

NHS Fife

Management Report 2017/18



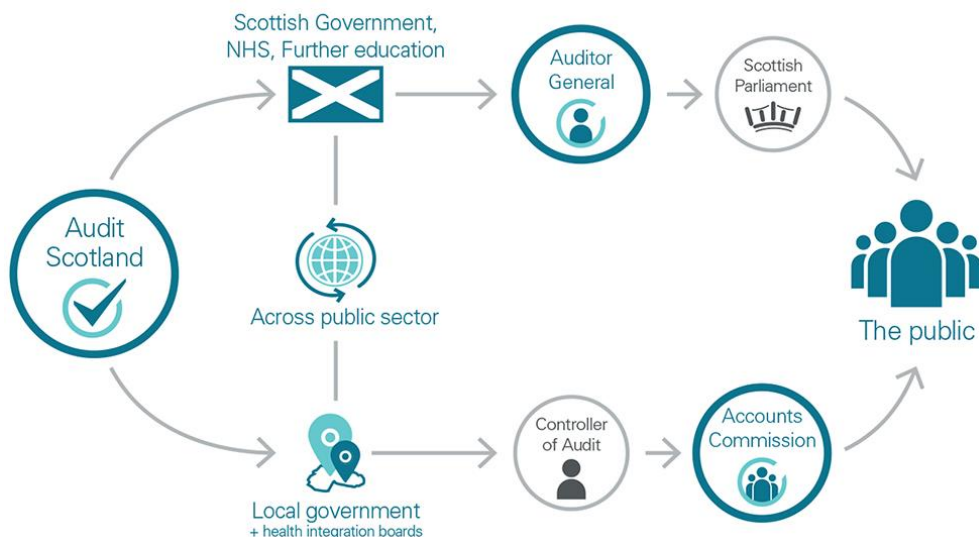
 AUDIT SCOTLAND

Prepared for NHS Fife
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Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
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About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at NHS Fife (the Board). This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We will use the results of this testing to determine our approach during the 2017/18 financial statements audit.
2. Our responsibilities under the [Code of Audit Practice](#) require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:
 - has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
 - has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
 - complies with established policies, procedures, laws and regulations.
3. We have also under the [Code of Audit Practice](#), carried out work on the wider dimension audit. This focussed on financial management, financial sustainability and governance and transparency.

Conclusion

4. Overall, we found the key controls in place within NHS Fife's main financial systems operate satisfactorily. We identified several control weaknesses as summarised in [Exhibit 3](#) where we will be carrying out additional work in response to these findings. This will enable us to take planned assurance for our audit of the 2017/18 financial statements
5. In terms of our wider dimension audit work we concluded that the Board continues to face a number of challenges in delivering financial and performance targets and we identified some areas for improvement as set out in [Exhibit 3](#).
6. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to NHS Fife.
7. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.
8. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Work summary

Key financial controls

9. Our 2017/18 testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, our testing covered budget monitoring, feeder system reconciliations and the Board's participation in the national fraud initiative.



Bank reconciliations



Payroll controls



IT access



Budgets

10. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified. Also, where possible we place reliance on the work of internal audit to avoid duplication of effort.
11. FTF Internal Audit Service, who provide NHS Fife's internal audit service, generally operates in accordance with the Public Sector Internal Audit Standards (PSIAS). PSIAS requires an external review of the internal audit service to be done by March 2018 and every five years thereafter. This was not done for FTF by the end of the financial year but is scheduled to be completed by June 2018. Our review of the work undertaken by FTF allows us to place continued reliance on its work including detailed testing of some areas of staff costs and expense payments. This will be used to support our final accounts work.

National Fraud Initiative

12. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error. The latest position for NHS Fife is summarised in [Exhibit 1](#).

Exhibit 1

National Fraud Initiative

Total number of matches



4,214

Completed/closed investigations



4,047 (97%)

Total number of recommended matches



329

Completed/closed recommended matches



290 (88%)

Source: NFI website

13. Overall our review of the Board's NFI processes found that good progress had been made with the 2016/17 NFI exercise, particularly in terms of checking almost all of the recommended matches. The Board's approach also involves following up most of the "other" (non-recommended matches) too. No frauds or errors were identified and we believe that there is scope for a more risk-based approach to be taken in future exercises to reduce the amount of matches investigated.
14. In previous years there have been reports taken to the Audit and Risk Committee on progress with NFI work. The results of the 2016/17 NFI exercise have not yet been reported to the Committee, although we expect this will be done by June 2018.

Financial management and financial sustainability

15. Our wider dimension work considered the effectiveness of the Board's financial planning and reporting arrangements including in-year budget monitoring, financial planning and reliance on non-recurring savings/ financial flexibility.

Financial reports may not be formally presented to Board/ Committee timeously

16. Financial and other performance is reported in:
- the monthly Integrated Performance Report (IPR). The IPR, which includes the financial position to the end of the preceding month, is considered formally by the Finance Performance and Resources Committee (FPRC) every second month, when it meets. Board members are also e-mailed monthly reports.
 - an Executive Summary IPR (ESIPR) is presented to the Board every second month.
17. For example, the February IPR (financial position to end of January 2018) was considered by the FPRC on 27 February 2018 and the ESIPR for this period was considered by the Board on 14 March 2018.
18. In April 2018, there is no FPRC or Board meeting scheduled and there will be no formal scrutiny of the final two months of the financial year until May 2018, although as noted above, Board members receive e-mail copies of monthly reports. (see [Exhibit 3: Monitoring of financial performance](#)).

Internal financial reports are complex and contain errors

19. The NHS financial framework the Board operates under is complex and reporting on this in a way that is clear and understandable is a challenge.

None of the non-executive directors have a financial background and, in our opinion, the financial section of the IPR is complex. It includes NHS specific language that is not easily understood and the relationship between the components of the report may not be clear. The report to the February 2018 FPRC identified:

- **year to date expenditure** (and the proportions managed by the Health Board and the IJB) “At the end of January NHS Fife reports an overspend of £2.054m against the Revenue Resource Limit (RRL). This overspend comprises an underspend of £3.517m attributable to Health Board; and an overspend of £5.571m to the Integration Joint Board”.
- **run-rate performance** - (This reports performance / variances as if efficiency savings had not been removed from budgets). “Whilst in totality the overall position is driven by unmet savings targets as opposed to run rate performance, it is important to signpost that the Integration Joint Board reflects an in-year and forecast overspend on both run rate performance and savings delivery. At month 10 the overall shortfall in savings targets is £6.546m which is offset by a favourable run rate position of £4.492m”.
- **savings target performance** – “The Financial Plan presented to the Board in April highlighted the requirement for £29.2m cash efficiency savings to support financial balance in 2017/18. As at January some £6.546m remains unmet for the period....it is unlikely that with 2 months of the financial year remaining, that the savings shortfall will be met in full”.
- **recurring/ non-recurring savings** - “Of the £29.201m target, £13.960m has been identified on a recurring basis. Work continues in the remaining 2 months of the financial year (and beyond) to identify further recurring savings and transformational change plans. Any unmet savings for the year on a recurring basis (currently £15.241m) will add to any financial gap for the following year 2018/19. This is being considered as part of our financial planning process. In addition, there are legacy savings from 2016/17 which are taken into consideration in the Financial Outlook 2018/19 plans”.
- **year end forecast outturn** - “The forecast year end outturn position ranges between break even and an overspend of £3.534m (prudent position). The forecasts comprise a mid-range operational position as informed by individual Directors, adjusted for both a best case and prudent assessment of financial flexibility. The current reported forecast reflects an underspend of £0.096m....(and) comprises a £6.560m underspend on the Health Board budgets with a £6.464m overspend on the budgets delegated to the Integration Joint Board”.

20. We also identified three relatively minor errors in some of the figures included in the narrative explanation for variances in the subjective analysis table in the February 2018 IPR. For example the “other non pay” variance is £1.5 million (overspend) in the table but the explanation refers to an overspend of £0.9 million. (see [Exhibit 3: Monitoring of financial performance](#)).

External financial reports are complex and inconsistent with internal reporting

21. Health boards are required to submit a monthly Financial Performance Return (FPR) to the Scottish Government. The FPR is submitted in a spreadsheet format along with a covering report from the Director of Finance giving more details on the movements in the period. We found that net expenditure reported in the monthly IPR is consistent with the figures reported in the monthly (external) FPR submission. However, differences in the forecast year end position were noted from December to February. For example, both the covering report to the FPR and the IPR for December said the mid-range forecast for the year-end was an overspend of £1 million although there was optimism for a breakeven position however, the FPR spreadsheet reported the breakeven position. We also noted differences in the reported savings,

between the IPR and FPR, which ranged from £0.5 million to £1 million each month (August to February) (see [Exhibit 3: Reporting financial performance](#)).

22. In the internal IPR reports expenditure budgets for certain areas are phased in accordance with trends and experience. For example, the Board identifies an increase in expenditure towards the end of the financial year and this is consistent with patterns for NHS territorial boards across Scotland. However, in the external FPR report, cash flow forecasts (which include both capital and revenue) spread the forecast expenditure evenly across the remainder of the year, so isn't phased on the same basis as internal reporting and does not reflect the true pattern of expenditure. Although the bulk of the Board's monthly expenditure is fixed we would expect to see some variance in the FPR cash flow figures across the year. An analysis of territorial boards shows that there isn't a consistent basis for doing this forecast (see [Exhibit 3 Reporting financial performance](#)).

The link between the financial savings target and the contribution of individual projects is not clear and not monitored sufficiently.

23. Current performance reported in the Board Assurance Framework (BAF) recognises that "The extent of service redesign to reduce costs across both acute services and community services has not been at sufficient pace or quantum to have a significant financial impact."
24. A budget gap of £29 million was identified as part of the 2017/18 budgeting process. Savings targets to address this were allocated between the Board (£16 million) and Fife Integration Joint Board (IJB) (£13 million). The Board's Transformation Programme, 2017/18 Local Delivery Plan (LDP) and financial plan gave a breakdown and risk assessment of the work streams to address the Board's savings gap but there was limited information on specific projects and no breakdown of how the total savings, within each work stream, would be achieved. Although the monthly IPR identifies the savings variance it does not provide details of specific savings plans.
25. Operational budgets for 2017/18 were adjusted downwards, to address the financial gap of £29 million. A tracker system of specific savings projects was maintained for the Board element of this. However, £24 million (81%) of the total savings were not mapped to specific projects at the time the budget was agreed - £12 million (76%) for the Board and £12 million (87%) for the IJB. One of the Board's key principles for budget setting in 2017/18 was "We can only set budgets based on the funding envelope available." On the basis that there were no details on the majority of savings required to close the budget gap, we find it difficult to see how the Board was able to conclude that it had a balanced budget agreed for 2017/18.
26. The 2018/19 financial plan includes a (recurring) shortfall of £17 million carried forward from 2017/18 but it is not clear why these prior year recurring savings were not achieved. Board members have had a number of updates, reports and presentations which refer to the Board's transformation approach and progress with delivering savings. However, links between the transformation programme, the Clinical Strategy and the financial impact of delivering savings are not clear (see [Exhibit 3: Delivery of savings](#)).

NHS Fife continues to be reliant on non-recurrent in-year savings to meet financial targets, but the position has improved from last year

27. NHS Fife continued to rely on non-recurring savings in 2017/18. The 2017/18 recurring shortfall of £17 million is 58% of the £29 million savings target. This compares favourably to the recurring shortfall of £22 million (71%) in 2016/17. The largest single element of non-recurring savings is financial flexibility (see below). We also noted that vacancies are being held across Estates & Facilities, Finance, Human Resources, and Nursing Directorates. Not filling posts is a common way of achieving non-recurring savings (see [Exhibit 3: Reliance on non-recurring savings](#)).

Financial flexibility is the key non-recurrent component used to achieve financial balance and there are uncertainties over the accounting treatment of some funding

28. NHS Fife is relying on non-recurring financial flexibility of £13 million to breakeven in 2017/18 (see [Exhibit 2](#)). As noted in the February 2018 IPR (position to the end of January 2018), “ financial flexibility remains a crucial element of the Board’s ability to deliver against the statutory financial target of a breakeven position”.

Exhibit 2

Financial Flexibility

Financial Flexibility:	
Drugs	950
National Insurance	863
Rates	1,457
Underspend 16/17	333
RHCYP/DCN	922
OATS	600
DEL	1,234
Other Financial Flexibility	5,207
Sub total	11,566
Further Potential Financial Flexibility	
Holiday Pay	600
Other Accruals	500
CNORIS	500
Sub total	1,600
Total Financial Flexibility	13,166

Source: extract from February 2018 IPR

29. The mid-range outturn position prior to financial flexibility, is an overspend of £13 million. Forecast financial flexibility of £13 million improves the forecast outturn position to an underspend of £0.1 million. Financial flexibility includes:

- **expenditure within the financial plan that is not incurred (or turns out to be less than estimated) in the year.** For example, a budget for non-domestic rates which was not fully used and planned expenditure for the Royal Hospital for Children and Young People and the Department of Clinical Neuroscience that has been delayed.
- **Scottish Government allocations.** Earmarked and ring-fenced project funding such as trauma and orthopaedics, colorectal cancer and urgent care that was not spent in the year, but is recognised as income.

30. The Board has discussed its approach to financial flexibility with the Scottish Government. Based on the information received from the Board to date, however, we have concerns around the treatment of some allocations. Individual allocation letters appear to have conditions attached to how the money is used, this may change the nature of funding (grant rather than grant-in-aid) and we are seeking to clarify this with the Scottish Government. It is possible that some funding may have conditions that haven’t been met in 2017/18 and attached conditions prevent virement to other areas of expenditure. An accrual for repayment may be needed. This could impact on the outturn position ([Exhibit 3: Financial flexibility](#)). We will undertake additional work on this area as part of our financial statements work.

The development of NHS Fife’s medium/ long term financial planning has stalled and financial planning of the East of Scotland Regional Delivery Plan (RDP) is at an early stage.

31. The Board’s 2017/18 LDP includes detailed financial plans for the current year and an overview of plans for the following two years. In October 2017, the FPRC considered a “first cut” of the financial outlook for a five year period 2018-23. At that point the development of a medium to long term financial strategy was ongoing. The financial outlook was to be refined as the year progressed and a five year financial plan approved by 31 March 2018. Our review of papers to both the FPRC and Board during 2017/18 confirmed that members are provided with financial details and updates but from October these no longer covered the 2019-23 financial years.
32. The LDP was replaced by an Annual Operational Plan (AOP) from 2018/19. This requires a one year financial plan rather than the three required per the LDP but this does not restrict the Board’s ability to develop longer term financial planning (see in [Exhibit 3: Medium and long term financial planning](#)).
33. A five year financial plan is being developed as part of the East of Scotland Regional Delivery Plan (RDP) however this is at an early stage. Although updates on regional planning have been provided to members, this has not included progress with the financial plans. Minutes of the Board meeting in January 2018 state that the draft RDP would be submitted through the Board committees prior to submission to the Scottish Government at the end of March 2018, was not discussed at either the February FPRC or the March Board meeting. We also noted that the draft AOP was not considered by members until after it was submitted to the Scottish Government on 6 March 2018 (see [Exhibit 3: Members scrutiny of financial plans](#)).
34. We conclude that longer term financial planning is not yet demonstrated in NHS Fife and progress with medium term financial planning appears to have stalled.

Governance and transparency

35. **Quality of reporting of financial statements** - Audit Scotland carried out a review of NHS Boards reporting of their 2016/17 financial performance and produced a good practice checklist *Improving the quality of NHS annual report and accounts - Reporting financial performance*. The Board should refer to this document when preparing the 2017/18 annual report, for example, consideration could be given to:
 - expanding the brief explanation of what the revenue and capital resource limits mean and explaining what is chargeable against the core and non core elements.
 - including details of commonly used NHS acronyms or phrases such “ODEL PPP”, “AME” and “non-core funding”
 - explaining the impact of the brought forward surplus on the current year’s financial position.
36. Revised disclosure requirements have also been made to the 2017/18 NHS accounts manual which will improve the presentation of the memorandum for the in-year out-turn.
37. **Register of interests** – We reported last year that NHS Fife’s register of interests met basic requirements in most areas. We have updated our assessment in 2017/18 and found that, overall, NHS Fife can demonstrate good practice. There is a framework in place for registering interests, annual returns are requested from all staff (although we noted that some declarations are provided on a group/ departmental basis) and the disclosures include interests of close family and friends.

38. Staff interests, including members of the Executive Directors Group who are not members of the Board, are recorded in the Central Register of Hospitality and Interests. There are no checks on the completeness of returns and our audit testing found that declarations from members of the Executive Directors Group for 2016/17 were incomplete (see [Exhibit 3: Register of interests](#))
39. **Current ICT environment** - Digital technology plays an increasingly important role in addressing the challenges faced by the NHS. Within NHS Fife, as with other health bodies, there is a significant reliance on IT systems which are outdated and no longer supported by suppliers. Several actions are in place to address this, for example upgrading operating systems and moving to Office 365. Some IT systems are being used longer than would be expected, and the consistency of protecting systems and patching (which is done to improve and maintain security) varies. A few temporary staff have recently been appointed to the eHealth function which has boosted the level of capability and expertise available to perform corrective action such as malware protection and patch management. There is currently no dedicated IT security/cyber security lead and we note that the structure of the eHealth team is being reviewed with the intention of including a dedicated team. We will follow up on the actions being progressed as part of our 2018/19 audit.
40. It's also important to maintain and test disaster recovery and business continuity arrangements as this will be vital to ensuring the Board is not susceptible to losing the information required to run the service. We found disaster recovery arrangements at the Board had slipped although plans are in place to address this in 2018.
41. NHS Fife has completed a self assessment against the five technical assurance areas of the Scottish Government's Cyber Essentials Framework – firewalls, secure configuration, user access control, malware protection and patch management. A few areas were identified as not being fully compliant and NHS Fife is working with a security consultant to ensure this is addressed by October 2018.
42. NHS Fife has an eHealth Governance Board which meets quarterly and an IT operations group which meets monthly. eHealth management report periodically to the FPRC on cyber security but we have been unable to find any reports or update at full Board level on cyber issues (see [Exhibit 3: Current ICT environment](#)).

Risks identified

43. The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 3](#). These findings will inform our approach to the financial statements audit where relevant.
44. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to NHS Fife.

Exhibit 3

Key findings and action plan 2017/18

Issue identified	Management response, responsible officer and target date	Further audit procedures
Audit findings		
<p>Changes to suppliers' details</p> <p>We reported last year that in the majority of cases no independent verification of changes to suppliers' bank details were sought. It was agreed that processes would be established to ensure any changes were followed up. Our audit testing this year found this had not been done in all cases.</p> <p>There is a risk of exposure to fraud as not all requests to change bank details are verified from an independent source.</p>	<p>Agreed. All bank changes will be independently verified.</p> <p>Responsible officer: Ledger Control Manager</p> <p>Target date: 31 May 2018</p>	<p>We will select a sample of changes to bank details as part of our final accounts work and request confirmation through officers that changes are valid.</p>
<p>Access to the banking system</p> <p>Changes to online access and authorised signatories for the Board's bank accounts need to be notified in writing to the bank. Audit testing found that a request to remove an officer from the authorised signatory list was completed but no request to remove this individual's online access was submitted until we informed finance staff of the omission. The initial request to remove the signatory was only authorised by one person when two were required by the bank and therefore this had to be re-submitted. The re-submitted form also requested another officer who was already an authorised signatory to be added (again) and to remove an officer who had not been an authorised signatory. These errors suggest that there is a lack of control over this process.</p> <p>There is a risk of inappropriate access to the Board's bank accounts.</p>	<p>Agreed. Access levels for all individuals will be checked to ensure these are appropriate</p> <p>Responsible officer: Assistant Director of Finance – Financial Services</p> <p>Target date: 31 May 2018</p>	<p>We have confirmed that the appropriately authorised request forms have now been actioned.</p> <p>We will ask officers to confirm the access levels for all individuals with access to the banking system are appropriate.</p>
<p>Financial systems access controls</p> <p>Our testing of access controls found one Admin Assistant who had Board Support level access on e-Financials. Previously this individual had access to enquiry screens with some reporting functions but now has the ability to</p>	<p>Agreed. Access levels for the Admin Assistant and the 3 PECOS users will be reviewed.</p> <p>Responsible officer: Assistant Director of Finance – Financial Services</p> <p>Target date:</p>	<p>We considered the Admin Assistant access to be an isolated weakness in system access control. We have confirmed that this weakness resulted in only automated journals being posted by this individual and do not intend</p>

Issue identified	Management response, responsible officer and target date	Further audit procedures
<p>make changes to multiple areas within the e-financials system.</p> <p>We also tested access to the purchasing system (PECOS) and found 3 users where access was not considered appropriate to their job role. As a mitigating control, the PECOS system does not allow the same person to both request and approve an order.</p> <p>There is a risk that users have inappropriate access to financial systems and that erroneous or fraudulent entries could be made</p>	<p>31 May 2018</p>	<p>to revise our planned audit procedures.</p> <p>We will test a small sample of PECOS entries at year end focusing on these 3 users to confirm entries are appropriate.</p>
<p>Segregation of duties</p> <p>The segregation of duties between ordering and handling stock for the EMIS pharmacy system means only individuals in the procurement team should order stock however we found that approximately 7% (£2.5 million of a total of £36 million between April 2018 and February 2018) of orders were made by individuals' outwith the procurement team.</p> <p>There is a risk that fraudulent expenditure could be incurred and the associated stock could be misappropriated by the same individual.</p>	<p>Agreed. Steps have been taken to ensure all orders are made by the procurement team without exception.</p> <p>Responsible officer: Chief Pharmacist</p> <p>Target date: Immediate</p>	<p>We will undertake specific testing to obtain assurance over the expenditure posted through EMIS by individuals' outwith the procurement team as part of our final accounts audit work.</p>
<p>Budgetary control – tissue viability reports</p> <p>The budget holder for tissue viability is not receiving monthly reports due to the wrong email address being used in the automated distribution system. The reports are being sent to an individual in an NHS Trust in England. Outturn and variances are still being monitored for this area as part of the overall monitoring of Acute Nursing (which includes Tissue Viability) by the Head of Nursing.</p> <p>There is a risk that budget information is being sent to external parties which could result in inappropriate sharing of sensitive information.</p>	<p>Agreed. This issue occurred for a short period and a process will be put in place to ensure management accountants check budget holders receive their budget reports.</p> <p>Responsible officer: Deputy Director of Finance</p> <p>Target date: 31 May 2018</p>	<p>NHS Fife should carry out a review to ensure the validity of email addresses used by the automated distribution system. We will review the results of this exercise during our final accounts audit.</p>

Issue identified	Management response, responsible officer and target date	Further audit procedures
Wider dimension issues and risks		
Financial management and sustainability		
<p>Monitoring of financial performance</p> <p>The financial position reported in the monthly IPR is the key source of regular financial performance reported to members. We found that:</p> <ul style="list-style-type: none"> the financial position is formally considered by members on a bi-monthly basis, however there will be no formal scrutiny of the final two months of the year until the FPRC scheduled for 15 May 2018 there were three relatively minor errors in some of the figures included in the narrative explanation for subjective variances to end of January 2018. the narrative in the IPR is, in our view, complex and uses a number of technical terms which may not be easily understood. <p>There is a risk that the financial position is not scrutinised on a timely basis to enable action to be taken.</p> <p>There is a risk that any scrutiny undertaken on the financial position is ineffective as the complexity and technical nature of financial reports are not fully understood.</p>	<p>Partially agreed</p> <p>Revised reporting for 2018/19 ie <u>one</u> narrative report for IPR/FPR</p> <p>Ongoing regular updates and dialogue at Board Development Sessions</p> <p>FP&R Committee to be asked if any concerns re scrutiny, openness and transparency to gain feedback from Non Executive Directors (at meeting on 15 May)</p> <p>To ensure early sight of year end position, an email and detailed report was issued as soon as figures were finalised.</p> <p>Responsible officer: Director of Finance</p> <p>Target date: 30 June 2018 (for SG FPR)</p>	<p>We will review the final outturn position for 2017/18.</p>
<p>Reporting financial performance</p> <p>Reporting of the financial position should be consistent regardless of whether it is for internal or external purposes. We found differences between the IPR (health board) and FPR (Scottish Government) forecast saving/excess against the RRL and total YTD savings and the analysis between recurring and non-recurring savings. We also found differences in the phasing of expenditure between the two documents.</p> <p>Information reported to the Scottish Government is not consistent with internal reporting and there is a risk that the financial position is not accurately reported to external stakeholders</p>	<p>Not agreed</p> <p>The total YTD savings analysis is reported consistently. The FPR looks at in-year recurring savings and the IPR reflects the full year benefit of recurring savings schemes.</p> <p>Responsible officer: Deputy Director of Finance</p> <p>Target date: N/A</p>	<p>No further revision to our planned audit procedures in 2017/18.</p>

Issue identified	Management response, responsible officer and target date	Further audit procedures
<p>Delivery of savings</p> <p>In order to set a balanced budget any savings required to meet significant budget gaps must be clear and achievable. A budget gap of £29 million was identified for 2017/18. The majority of savings required to address this was incorporated into the high level workstreams in the Board's (or IJB's) transformation programme which is a key element of the Board's Clinical Strategy. The 2017/18 budgets allocated to operational areas were adjusted downwards to meet the £29 million financial gap. However, £24 million (81%) of the savings required had not been clearly identified and mapped to specific projects when the budget was approved by the FPRC in May 2017.</p> <p>Board members get reports, updates and presentations on NHS Fife's transformation approach and progress with delivering specific detailed projects. However, links between the transformation programme, the Clinical Strategy and progress on the financial impact of delivering savings are not clear.</p> <p>There is a risk the Board is unable to meet its financial targets in 2017/18 except through non-recurrent savings identified as the year progresses as there is a lack of transparency in how the required savings will be achieved and how this impacts on the financial position.</p>	<p>Not agreed</p> <p>The approach taken was to delegate the financial targets to each budget; as such the monthly finance reports tracked both 'normal' budget performance (run rate) and achievement of savings. There was an overt view from the outset that these would be delivered across a range of methods as opposed to a definitive list. The Board hasn't provided an explicit statement that the budget was balanced. The decision to approve the budget was taken in a broader context of the overall risk assessment set out in the LDP and budget setting approach</p> <p>Responsible officer: Deputy Director of Finance</p> <p>Target date: N/A</p>	<p>We will review the findings included in internal audit report B10/18: Transformation Programme Governance which has considered the governance arrangements for the transformation programme in more detail and conclude in our Annual Audit Report as appropriate.</p>
<p>Reliance on non-recurring savings</p> <p>The Board has relied on non-recurring savings for a number of years. The 2018/19 financial plan includes £17 million "recurring shortfall" from 2017/18 which means 58% of the savings required in 2017/18 were non-recurring. We also noted that the health board is holding vacancies across a number of departments. Not filling posts is a frequent way to achieve non-recurring savings.</p> <p>There is a significant risk that the Board will not deliver the savings required to achieve a balanced budget on a recurring basis which</p>	<p>Agreed. The establishment of Service Reviews across all departments seeks to enhance the Board's strategic approach to savings and efficiency.</p> <p>Responsible officer: Director of Finance / Director of Planning & Strategic Partnerships</p> <p>Target date: 30 September 2018</p>	<p>We will review the year end position in respect of the Board's reliance on non-recurring savings and include a comment in our Annual Audit Report as appropriate.</p>

Issue identified	Management response, responsible officer and target date	Further audit procedures
<p>increases the pressure on budgets in future years.</p> <p>Financial flexibility</p> <p>Individual allocation letters appear to have conditions attached to how the money is used, this may change the nature of funding (grant rather than grant-in-aid) and we are seeking to clarify this with the Scottish Government.</p> <p>There is a risk that this could impact on the outturn position.</p>	<p>Given that NHS Boards cannot carry forward income to future years, and there is a fundamental requirement to apply the matching principle in any financial year, a review of the accounting treatment considered the following options:</p> <ol style="list-style-type: none"> 1. Approach Scottish Government to request the carry forward of resource centrally 2. Action expenditure entry in NHS Fife revenue and corresponding provision in balance sheet to facilitate matching principle, and allow budget to be released in 2018/19 to match expenditure anticipated <p>Following a discussion with Alasdair Black, SG on 16 April, AB offered SG's preference for NHS Fife to manage. Accordingly, our approach has been to action option 2 above.</p> <p>Responsible officer: Deputy Director of Finance</p> <p>Target date: 31 May 2018</p>	<p>We will seek clarification from the Scottish Government on the status of funding/ conditions.</p> <p>We may review a sample of allocation letters and consider where there are any conditions that are expected to be breached and check the existence of any associated liability.</p> <p>We will also check related liabilities identified in the financial statements and the underlying circumstances that give rise to them</p>
<p>Members scrutiny of financial plans</p> <p>A regular report on savings proposals has not been taken to committee and although the monthly IPR identifies the savings variance it does not provide details of specific savings plans.</p> <p>There has been no specific update to members on the financial plans being developed as part of the Regional Development Plan (RDP). There is no evidence of the draft RDP being seen by members prior to submission, despite previous minutes saying this would be done. In addition, neither the FPRC nor the Board had sight of the draft Annual Operational Plan 2018/19 until after it was submitted to the Scottish Government.</p>	<p>Not agreed. The RDP has been submitted to Scottish Government. Board members have been updated on financial plans through regional engagement sessions – the lead DoF for the region presented on the overall plans.</p> <p>The annual operational plan was submitted to SG as a draft pending consideration by the Board. Indeed, the meeting with SG colleagues to discuss the AOP did not happen until after the Board meeting (it was later the same day)</p>	<p>No further revision to our planned audit procedures in 2017/18.</p>

Issue identified	Management response, responsible officer and target date	Further audit procedures
<p>There is a risk that members are not provided with adequate opportunity to scrutinise and comment on financial plans on a timely basis.</p>	<p>Responsible officer: Director of Finance</p> <p>Target date: 30 June 2018</p>	
<p>Medium and long term financial planning</p> <p>NHS Fife does not have a current medium /long term financial plan. A five year financial plan is being developed as part of the East of Scotland Regional Delivery Plan (RDP) but this is still at an early stage.</p> <p>There is a risk that NHS Fife is not planning adequately over the medium to long term to manage or respond to significant financial risks.</p>	<p>Partially agreed. The extent to which we can deliver a medium to long term financial plan is entirely predicated on the work of the regional programme and in parallel with regional partners. The Board received a detailed presentation on service and financial planning in February and key elements of this (the triangle diagram) set out the importance of regional and national planning to inform our local financial plan. As it stands, a medium to long term financial strategy, in the absence of the finalised regional plan, would not be overly robust. What we have provided, however, as part of the regional plans, is an overview of the “do nothing” impact over a 5 year period. This builds on the October 2017 report to the FPRC. But it remains a work in progress.</p> <p>Responsible officer: Director of Finance</p> <p>Target date: 30 June 2018</p>	<p>No further revision to our planned audit procedures in 2017/18.</p>
<p>Governance and transparency</p>		
<p>Register of interests</p> <p>There are no checks on the completeness of returns and we noted that the returns for members of the Executive Directors Group for 2016/17 were incomplete.</p> <p>There is a risk that interests are not fully or appropriately disclosed.</p>	<p>Agreed</p> <p>Responsible officer: Director of Planning & Strategic Partnerships (Head of Corporate Services)</p> <p>Target date: 31 May 2018</p>	<p>We will review the completeness of declarations for senior managers and board members when considering the completeness of related party disclosures in the 2017/18 annual accounts.</p>
<p>Current ICT environment</p> <p>Reports on cyber security are taken to the FPRC but there have been no updates at a Board level on these issues.</p>	<p>Agreed. This will be formalised and become much more transparent as we put plans in place to meet the SG Cyber Resilience Plan Key Action 2.</p>	<p>No further revision to our planned audit procedures in 2017/18.</p>

Issue identified	Management response, responsible officer and target date	Further audit procedures
There is a risk that cyber resilience efforts do not receive support and commitment at full Board level.	Responsible officer: Director of Planning & Strategic Partnerships (General Manager, eHealth) Target date: 31 May 2018	

Source: Audit Scotland

NHS Fife - Management Report

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