficiency savings target for the board, as set out in the LDP for 2015/16 is £17.3 million, of which £10.3 million is planned on a recurring basis with the balance of £7 million coming from non-recurring sources. £8.5 million of efficiency savings have been reported by the board for 2015/16, with detailed plans in place to achieve these, and work ongoing to identify schemes to deliver the remaining £8.8 million.
49. The efficiency savings position in 2015/16 is challenging, made more so with the requirement to achieve £10.1 million of cash releasing savings, as part of the overall efficiency target of £17.3 million, in order to break-even at the end of 2015/16. For the draft LDP, £5.4 million of the £10.1 million cash releasing savings was

reported as identified, with 80% being assessed as high risk. However, due to the high level of unidentified savings schemes and high level of risk associated with the delivery of the schemes, the SGHSCD advised that greater certainty around the delivery of the efficiency savings was required before the 2015/16 LDP could be approved.

50. The board was advised of the SGHSCD concerns and a revised position in terms of identified cash releasing savings in April 2015. The revision saw cash releasing savings of £8.3 million of the £10.1 million requirement being identified, with 50% considered to be 'high risk', a significant improvement on the previous position. The Board approved the re-submission of the LDP financial framework to the SGHSCD.
51. The five year plan for the period 2015/16 to 2019/20 estimates that minimum efficiency savings of 3% will be required on a recurring basis over the period. This equates to £89.7 million of saving for the five years, £32.7 million of which requires to be cash releasing. The realisation of these savings will become progressively more challenging year on year with many of the 'easier' savings having already been achieved.

Action plan, point 2

Workforce Management

52. Workforce planning is integral to the board's strategic planning process and is a key element of the LDP. The availability of staff is an important factor in the board's capacity to provide patient care.

NHS Fife has an ageing workforce, most significantly in nursing specialities, which places pressure on workforce activity across the board.

53. Spending on non-core staff costs (i.e. bank, agency, and locum staff) in 2014/15 was £8.3 million compared to £4.9 million in 2013/14 (an increase of 69.3%). This increase has resulted from increased consultant vacancies, vacancies created by the board's Nursing Workforce Review and increased sickness absence. The use of bank, agency and locum staff, provides flexibility to cover for vacancies and staff absence. However, continued reliance on such staff, and their payment at premium rates, is likely to have a significant impact on the board's plans to achieve the savings required for longer term sustainability.
54. NHS Fife like many health boards is finding it difficult to recruit and retain staff, faced with competition from the larger health boards. Audit Scotland in its report *NHS in Scotland 2013/14 (October 2014)* highlighted that NHS Fife had a consultancy vacancy rate of 13.3% at 31 March 2014 (across all areas) which was amongst the highest of any territorial board. The consultant vacancy rate has deteriorated since Audit Scotland's report with a vacancy rate of 20.9% being reported at June 2015. The vacancy rate should reduce towards the end of 2015 and into 2016 as appointments have been made to 44% of the vacant positions.

Action plan, point 3

55. Similar to other boards, as well as having difficulty in attracting and retaining staff to the acute services, there are increasing problems

in sustaining primary care services due to difficulties in recruiting GPs. General practice is not seen by many newly qualified doctors as an attractive career option while at the same time there is an ageing GP workforce.

56. As with other health boards, NHS Fife is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence. At the end of March 2015 the average annual sickness absence rate was 5.28% compared to 4.83% the previous year. The rate was above 5% for seven consecutive months during 2014/15, with the rate exceeding 6% in January 2015. The high sickness absence rate is one of the factors contributing to the increasing agency costs.

Action plan, point 4

57. Despite continued efforts to increase the level of staff completing Knowledge and Skills Framework/Personal Development Plans (KSF/PDPs), NHS Fife continues to experience deteriorating performance in this area. As at 10 April 2015 the level of completed KSF/PDPs was recorded as 47%, against the Scottish Government expectation of 80% (based on a previous HEAT target), a fall of 13% compared to the previous year rate of 60%.

Action plan, point 5

Cost of pension provision

58. The UK Government has been pursuing a programme of reform of public service pensions across the UK, including in Scotland. As a

result, new Career Average public service pension schemes have been created from 1 April 2015.

59. A revaluation of the pension scheme was carried out using pension scheme data as at 31 March 2012. This new valuation is being used to set a new employer contribution rate payable from 1 April 2015 to 31 March 2019. The new rate will be 14.9% of pensionable pay, compared to the rate of 13.5% which has been paid since 1 April 2009. The impact on employer's costs in 2015/16 has been quantified in NHS Fife at approximately £3.8 million recurring and has been reflected in the board's 2015/16 financial plan.
60. The valuation also establishes a new employer cap that will apply from the next valuation, which will take place in 2017. This is required by the Public Service Pensions Act and is designed to enable future changes in cost above a certain threshold to be controlled by providing backstop protection for the taxpayer by ensuring that the risks associated with provision are shared with scheme members.
61. The employer contribution cost cap for the NHS pension scheme for Scotland is 11.5% of pensionable pay.

Public Finance Initiative (PFI) / Public Private Partnerships (PPP) costs

62. NHS Fife has two PFI/PPP projects, St Andrew's Community Hospital and Victoria Hospital (phase 3), which are disclosed in Note 23(b) of the accounts. The capital costs of these projects are included in the balance sheet with a combined value of £205 million.

The associated recurrent cost of these schemes is £24.6 million with a total future commitment recorded in the balance sheet of £453 million.

Conclusion on financial sustainability

63. Overall, we concluded that there is a risk to the board's financial sustainability position going forward, based on increasing cost pressures, tight funding settlements and the increasing level of cash releasing savings requirements forecast for the next five years.

Outlook

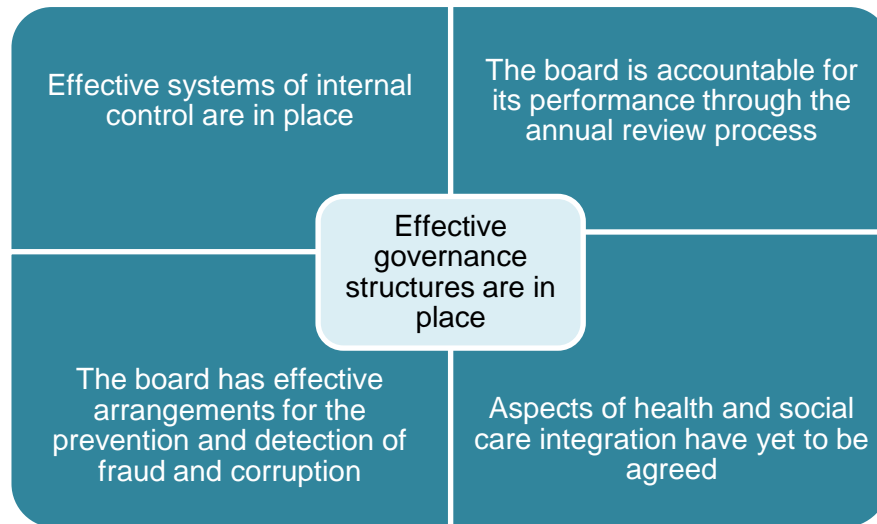
64. The board is predicting a balanced budget in each of the five years from 2015/16 to 2019/20. This is dependent on significant efficiency savings (including cash savings) each year to bridge the gap between available funding from current sources and the cost of services. Also, the board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less.

65. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years and this makes it more challenging for the board to deliver balanced budgets in future.

66. The board is also faced with significant challenges arising from increases to its cost base. From 2015/16 pension reform will increase employer contribution rates resulting in additional £3.8 million to be funded by the board on a recurring basis.

67. At the same time there will be increasing cost pressures from the introduction of new drugs and technologies, a rising wage bill, the cost of maintaining access targets and an increase in demand for services from an ageing population. Furthermore, healthcare inflation in the UK is higher than general inflation. Over the last 20 years, general inflation in the UK averages just 2% a year while health service costs rose by 3.6% a year.

Governance and transparency



- 68. 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 of these arrangements.
- 69. NHS Fife is managed by a Board of Executive and Non-Executive Directors and is accountable to the Scottish Government through the Cabinet Secretary for Health and Wellbeing. The board's Chair and Non-Executives are appointed by the Cabinet Secretary based on their skills and expertise and ability to contribute effectively to local strategic decision making processes.

- 70. The Board is responsible for the strategic leadership and governance of NHS Fife. It is supported in this role by a number of standing committees as illustrated below:



- 71. The standing committees meet on a regular basis throughout the year to consider relevant matters. Subject to the matter noted by Internal audit at paragraph 72 below, we concluded that overall, the board has effective overarching and supporting governance

arrangements which provide an appropriate framework for organisational decision making.

72. Internal audit findings in the 'Interim Evaluation of Internal Control Framework 2014/15'; resulted in eight recommendations in an action plan which covered aspects of the board's corporate governance arrangements. In their Annual Report for 2014/15, issued in June 2015, internal audit noted that only one of the recommendations had been implemented. Outstanding recommendations include: subsequent homologation of decisions at inquorate meetings; creation of an action plan following the Board's self assessment of effectiveness; and inclusion of Health and Social Care Integration on the Corporate Risk Register. Going forward, internal audit intend to monitor the implementation of the remaining recommendations.

Transparency

73. Local residents should be able to hold the board to account for the services it provides. Transparency means that residents have access to understandable, relevant and timely information about how the board is taking decisions and how it is using its resources.
74. The performance of all NHS boards is subject to an annual review process. The annual review aims to encourage dialogue and accountability between local communities and their Health Boards. The last annual review for NHS Fife was held on the 29 July 2014 and was attended by a Scottish Government Official (the Cabinet Secretary), the board's Depute Chief Executive and a Board team

led by the Chair. There was also an open session where members of the public could attend to ask questions of the Depute Chief Executive, Board Members and officials from the Scottish Government.

75. As part of the annual review process the Board meets with the local Area Partnership Forum, Area Clinical Forum and with patient representatives. The Cabinet Secretary acknowledged that these arrangements continue to work well in NHS Fife.
76. During 2014/15 we undertook a follow up review of our 2013/14 best value toolkit report on public performance reporting (PPR) to assess action taken in response to the report. In the original report we noted a number of areas where there was scope for improvement to the board's PPR arrangements. Our follow up showed that some progress had been made, but there remained scope for improvement in some areas. An action plan was agreed with management and once implemented will result in improved transparency for residents.
77. The areas for improvement in the main related to ensuring information on the website is kept up to date, including uploading the annual review documentation and providing clearer signposting to the board's performance information.
78. Members of the public can also attend meetings of the Board and standing committees and have access to Board and committee papers on the website. The Board and committee papers provide comprehensive information on all aspects of performance including financial, waiting times and access targets and measures being

taken to address them. However, we noted that some committee agendas and papers are not always available on the website and although standing committee meetings are open to the public, this is not overtly advertised as such on the website, and meeting venue details are not always provided.

79. We also noted in our 2014/15 Review of Governance Arrangements and Internal Controls report an ongoing website issue related to registers of interest and gifts and hospitality. We noted that current versions of registers of interest and gifts and hospitality were not available for the: Acute Services Division; Dunfermline & West Fife CHP; and Glenrothes & North East Fife CHP. It is important that up to date registers of interest and gifts and hospitality are available and easily accessible from the website. Management have agreed to address this issue in the action plan agreed as part of our 2014/15 report.
80. The board experienced significant budgetary challenges in 2014/15, forecasting for much of the year, the possibility of an overspend at year end. This position was reported throughout the year as part of regular reporting to the Board and the Finance and Resources Committee. These reports were all in the public domain.
81. Overall we have concluded that the board is open and transparent, although the website requires to be kept up to date to ensure that information is accessible and available in a timely manner.

Internal control

82. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain sufficient audit evidence to support our opinion on the board's financial statements.
83. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the board's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
84. We reported our findings to the Director of Finance on 25 May 2015 and the Audit Committee on 26 June 2015.

Internal audit

85. Internal audit provides the Board and Accountable Officer with independent assurance on the board's overall risk management, internal control and corporate governance processes. 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. To avoid duplication, we place reliance on internal audit work where possible.
86. Internal audit services are provided by FTF Audit and Management Services (FTF). Our review of FTF 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.

87. The internal audit plan for 2014/15 was largely complete. We were able to place formal reliance on aspects of internal audit work on the payroll, travel and subsistence, accounts receivable and cash and bank systems as planned.

Information and Communications Technology (ICT) audit

88. ICT is a key area of control because it underpins all systems used by the board. As part of our planning process we carried out a high level review to determine whether there is an adequate control framework to manage the computer service and the systems and infrastructure providing support to the user departments. Our review considered whether an eHealth Strategy was in place; whether organisational structures are in place that ensure corporate, departmental and local information needs are provided for; arrangements have been developed and agreed to ensure that prescribed levels of service agreed between purchaser and provider are delivered; and a network strategy has been prepared, reflecting local and wide-area requirements, addressing security, resilience and disaster recovery.
89. Overall, we concluded that NHS Fife has a well established eHealth service in place and is making good progress with the national eHealth strategy implementation. The recent restructuring within eHealth and planned refresh of service level agreements is necessary to support the increase in the level of reliance on eHealth services for the board's front line clinical service delivery. The eHealth board should ensure it continues to maintain

comprehensive representation and staff involvement thus helping to ensure that optimum benefit is realised from the investment in eHealth services that support new and different ways to deliver and maintain front line patient services.

Arrangements for the prevention and detection of fraud

90. We assessed the board's arrangements for the prevention and detection of fraud during the planning phase of our audit. This involved reviewing policies and procedures in a number of areas including whistleblowing and liaison with Counter Fraud Services (CFS).
91. We concluded that the board has put in place effective arrangements for the prevention and detection of fraud.

National Fraud Initiative in Scotland

92. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
93. Auditors are required to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

94. The National Fraud Initiative has sufficient profile within the board with data matches investigated and findings reported annually to the Audit and Risk Committee. There are no issues of concern that we require to include in this report.

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

95. The board has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for officers and members. Also, there are established procedures for preventing and detecting corruption including annual reviews of the Code of Corporate Governance which includes the Standing Financial Instructions.
96. Based on our review of the evidence we have concluded that the board has appropriate arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report, other than the issue noted previously regarding current versions of registers of interest not always being available on the board's website.

Vale of Leven Inquiry

97. The Vale of Leven Hospital Inquiry Report into the circumstances contributing to the high occurrence of *C.difficile* at the Vale of Leven Hospital (part of Greater Glasgow and Clyde Health Board) was published in November 2014. Following publication of the report

health boards were required to carry out a self-assessment of progress against the 65 recommendations directed at health boards.

98. In Fife, 46 of the recommendations (71%) have been fully implemented, a further 18 are either partially or mostly implemented (28%) and 1 recommendation has yet to be initiated (1%). Progress on the recommendation yet to be initiated is dependent on work to be progressed nationally.
99. Progress against the Vale of Leven action plan is monitored through the NHS Fife Quality Safety and Governance Group, the NHS Fife Infection Control Committee and the NHS Fife Clinical Governance Committee. NHS Fife will be providing an update to the Scottish Government in July 2015 advising them of its progress against the 65 recommendations.

Healthcare Improvement Scotland

100. Healthcare Improvement Scotland (HIS) also provides assurance to the board on the effectiveness of quality of service provision and infection control through the healthcare environment inspectorate (HEI) inspections.
101. In 2014/15 HIS carried out follow-up inspections of older people's services at the Victoria Hospital in June 2014, November 2014 and February 2015. HIS also carried out safety and cleanliness inspections at Glenrothes Hospital in April 2014 and Victoria Hospital on 2-3 December 2014 (with an unannounced re-visit on 11 December 2014).

- 102.** The earlier 2014/15 follow up inspections of older people's services at the Victoria Hospital revealed that some of the areas identified for improvement from previous inspections remained. However, in their most recent report on the February 2015 follow-up inspection (reported in April 2015), HIS noted that NHS Fife has made significant improvements following previous inspections but still had some work to do. The report identified nine areas of good practice and ten areas for improvement.
- 103.** At the safety and cleanliness inspection of Glenrothes Hospital, HIS found evidence that NHS Fife was complying with the majority of NHS Quality Improvement Scotland Healthcare Associated Infections (NHS QIS HAI) standards to protect patients, staff and visitors from the risk of acquiring an infection.
- 104.** The findings from the safety and cleanliness inspections at Victoria Hospital highlighted some serious concerns. Two unannounced inspections were carried out in December 2014 where HIS found that NHS Fife had varying compliance with the NHS QIS HAI standards to protect patients. HIS indicated that NHS Fife must address the areas for improvement as a matter of priority and that they would continue to inspect Victoria Hospital to ensure that improvements are made.
- 105.** Following the 2- 3 December inspection HIS escalated their concerns to senior management and requested that immediate action be taken to minimise the risk of infection. At their follow up visit on 11 December, HIS saw some areas of improvement, however serious issues with the cleanliness of patient equipment

and the environment remained. Due to the serious nature of the inspection findings, HIS escalated their concerns to the Scottish Government.

- 106.** NHS Fife has agreed action plans for each of the inspections and these are monitored by the Infection Control Committee and the Clinical Governance Committee.
- 107.** Following receipt of the findings from the December 2014 HIS inspections at Victoria Hospital, NHS Fife commenced a review on aspects of their governance arrangements relating to evaluating its arrangements for patient care. The board are concerned that the findings from the HIS inspections do not reflect NHS Fife's internal assessments of performance in relation to healthcare associated infections. This review is currently ongoing and we will monitor developments in this area.
- 108.** Overall, we have concluded that there is scope for improving the board's arrangements to help reduce healthcare associated infection risk to patients but note the ongoing work to seek improvement in these areas.

Health and Social Care Integration

- 109.** 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.
- 110.** The board and its local authority partner, Fife Council, agreed to adopt the Body Corporate model for the provision of integrated

health and social care across Fife. This will result in the delegation of functions to a new legal entity, an Integration Joint Board (IJB), which will be accountable for overseeing the provision of these functions.

- 111.** Within Fife the services to be managed by the IJB include services identified as 'in scope' by the regulations i.e. delegated adult social care, delegated primary and community healthcare services and additionally community children's service for health.
- 112.** Between April and June 2014 a joint inspection of services for older people in Fife was carried out by HIS and the Care Inspectorate, with a report being published in January 2015. The inspection included a review of the extent to which the board and Fife Council were prepared for health and social care integration.
- 113.** The report concluded that some of the building blocks to achieve better integration were being put in place, but the pace of change needed to be accelerated. The report also noted that the Fife Partnership had responded early and positively to develop an infrastructure for integration of health and social care. Senior managers and elected members were aware of the need for change and agreed about the direction of travel. While there were still significant amounts of work needed to see the Fife Partnership fully integrated, there was a strong base on which to build.
- 114.** A joint review of Health and Social Care Integration was also undertaken and reported in January 2015 by the Internal Audit services of both NHS Fife and Fife Council. The report assessed the process of integration as category B, broadly satisfactory (an adequate and effective system of risk management, control and governance, although minor weaknesses are present).
- 115.** The partnership has since submitted its draft integration scheme to the Scottish Government by the 31 March 2015 for review and approval. Comments have been received from the Scottish Government but at the time of writing, the draft integration scheme has not been approved by the Scottish Government and further work on the scheme has been requested before approval will be given. Work is currently ongoing to update the integration scheme to allow Scottish Government approval.
- 116.** A Shadow Integration Joint Board is currently in place and an initial high level draft Strategic Commissioning Plan is being prepared for its consideration. The Shadow Integration Joint Board will approve a timeline for the preparation of the formal Strategic Commissioning Plan and the engagement and consultation process with the aim of having a Strategic Commissioning Plan approved by the Integrated Joint Board around October/ November 2015, which will then enable services to be delegated to the IJB.
- 117.** The IJB Chief Officer, the Chief Financial Officer and 3 Divisional Managers posts have all been filled, with the new senior management team all in place by May 2015. The IJB senior management team will have a key role in driving change in the transitional year.
- 118.** In conclusion, the board, in partnership with Fife Council, has made good progress towards health and social care integration. There remains a risk that the full development of the Strategic

Commissioning Plan may be delayed and that the integration arrangements may not be fully in place by the statutory deadline date of 1 April 2016.

2020 Vision

119. The Scottish Government's vision is that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. The board is addressing this challenging agenda through a revised Strategic Framework.
120. In February 2015 the Board formally endorsed the adoption of a Strategic Framework which will provide a tool for the development of strategies going forward, with existing strategies and plans to be reviewed with a view to being incorporated into the new Strategic Framework.
121. In April 2015, the Board agreed that after approving the Strategic Framework, the next task was to define the board's strategic direction which would be articulated in the board's new Clinical Strategy. At the meeting, the Board approved the development of a new 'whole system' clinical strategy to replace the existing clinical strategy 'Right for Fife'; which had been in place since 2002. A paper was submitted to the meeting setting out the rationale for the whole system Clinical Strategy, outlining the key drivers for change that impact on clinical service delivery in community and acute hospital services. The development of the new clinical strategy is an important step in updating the strategic direction of the board and

will be reported to the Board through the Clinical Governance Committee.

122. In their February 2015 'Interim Evaluation of Internal Control Framework 2014/15' report, internal audit noted that the board had agreed that the draft Clinical Governance Strategy would be reviewed by Internal Audit as part of their 2014/15 programme and that the review would consider the linkages between the draft Clinical Governance Strategy, the Strategic Framework and the board's Quality Delivery Plan.
123. We note that this review has not yet been carried out by internal audit, however in their 2014/15 Annual Report, internal audit has reported that although the Board has received updates on the Strategic Framework, it has not received any workplan or indicative timescales for the completion of the various strands and similarly the paper on Clinical Strategy had no timescales attached.

Action plan, point 6

124. Health and social care integration is also a key part of the Scottish Government's strategy to enable people to live healthy lives in a community setting. This has its own particular challenges as outlined above.
125. In conclusion, the finalisation and clear articulation of NHS Fife's clinical direction is essential to ensure NHS Fife concentrates its resources on delivery of its key priorities. We will continue to monitor developments in this area.

Leadership

- 126.** Following changes in the Board membership as a consequence of the Health Boards (Membership) (Scotland) Regulations 2013, the Board operated with a reduced number of non executive members during 2014/15. Temporary arrangements were put in place to maintain the operation of the Board and its standing committees pending the appointment of the new members. Four new non executive members were appointed from June 2014 with a further 3 appointed from January 2015. The Board now has its full complement of non-executive members but it may take time for the new arrangements to bed in and for members to fully settle into their roles. We will continue to monitor and report on the operation of the Board and its standing committees in 2015/16.
- 127.** There have also been a number of significant changes within the board's strategic management team over the last year, including two changes at the Chief Executive level. We note that further changes are expected with the Director of Public Health and Director of Estates and Facilities leaving the organisation in the coming months. This will result in under half of the members of the strategic management team in place as at the start of 2014/15 being in place by the end of summer 2015.
- 128.** There is a risk that the remaining members of the strategic management team may not have continuity of knowledge to be able to deal with current and emerging pressures. This risk may increase during the current period of significant change stemming from preparing for Health and Social Care Integration and dealing

with increasing performance and financial pressures. We will continue to monitor developments in this area.

Risk Management

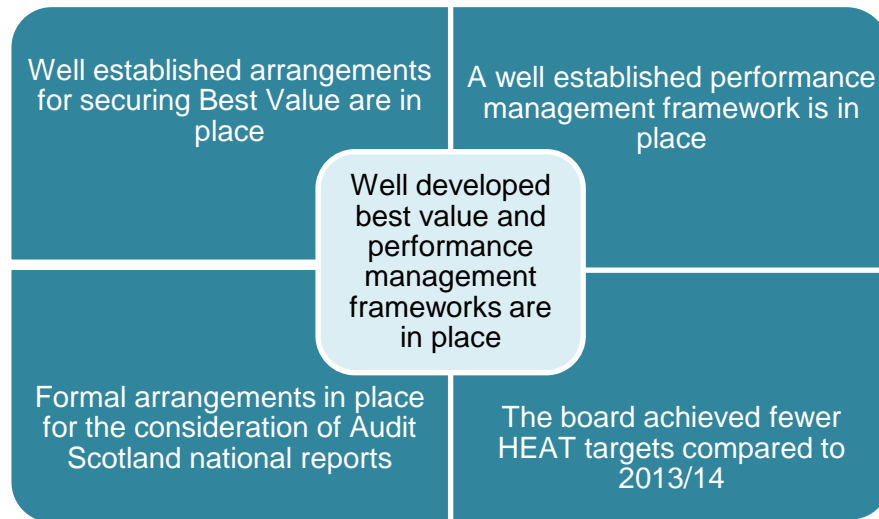
- 129.** NHS Fife's revised risk management framework was approved by the Board in August 2014. The executive lead for risk management changed in 2014/15, with the Director of Finance taking on responsibility for this role on an interim basis pending the appointment of a new Nursing Director. Following this, a work plan was developed to take forward key aspects of the risk management framework. The arrangements were subjected to review by internal audit in 2014/15 and reflected an improved assessment of the arrangements since 2013/14. Internal audit reported that the Audit and Risk Committee had received a 2015/16 risk management workplan, but highlighted the delay in taking forward some aspects of the risk management framework, particularly in relation to risk appetite and Board assurance.
- 130.** In their 'Interim Evaluation of Internal Control Framework 2014/15' report, internal audit included an agreed recommendation for the board to develop a suite of risk management key performance indicators (KPIs). This is one of the actions noted at paragraph 74 that has not yet been completed and will be monitored by internal audit.

Outlook

- 131.** Changes in Scotland's population mean that demands for health and social care will increase significantly over the next 20 years, at the same time that budgets are tightening. The NHS will not be able to continue to provide services in the way that it currently does, given the scale of changes required. It needs to do more to plan for how it will make the changes needed to provide sustainable care for the future.
- 132.** Increasing demand is already putting pressure on services. NHS boards need to better understand their demand, capacity and how patients move through the complex health and social care system so that they can match board capacity with current and future needs.
- 133.** NHS Fife has recognised the importance of redesigning the way that care is provided for patients, particularly in the context of changing demographics and increasing demand, and is part of their considerations in developing the new strategic framework and clinical strategy. This aims to ensure that services are provided in a way that provides sustainable care for the future and meet the Scottish Government's aim of having people living longer and healthier lives at home or a homely setting (i.e. the 2020 Vision).
- 134.** Health and social care integration is also an important element in supporting the delivery of the Scottish 2020 Vision. 2015/16 is a transitional year for health and social care integration. A lot of work still has to be done to ensure that the board and its council partner

are well placed to successfully deliver on this important strand of the Scottish Government's reform agenda.

Best Value



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

Arrangements for securing Best Value

136. The Board is committed to the principles of Best Value and continuous improvement. Internal Audit has reported that the board continues to maintain a Best Value Framework and has assessed the board's arrangements as category A (which is considered to represent best practice).
137. 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 are considered by the Audit and Risk Committee prior to approving the consolidated annual accounts. We consider the arrangements to be appropriate and sufficient.

138. Overall, we concluded that the board has well-developed arrangements for securing best value and continuous improvement.

Performance management

139. The performance of NHS Fife is monitored by the Scottish Government against a number of HEAT targets and standards which support the delivery of the Scottish Government's national performance framework. These targets and their trajectories are set out in the board's 2014/15 Local Delivery Plan (LDP).
140. Performance against HEAT targets and standards is presented to each meeting of the Board in the form of the Board Executive Performance Report (BEPR). These performance reports also include progress against local performance indicators and more detailed information on performance on waiting times. Furthermore, performance is discussed at the Annual Review meeting held between the Scottish Government and the Board.
141. A 'Person Centred' session is also presented at each Board meeting 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

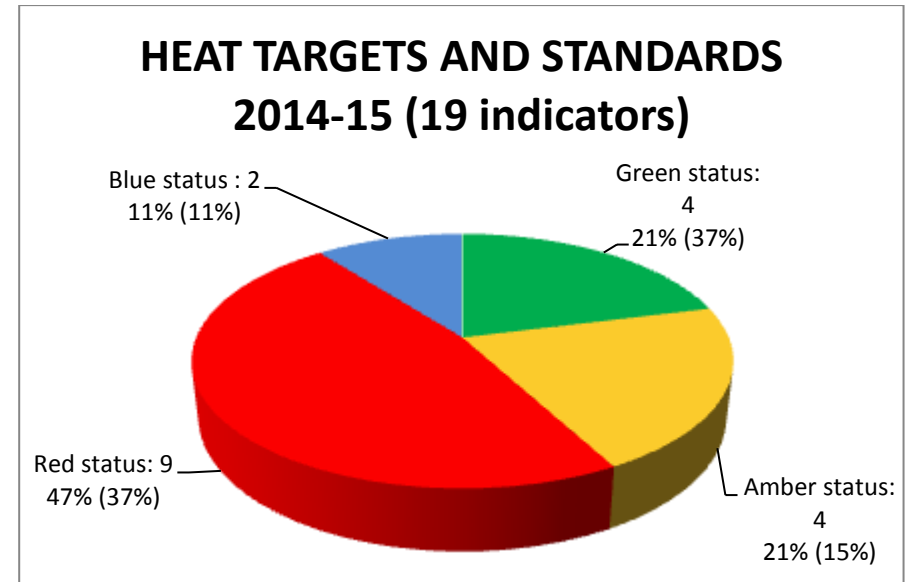
targets such as the 4 hour emergency access target; the 4 Cs (comments, concerns, complaints and compliments); staff sickness and patient experience feedback results. NHS Fife use this session to help the Board understand how its quality and safety performance manifests at the point-of-care. This is a good source of summarised performance information forming part of the Board papers at each Board meeting.

142. We concluded that the board had a well established performance management framework in place during 2014/15.

Overview of performance targets in 2014/15

143. The board’s performance against its 19 HEAT targets and standards is reported in the 2014/15 annual accounts. Reported performance, based on data available to the end of March 2015 (from the April 2015 BEPR) is summarised in the following diagram (2013/14 comparative figures for these indicators are in brackets). The indicator status descriptions are:

- Blue: target achieved early
- Green: on track or standard being maintained
- Amber: not on track, but within agreed tolerance levels
- Red: not on track and not within agreed tolerance levels or standard not being maintained.



144. Those HEAT standards and targets achieved early (blue status) by the board include the alcohol brief intervention target and the environment target. The HEAT standards on track or maintained (green status) include the antenatal access target, emergency bed days (age 75+) target, IVF treatment waiting times, and drug and alcohol waiting times.

145. The areas where performance is not on track, but within agreed tolerances (amber status) include: Healthcare Acquired Infection (HAI) which includes separate targets for Staphylococcus Aureus Bacteraemia and c-diff infections; detect cancer early target; dementia post-diagnosis support; and financial performance.

146. The nine targets not achieved (red status), include: smoking cessation; delayed discharge; sickness absence; A&E waiting times;

cancer waiting times; 18 Weeks RTT; CAMHS waiting times; psychological therapies waiting times; and the patient TTG target.

147. The board has found it more challenging to deliver against the HEAT targets in 2014/15 compared to 2013/14. and intends to identify measures to try to improve its performance. We will continue to monitor this area.

Action plan, point 7

Local performance audit reports

148. We undertook one local performance audit report in 2014/15, relating to a follow up review of Public Performance Reporting. The findings from this report are already reported at paragraphs 76-78.

National performance audit reports

149. Audit Scotland carries out a national performance audit programme on behalf of the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the Board. These are outlined in appendix III.
150. 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 2015. From our attendance at the Audit and Risk Committee we have concluded that the arrangements for considering national performance audit reports are consistent with good practice.

Outlook

151. Audit Scotland in its annual overview of the NHS in Scotland highlighted that there are increasing signs of pressure on NHS boards' ability to meet demanding performance targets. The strong focus, particularly in relation to waiting time targets, may not be sustainable when combined with the additional pressures of increasing demand related to demographic changes and the overall NHS budget starting to decrease in real terms.
152. The effort that NHS boards are putting in to meeting challenging financial and performance targets each year makes it more difficult for them to focus on the long-term planning required to achieve the 2020 Vision.

Appendix I – Significant audit risks

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

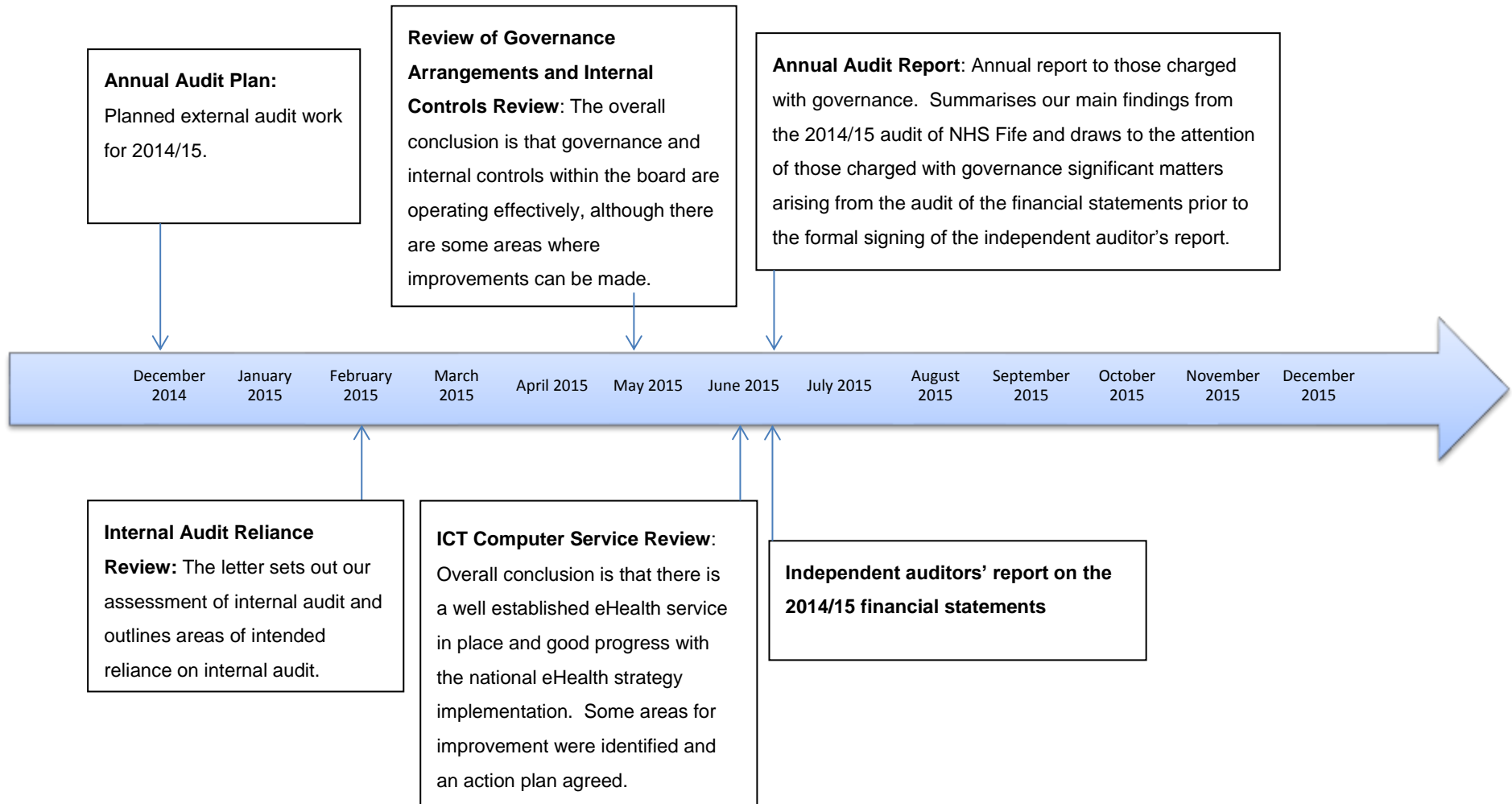
Audit Risk	Assurance procedure	Results and conclusions
Financial statements		
<p>Financial sustainability</p> <p>The board faces a wide range of financial challenges including achievement of break even by the year end and delivery of planned efficiency savings of £16.7 million. Key to the achievement of break even is the achievement of £6 million of cash releasing savings within the £16.7 million efficiency savings target and successful implementation of the financial recovery plan for the Acute Services Division. The November 2014 report to the Finance and Resources committee noted that the 2014/15 year end position could range from an optimistic position of an overspend of £0.9 million to a pessimistic position of a £7.6 million overspend.</p> <p>The board’s draft financial plan for 2015/16 indicates that cash releasing savings in excess of the 2014/15 level may be required to enable it to achieve breakeven.</p>	<ul style="list-style-type: none"> • Monitor updates to the financial plan. • Review financial monitoring reports to the Finance and Resources Committee and the Board. • Review monthly monitoring returns to SGHSCD. • Test a sample of transactions substantively before and after the year end to confirm expenditure and income has been accounted for in the correct financial year. 	<ul style="list-style-type: none"> • Monitored position throughout the year and reported findings and conclusions on financial sustainability within this report. • Substantively tested a sample of income and expenditure transactions. No issues to report.

Audit Risk	Assurance procedure	Results and conclusions
<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>	<ul style="list-style-type: none"> Review accounting treatment at year end. 	<ul style="list-style-type: none"> Equal pay liability now accounted for as provision in the 2014/15 annual accounts. No impact on the board's ability to achieve its financial targets.
<p>Related party disclosures</p> <p>We have previously noted that there is scope for improvements in the arrangements for recording and reviewing related parties' transactions and balances.</p>	<ul style="list-style-type: none"> Review arrangements for related parties disclosure as part of the financial statements audit. 	<ul style="list-style-type: none"> Reviewed arrangements but evidence of review not retained. Scope remains to improve the evidencing of the review of transactions for related parties.
<p>Income recognition</p> <p>Without due scrutiny of all accounting transactions, expected levels of income may be misstated.</p>	<ul style="list-style-type: none"> Review financial monitoring reports to the Finance and Resources Committee and the Board. Test a sample of transactions substantively to confirm income has been correctly accounted for. 	<ul style="list-style-type: none"> Reviewed the financial monitoring reports to the Finance & Resources Committee and the Board. Scrutiny is considered to be robust. Substantively tested a sample of income and expenditure transactions. No issues to report.
<p>Improving the quality of NHS Annual Report and Accounts</p> <p>The Financial Reporting Council has an initiative aimed at making annual accounts clearer, more concise, and more focused on ensuring annual accounts provide relevant information to the users of accounts. In response Audit</p>	<ul style="list-style-type: none"> Review NHS Fife's application of the guidance note as part of the 2014/15 financial 	<ul style="list-style-type: none"> Reviewed the annual accounts against the guidance. Significant improvements made to the presentation of the annual

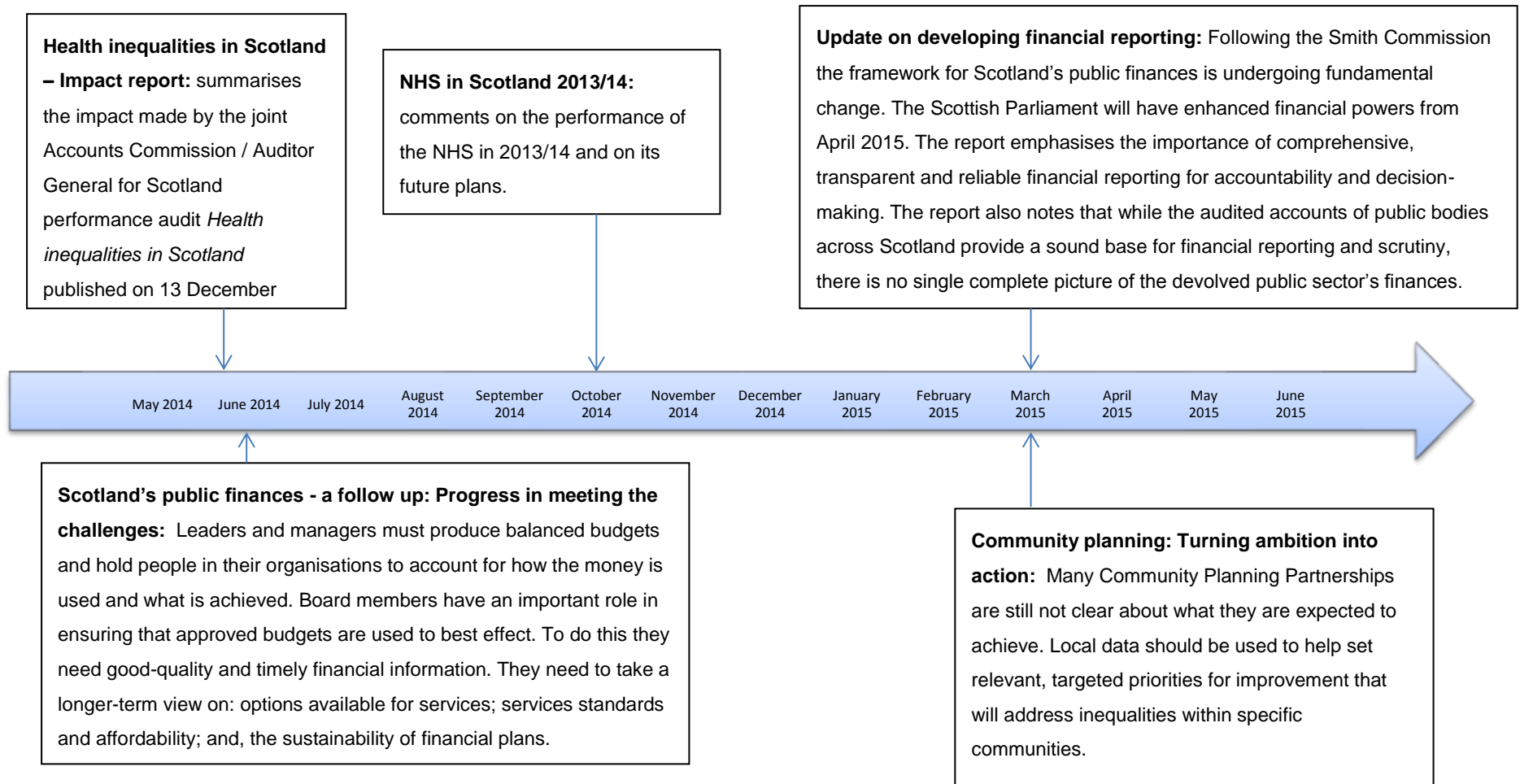
Audit Risk	Assurance procedure	Results and conclusions
<p>Scotland has reviewed the 2013/14 annual accounts across NHS Scotland and developed a good practice note entitled '<i>Improving the quality of NHS Annual Report and Accounts</i>'. There is an expectation that NHS bodies will use this guidance to ensure the 2014/15 annual accounts are clearer, more concise and more focused on the needs of the users.</p>	<p>statements audit.</p>	<p>accounts.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>Standards of conduct and arrangements for the prevention and detection of corruption</p> <p>Weaknesses in the processes for registering interests and accepting hospitality were identified during our prior years' audits. 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, planned to review the Code of Corporate Governance to identify where enhancements to the processes can be made.</p>	<ul style="list-style-type: none"> Follow up review of 2013/14 Governance and Internal Controls report. 	<ul style="list-style-type: none"> Followed-up 2013/14 report and agreed management actions. Ongoing issue with up to date registers of interest not being available from the board website. Reported in 2014/15 Review of Governance Arrangements and Internal Controls report.
<p>Health and social care integration</p> <p>The integration of health and social care services in Scotland requires to be implemented fully by 1 April 2016.</p>	<ul style="list-style-type: none"> Review the financial plans for the integrated partnership. Review the proposed governance arrangements for the integrated partnership. Review internal audit report on health and social care integration. 	<ul style="list-style-type: none"> Reviewed progress with the integration scheme. Submitted on time to the Scottish Government but yet to be approved. Strategic Plan to be produced after integration plan approval. Reviewed internal audit report on health and social care integration. No

Audit Risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> Review minutes and reports to the Adult Health and Social Care Shadow Board. 	significant issues reported. <ul style="list-style-type: none"> Reviewed minutes and reports to Health and Social Care Shadow Joint Board and the Board. No significant issues to note.
<p>eHealth department</p> <p>The eHealth Department has been restructured. Changes include the merging of Information Services into eHealth, the realignment of various ICT responsibilities and changes in leadership and governance responsibilities.</p>	<ul style="list-style-type: none"> Undertake a focused computer services review. Plan to place reliance on the information governance and eHealth work which will be undertaken by internal audit in 2014/15. 	<ul style="list-style-type: none"> Computer services review completed and reported – no significant issues. Internal audit e-health reports reviewed and no significant issues reported: <ul style="list-style-type: none"> - Information assurance - Data quality - Change, configuration and problem management.
<p>Public performance reporting</p> <p>As part of the 2013/14 audit we applied a best value toolkit on public performance reporting (PPR). We noted that there was scope for improvements to the PPR arrangements to enable stakeholders easier access to performance information, including better signposting to online performance information through the board's website. We encouraged management to develop an action plan to address the areas for improvement noted in the report.</p>	<ul style="list-style-type: none"> Follow up 2013/14 best value toolkit report on public performance reporting. 	<ul style="list-style-type: none"> Followed up 2013/14 report. Ongoing issue reported regarding the signposting to performance and other information on the website. Reported in 2014/15 Best Value Toolkit (Public Performance Reporting) Follow Up report.

Appendix II - Summary of NHS Fife local audit reports



Appendix III - Summary of Audit Scotland national reports



Appendix IV - Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1. 13/ 32	<p>Financial outcome – budget overspend</p> <p>The Acute Services Division experienced an overspend of £10.6 million in 2014/15 (£7.9 million in 2013/14). It was only as a result of underspends in other areas, primarily board administration and other services, non-Fife and other service providers service level agreements and unused corporately held flexibility/savings that an overall surplus of £0.2 million was achieved.</p> <p>Risk</p> <p>Continuing overspends in the Acute Services Division could impact on the longer term financial sustainability of the board. Savings on other activities may not be sustainable in the long term.</p> <p>Recommendation</p> <p>The board should ensure a robust recovery plan for the Acute Services Division is completed and put in place as soon as possible.</p>	<p>The Board's financial plans recognise the current pressures faced by different areas across all of NHS Fife and the Executive team are monitoring all cost pressures and how these can be managed and mitigated as we go forward.</p>	Director of Finance	Ongoing

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2. 16/ 50-51	<p>Financial sustainability- efficiency savings</p> <p>The board faces a wide range of financial challenges, including being able to deliver its planned efficiency savings, including cash savings to be able to deliver against its breakeven target. Cash releasing savings of £8.3 million of the £10.1 million requirement for 2015/16 have been identified, with 50% considered to be 'high risk' of non achievement. The realisation of efficiency savings will become progressively more challenging year on year.</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. There is 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 2015/16.</p>	<p>The need to deliver Efficiency savings is a constant challenge. Papers presented to the Board identified all schemes already in place and the risk associated with their delivery. Further meetings of the Executive Directors and a workshop for key managers have now taken place to develop further schemes to address the gap in the unidentified and high risk savings.</p>	<p>Responsibility rests with all the Executive Directors but the lead is the Director of Finance</p>	<p>Immediately and ongoing</p>
3. 16/ 53-54	<p>Non-core staff costs</p> <p>The spending on non-core staff (agency/bank staff) increased significantly in 2014/15. Whilst</p>	<p>Significant recruitment campaign to fill nursing vacancies is underway and has seen an increase in substantive</p>	<p>Director of Acute Services</p>	<p>Throughout 2015/16</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
	<p>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. We note that the consultant vacancy rate in NHS Fife has increased to 20.9% compared to the rate of 13.3% reported by Audit Scotland in its October 2014 report on <i>NHS in Scotland 2013/14</i>.</p> <p>Risk</p> <p>Continued reliance on non-core staff could have a significant impact on the board's plans to achieve the savings required for longer term financial sustainability.</p> <p>Recommendation</p> <p>The board should seek solutions to reduce reliance on non-core staff to provide services.</p>	<p>posts filled. The Acute Division continues to push forward with recruiting to all of the additional nursing posts identified through the introduction of the nursing workforce tool and expects to see an equivalent decrease in the use of Bank/Agency staff over the year.</p> <p>There has been significant progress in filling medical staff vacancies with 22 posts filled with individuals due to commence in posts throughout the next 6 months. There will be 12% of vacancies against total establishment after new appointments commence in posts.</p> <p>Ongoing recruitment to all medical vacancies is a priority for the Acute Division and for the posts within the Health & Social Care Partnership.</p>	Director of Acute Services, Director of Health & Social Care	Ongoing through 2015/16
4. 17/ 56	<p>Sickness absence</p> <p>The board's sickness absence has increased to 5.3% compared to 4.8% in 2013/14. The national target is set at 4.0%.</p>	It is acknowledged that sickness absence levels have been disappointing. Each operational area will have an action plan to reduce	Director of Human Resources & OD	August 2015

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	<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>sickness absence in place by end of August 2015.</p>		
<p>5. 17/ 57</p>	<p>KSF/ PDPs</p> <p>The level of completed KSF/PDPs continues to vary. In April 2015, the completion rate was 47%, which is a reduction from 60% in the previous year. The completion level is still well below the Scottish Government expectation of an 80% completion rate.</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>Agreed. Implementation of iMatters and roll out of eESS along with simplified approach to recording PDPs electronically will be undertaken throughout the year, which will encourage an improvement in completion rates with the aim of reaching the 80% target.</p>	<p>Director of Human Resources and Organisation Development</p>	<p>March 2016</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
	<p>Recommendation</p> <p>Steps should continue to be taken to improve participation in and completion of the KSF/PDPs process by the board's staff.</p>			
6. 26/ 123	<p>2020 Vision</p> <p>The Board recently approved a new Strategic Framework and is developing a new clinical strategy within the new Framework, which will set out how the Board intends to deliver the 2020 vision. The timeline for developing the new clinical strategy has yet to be developed.</p> <p>Risk</p> <p>There is a risk of confusion around strategic priorities and direction if the linkage between different 'strategy' documents is not made clear.</p> <p>Recommendation</p> <p>The finalisation and approval of the Strategic Framework and a robust programme (including key milestones) to develop the new 'whole system' clinical strategy, including the clear articulation of strategy relationships and precedents.</p>	<p>The clinical strategy will set out how the Clinically Excellent element of the Strategic Framework will be delivered and it will also link to the Person Centred element of the Strategic Framework.</p> <p>A timeline for the development of the clinical strategy is in preparation and will be discussed at the next Board development session.</p>	Medical Director	Initial work on timeline for June 2015. Clinical Strategy for December 2015.

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7. 31/ 147	<p>HEAT performance targets</p> <p>The board did not achieve all its HEAT performance targets in 2014/15 and found it more challenging to deliver against the HEAT targets in 2014/15 compared to 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 ensure performance recovery plans are put in place and monitor investments in new initiatives aimed at improving performance. It should also determine whether specific areas / specialities require more detailed scrutiny or additional actions to be taken.</p>	<p>In the last month a refreshed Performance management report has been developed for the Board to look at plans to bring performance back in line with targets and recognising the financial impact of so doing.</p> <p>Finance, Efficiency and Performance review meetings are being established to monitor performance across all Service Delivery areas and corporate directorates. The first meeting took place on Monday 25th June 2015</p>	Director of Finance	Immediate