



NHS Fife

2015/16 Annual Audit
Report for the Board of
NHS Fife and the Auditor
General for Scotland

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively (www.audit-scotland.gov.uk/about/).

Gillian Woolman, Assistant Director, Audit Scotland is the appointed external auditor of NHS Fife for the period 2011/12 to 2015/16.

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

Contents

Key messages	3
Introduction	4
Audit of the 2015/16 financial statements.....	5
Financial management and sustainability	11
Governance and transparency	18
Best value	27
Appendix I: Significant audit risks.....	31
Appendix II: Summary of NHS Fife local audit reports 2015/16	37
Appendix III: Summary of Audit Scotland national reports 2015/16	38
Appendix IV: Action plan	39

Key messages

Audit of financial statements

- We have issued an unqualified independent auditor's report on the 2015/16 financial statements

Financial management & sustainability

- The board met all of its 2015/16 financial targets in the year. An underspend of £0.2 million against the Revenue Resource Limit (RRL) was achieved only after receipt of Annually Managed Expenditure (AME) funding of £2.3 million from the Scottish Government in February 2016 for injury and early retirement provisions, thus releasing the NHS Board from funding that expense from the normal RRL route
- The board delivered £6.5 million of cash efficiency savings against its overall cash efficiency savings target of £10.1 million, £3.1 million being on a recurrent basis
- The board has sound financial management arrangements that support the scrutiny of financial performance

Governance & transparency

- The board has recently revised its Code of Corporate Governance. Internal audit has reviewed the revised Code and assessed it as an A category (Good)
- Appropriate systems of internal control were in place during 2015/16
- The board's internal audit service in general complied with Public Sector Internal Audit Standards in 2015/16
- Robust anti-fraud and corruption arrangements are in place

Best Value

- The board continues to maintain a robust Best Value Framework
- The Board and the Finance and Resources Committee received regular updates on all aspects of performance and on the actions being taken to improve performance
- Not all targets and standards were achieved in 2015/16. Performance against key indicators was broadly in line with the previous year. Recovery plans are in place for the targets and standards which are not being met

Outlook

The board continues to operate in a period of austerity with reduced funding in real terms, increasing cost pressures and a growing demand for services. NHS Fife has forecast that £30.8 million of cash efficiency savings are required in 2016/17. The Scottish Government's 2020 vision and the implementation of health and social care integration are intended to provide services on a more sustainable footing by shifting the balance of care from hospitals to community settings. These changes may take several years to have a noticeable impact

Introduction

1. This report is a summary of our findings arising from the 2015/16 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 [appendix II](#) and [appendix 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 2015/16 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 2015/16 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 notably the Performance Report and Annual Accountability Report which includes the Corporate Governance Report and the Remuneration and Staff Report. We consider whether these reports have been properly prepared, comply with extant guidance and are consistent with the financial statements. We report any material errors or omissions, any material inconsistencies with the financial statements or any otherwise misleading content. We have nothing to report in respect of the other information published as part of the annual report and accounts, with the exception of the brevity of the Performance Report - Overview.
<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 2016. These templates are used to compile the national NHS financial position.

Submission of financial statements for audit

9. We received the unaudited financial statements on 29 April 2016, in accordance with the agreed timetable. Some of the staff costs working papers were not available at the start of the audit, although this did not delay the timely conclusion of the audit. The working papers were of reasonable standard and finance staff provided good support to the audit team which assisted the delivery of the audit by the deadline.
10. The financial statements of the board are prepared in accordance with the Government Financial Reporting Manual (FRoM). This year the FRoM required significant restructuring to the annual report to include a performance report, which has replaced the management commentary, and an accountability report which includes the governance statement and the renamed remuneration and staff report. These changes have been reflected in the board's accounts.
11. In 2015/16, for the first time, health boards' group accounts are required to include the financial results of Integration Joint Boards (IJBs) in their area, where material. Fife IJB was established on 3 October 2015 but did not become operational until 1 April 2016. Minimal expenditure was incurred to 31 March 2016 and this was mainly on staff costs. Consequently, the financial transactions of Fife IJB were not included in the health board's group accounts although appropriate disclosures were included in the accounts to explain the position.

12. The accounts reflect good practice as set out in the Audit Scotland publication 'Improving the Quality of NHS Annual Report and Accounts' (December 2014).

Overview of the scope of the audit of the financial statements

13. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, was outlined in our Annual Audit Plan presented to the Audit Committee on 17 December 2015.
14. 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 2015/16 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.
15. The concept of audit risk is central to our audit approach. We focus on those areas that are most at risk of causing material misstatement in the financial statements. In addition, we consider what risks are present in respect of our wider responsibility, as public sector auditors, under Audit Scotland's Code of Audit Practice.
16. During the planning phase of our audit we identified a number of risks and reported these to you in our Annual Audit Plan along with the work we proposed to do in order to obtain appropriate levels of

assurance. [Appendix I](#) sets out the significant audit risks identified and how we addressed each risk.

17. 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

18. 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).
19. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively. Performance materiality is also calculated to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
20. Our final materiality level was calculated at £7.6 million (1% of gross expenditure), with performance materiality set at £4.6 million. Additionally, we set a threshold of £76,000 (approximately 1% of materiality) for reporting misstatements. .

Evaluation of misstatements

21. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature, and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.
22. Some presentational and monetary adjustments were discussed and agreed with management during the audit. The adjustments, taken individually and aggregated, did not have any effect on the board's reported financial outturn for the year.

Significant findings from the audit

23. International Standard on Auditing (ISA) 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.

24. The following table details those issues or other audit judgements that, in our view require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA 260
<p>Holiday Pay Accrual (£0.7 million)</p> <p>The board is required to account for untaken paid leave as at 31 March. The 2015/16 estimate has been based on a representative sample of leave records for the prior year. Taking one year with another we accepted this as a fair proxy up until last year. However for 2015/16, a verbal instruction was given by the Executive Directors' Group to reduce the maximum 5 days carry forward by at least half. In recognition of this, the original estimate as calculated was halved. In our view the board's basis for the estimation is increasingly less relevant: staff behaviour for using up annual leave may be different where the carry forward allowance has more than halved. We also continue to highlight the need to use current year leave records as the basis of estimation. Consequently there is uncertainty around what the actual accrual should be. However given that there would be an element of estimation and judgement applied to calculating this accrual and that we do not consider the impact likely to exceed our materiality level we have accepted the accrual as is. We have made a recommendation in connection with this audit issue.</p> <p>Taken to <i>Appendix IV – Action Plan, point 1</i></p>

Significant findings from the audit in accordance with ISA 260

Performance Report – Overview

The FReM introduces a Performance Report in 2015/16, consisting of an overview and a performance analysis. The FReM explains that the overview “should be enough for the lay user to have no need to look further into the rest of the annual report and accounts unless they were interested in further detail or had specific accountability or decision making needs to be met.” The board has included a Performance Report Overview in its 2015/16 annual report and accounts. However, in our view there is scope for improvement in the level of detail that is contained in the report so that it fully meets the requirements of the FReM of providing enough information so that there is no requirement to look further into the rest of the annual report and accounts. Management has agreed to review the report for the 2016/17 annual report and accounts.

Taken to Appendix IV – Action Plan, point 2

Future accounting and auditing developments

Health and Social Care Integration

25. Fife IJB was established on 3 October 2015 and from that date the financial results of the IJB required to be consolidated into the board’s accounts. The financial results were not consolidated into the board’s accounts in 2015/16 on the grounds that they were immaterial. From 1 April 2016, when the IJB became fully operational, the financial results will become material and consolidation will be required.
26. The board and the IJB have different reporting regimes. NHS Fife is required to submit its audited accounts by 30 June each year whereas the IJB does not have to submit their audited accounts until 30 September each year. The board will have to ensure that procedures are in place for the IJB to provide

financial and non-financial information by a mutually agreed date to allow the board to meet its statutory reporting obligations.

27. In addition, the board will need to consider what assurances are required from the IJB to support disclosure in its annual governance statement.

Audit appointment from 2016/17

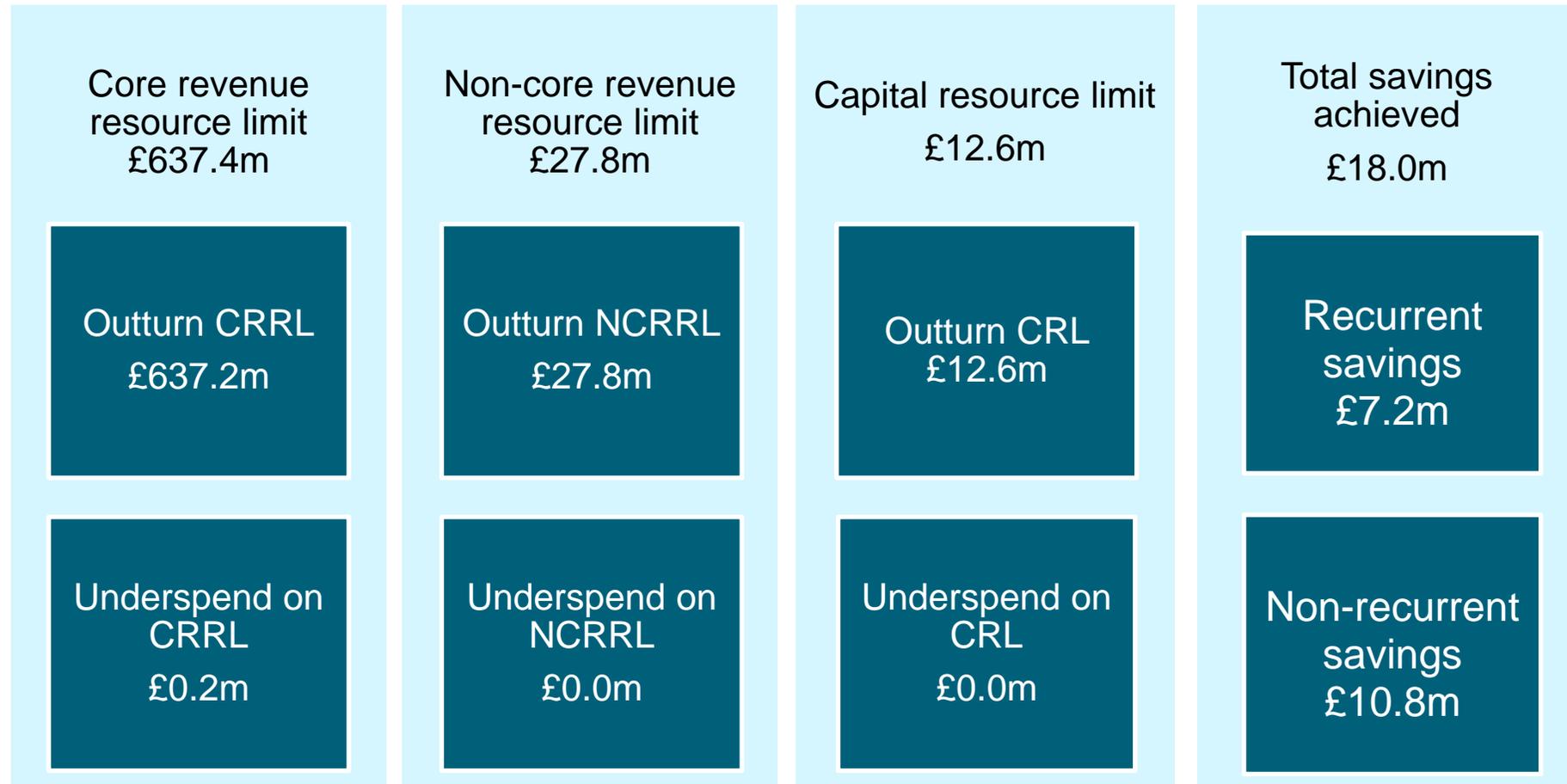
28. The Auditor General for Scotland is responsible for the appointment of external auditors to Scottish health bodies. External auditors are appointed for a five year term either from Audit Scotland’s Audit Services Group or private firms of accountants. The financial year 2015/16 is the last year of the current audit appointment round.

29. Following a recent procurement process, Audit Scotland will remain as the appointed auditor for NHS Fife for the five years commencing 2016/17, although with a different audit team. Your new appointed auditor will be Brian Howarth, Assistant Director. Pearl Tate, Senior Audit Manager, will have operational responsibility for the audit.
30. We would like to thank Board members, Audit and Risk Committee members, executive directors and other staff, particularly those in finance, for their co-operation and assistance over the last five years.

Code of Audit Practice

31. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011. It outlines the objectives and principles to be followed by auditors. It is part of the overall framework for the conduct of public audit in Scotland.
32. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In addition to publishing all Annual Audit Reports, Annual Audit Plans and other significant audit outputs will be put on the Audit Scotland website for all audited bodies.

Financial management and sustainability



Financial management

33. In this section we comment on the board’s financial performance and assess its financial management arrangements.
34. The board has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorate (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 performance 2015/16

35. The board’s final targets for RRL, CRL and cash requirement were agreed with the SGHSCD on 11 May 2016, as set out in table 2.

Table 2: Summary of financial performance

Performance against budget limits	Target (£m)	Actual (£m)	Saving (£m)
Revenue resource limit	637.4	637.2	0.2
Capital resource limit	12.6	12.6	0
Cash requirement	700.7	700.7	0

Source: NHS Fife’s 2015/16 financial statements

36. Table 2 illustrates that the board achieved its financial targets for 2015/16.

37. The RRL surplus was achieved despite significant overspends in the provision of some services and not achieving all of its planned cash releasing efficiency savings. A report to the board in April 2016 highlighted significant areas as follows:
- the Acute Services Division reported a year end overspend of £6.9 million (3.7% against budget), which was mainly due to the purchase of healthcare from other providers, medical staffing, nursing and drugs
 - an overspend in primary care prescribing of £1.7 million
 - non-achievement of cash releasing efficiency savings of £3.6 million.

These amounts were offset, in the main, by:

- underspending on the community services budget of £1 million (from vacancies in community nursing, health visiting, school nursing, administrative post, and dental services)
 - corporate underspends of £4.1 million mainly due to no longer being required to bear the cost of injury benefits and early retirements provisions and vacancies across a number of departments
 - £5.1 million of slippage in financial plan commitments.
38. The board had budgeted to break-even against its RRL in 2015/16, but from September 2015 began to forecast that this may not be achieved. In February 2016, following discussions and subsequent approval from the SGHSCD, the board was permitted to fund the provision held for Early Retirement and Injury Benefit through the

Annually Managed Expenditure (AME) funding process. This approach did not alter the total provision held on the balance sheet and therefore no prior year adjustment or change in accounting policy is required. However, the approach effectively shifted the funding of the provision originally raised under RRL with subsequent receipt of AME funding for the equivalent amount (£2.3 million).

39. It is important to note that the board would not have achieved break even had it not been for this exceptional change in how those provisions are funded. This has implications for how the accounts are interpreted to determine the sustainability of service provision in Fife.

Efficiency savings

40. NHS Fife, in common with other territorial health boards, was required to make efficiency savings totalling 3% of its baseline RRL in 2015/16. This equated to a savings target of £17.3 million, of which the board identified £8.5 million savings on a recurrent basis and £8.8 million on a non-recurrent basis. Of the £17.3 million target, £10.1 million was identified as cash releasing efficiency savings.
41. The board slightly exceeded the £17.3 million target with £18 million achieved in total (£7.2 million on a recurrent basis £10.8 million on a non-recurrent basis). However the board reported a shortfall in its cash releasing savings of £3.6 million against the £10.1 million target.

Capital resource limit 2015/16

42. The board remained within its Capital Resource Limit (CRL) of £12.6 million. It fully utilised its capital allocation which was mainly spent on a range of capital building projects and equipment, including: £3.8 million for the replacement of Stratheden Hospital Intensive Psychiatric Care Unit; £1.6 million on the Carnegie Unit (final element of the General Hospitals and Maternity Services Project); £1.9 million on new and replacement medical equipment; £0.9 million on eHealth technology.
43. The 2015/16 capital plan included £3.7 million of capital receipts, primarily from the sale of assets at Lynebank and Forth Park Hospitals. During the year it became apparent that these asset sales would not all proceed as planned. To allow NHS Fife to continue with its planned capital programme, the SGHSCD provided NHS Fife with additional CRL funding of £3.5 million to help NHS Fife manage the issue around the timing of capital receipts.

Financial management arrangements

44. 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
 - non-executive board members provide a good level of challenge and question executive board members and budget holders on significant variances.
45. The board's standing financial instructions have recently been reviewed and the detailed financial operating procedures are scheduled to be reviewed by the end of June 2016.
46. Financial monitoring reports (both revenue and capital) form part of a wider Integrated Performance Report (IPR) which is submitted to all meetings of the Board and the Finance and Resources Committee. Reports are comprehensive and contain detailed budget information for each directorate, cost pressures, progress against savings targets and actions being taken to mitigate risks. More detailed monthly financial monitoring reports are provided to budget holders.
47. As auditors we attend a number of Board and committee meetings each year. In the main, non-executive board members provide a good level of challenge to the executive directors on significant variances and service performance issues.

Conclusion on financial management

48. We have concluded that the board has strong financial management arrangements that support the review and scrutiny of financial

performance and the achievement of financial targets. However, the board continues to face significant budget pressures, especially in relation to Acute Services. These budget pressures have been alleviated in 2015/16 through compensating underspending in other areas and the shifting of funding of the provision originally raised under RRL to AME.

Financial sustainability

49. 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 are concerned with the board's financial performance, financial planning and its use of resources.

Financial planning

50. The board's Local Delivery Plan (LDP) for 2016/17 to 2020/21 will align strategic priorities with financial plans, workforce plans and service plans. The five year financial plan is a key component of the LDP which sets out how the board plans to achieve financial balance over the five year period. The LDP has not yet been approved by the Scottish Government and discussions are ongoing to agree a final LDP.
51. The board is facing significant cost pressures, notably staff pay costs, the growing costs of drugs, new technologies and rising pension costs and at the same time is also having to deal with reduced funding, in real terms, over the five year period of the LDP. The basic funding uplift for 2016/17 is 1.7% and in each subsequent

year the funding uplift is assumed to be a flat rate of 1.8%. Savings will therefore play a significant part in maintaining financial balance over the 5-year period.

52. In a report to the Board meeting on 26 April 2016, it was reported that whilst a balanced financial plan had not yet been possible, the Finance and Resources Committee agreed on 29 March 2016 to the delegation of indicative operational budgets to ensure budget sign off is in place from 1 April 2016 and to allow for ongoing financial performance management in the new financial year. A special meeting of the Finance, Performance and Resources Committee on 20 April 2016 set out the Financial Plan for 2016/17 and the progress made to identify opportunities to support financial balance.
53. The report to the Board on 26 April 2016 set out the financial outlook for 2016/17 – 2018/19. This estimated that the board will be required to deliver cumulative savings of £30.8 million in 2016/17, rising to £42 million in 2017/18 and £49 million in 2018/19. Savings of this magnitude present a substantial challenge. Moreover, it will be vital to deliver savings on a recurrent basis as non-recurring savings put pressure on future years' budgets.
54. At £30.8 million, the level of cash releasing savings required in 2016/17 is significantly greater than that required for 2015/16. The scale of this challenge cannot be underestimated given that in 2015/16 the board was only able to deliver £6.5 million of its £10.1 million cash releasing saving target.
55. At the end of May 2016, savings proposals for 2016/17 totalling £19.2 million had been identified, leaving a residual gap of £11.6

million. There is a significant risk associated with the board being able to deliver against its identified savings plans and to identify plans for the remaining £11.6 million. No details were presented regarding the savings required beyond 2016/17.

56. As well as the challenge presented in delivering the savings plans there is a need to engage with and manage the concerns of the workforce during this unprecedented period of change which NHS Fife has identified as necessary if it is to close the budget gap.

Action plan, point 3

57. In his Annual Report, the Chief Internal Auditor highlighted that financial reports do not differentiate between recurrent and non-recurrent savings. He also noted that recurrent savings in NHS Fife have historically been lower than the NHS Scotland average. The Chief Internal Auditor has recommended that savings be clearly identified as recurrent or non-recurrent in future financial reports to the Board. In our view the identification of recurrent savings is critical to closing the budget gap over the forthcoming years.

Workforce management

58. 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 safe patient care.
59. We carried out a high level review of the board's workforce planning arrangements using a questionnaire based on the main findings in the Audit Scotland Public Sector Workforce report (November

2013). We found that NHS Fife does not currently have an up to date workforce strategy and that work in this area is ongoing under the remit of the board's Project Management Office (PMO). The development of a new workforce strategy will be informed by the new Clinical Strategy which is planned to be approved by the Board in late 2016.

Action plan, point 4

60. NHS Fife, similar to other smaller health boards, is finding it difficult to recruit and retain staff in the face of 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 which was amongst the highest of any territorial board. The position at May 2016 has improved slightly to 12.9% but the board remains amongst the highest in Scotland. The rate is expected to reduce further to 9% once new appointees take up post.
61. The use of temporary staff (i.e. bank, agency, locum and overtime), provides flexibility to cover vacancies and staff absences. However, continued reliance on such staff could have an impact on the board's plans to achieve the savings required for longer term sustainability.
62. In NHS Fife, spending on non-core staff costs in 2015/16 was £16.6 million (2014/15 £16.3 million). £8.4 million was spent on agency medical and nursing staff (2014/15 £7.9 million) and £8.2 million on internal medical locums and bank nursing (2014/15 £8.4 million). The board has introduced a number of measures to help manage these costs including: holding monthly meetings to review the need for medical locums on a post by post basis and approval from senior management being required for recruitment of additional nursing staff.
63. There are also increasing risks around the sustainability of primary care services in NHS Fife, due to difficulties in recruiting General Practitioners (GPs). In March 2016, the Primary Medical Service Committee agreed that GP practice workforce issues should be included on the committee's risk register. 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. The board has had to directly employ GPs in some areas in order to maintain services.
64. Although the board continues to find it difficult to achieve the national performance standard of 4% for sickness absence, the rate has reduced to 5.05%, compared to 5.28% the previous year. Sickness absence is one of the factors which contribute to high levels of temporary staff costs. The board is committed to reducing sickness absence further and a Staff Health and Well Being Action Plan is in the process of being implemented to support the board's Health and Well Being Strategy.
65. The board continues to experience deteriorating performance in the Knowledge and Skills Framework/Personal Development Plans (KSF/PDPs) completion rates. As at April 2016 the level of completed KSF/PDPs was recorded as 33%, compared to 53% at the same point in the previous year. The Scottish Government's expectation is that 80% of staff should have a completed KSF/PDP

(based on a previous HEAT target). The low completion level presents a risk that staff are not keeping up to date with their training, including mandatory training.

66. An improvement and recovery plan has recently been developed for KSF/PDPs which identifies a number of actions to be taken and a timeline to drive improved performance, with an expectation that by 31st March 2017 the 80% target will be reached.

Conclusion on financial sustainability

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

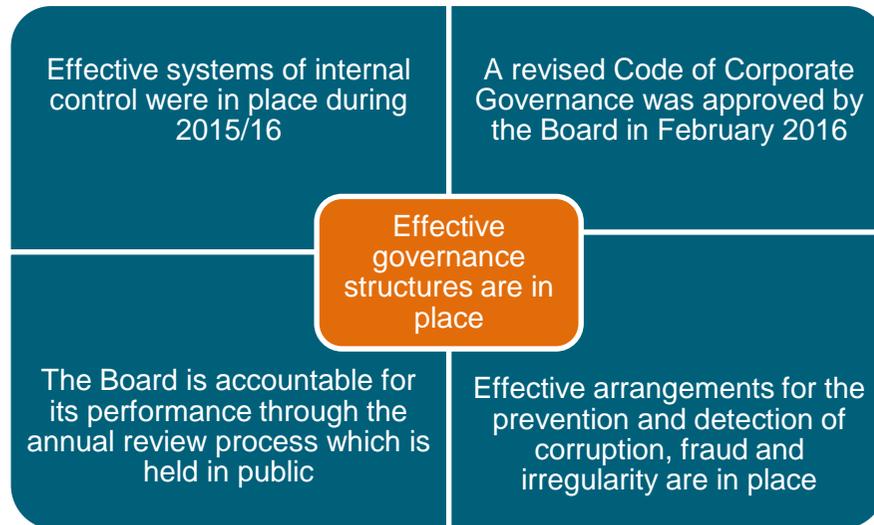
Outlook

68. The board will continue to operate in a funding environment which is subject to sustained pressure to deliver more while facing increasing cost pressures and static or decreasing real terms funding.
69. NHS Fife is required to produce a balanced budget in each of the five years from 2016/17 to 2020/21. This will be dependent on significant efficiency savings each year to bridge the gap between available funding from current sources and the cost of services. The board has estimated that cumulative cash releasing savings of £30.8 million in 2016/17, rising to £49.0 million in 2018/19 will be required to maintain financial balance. Savings of this magnitude

are unprecedented and there is a significant risk of the board not achieving financial balance in future years.

70. 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. Furthermore, as from 2016/17 the board has to manage the loss of financial flexibility, with the transfer of resources to Fife IJB.
71. In common with other NHS boards, NHS Fife is finding it increasingly difficult to meet performance targets and standards while remaining within annual resource limits. Ongoing financial pressures, combined with greater activity and demand, makes achieving targets and standards more difficult.
72. In our view there is a significantly increasing risk that, unless fundamental changes are made to the way the board currently works and organises its services, the quality of patient care may deteriorate and fall short of meeting the needs and expectations of citizens.
73. At the same time, improvements in public health and medical treatments mean that people are living longer although not necessarily in good health. This has resulted in greater demand for health services thereby putting further pressure on finances.
74. Future success is also dependant on NHS Fife working effectively in partnership with Fife Council and the Fife IJB.

Governance and transparency



- 75. 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.
- 76. There were no changes to the board's governance structure during 2015/16. The Board is supported by a number of standing committees, as illustrated opposite, which meet on a regular basis throughout the year.



- 77. We review committee minutes to ensure that committees are fulfilling their responsibilities. We also attend each meeting of the Audit and Risk Committee. Additionally, we attend selected committees to observe how they perform.
- 78. During 2015/16 the board's Code of Corporate Governance was subject to a major review. The work included review of the board's standing financial instructions and standing orders and changes to the overall committee structure (which was partly due to the cessation of Community Health Partnerships and the move towards Health and Social Care Integration). The work was led by the Audit

and Risk Committee and was approved by the Board in February 2016, for implementation from April 2016.

79. In our 2015/16 report on our review of governance arrangements and internal controls (April 2016) we noted that membership of the Audit and Risk Committee changed following the review of the Code of Governance and that it would take time for the new membership to bed in and become effective in their role of scrutinising and challenging management. We recommended that consideration should be given to introducing an ongoing training programme for non-executive committee members to strengthen their role of holding management to account.
80. Overall, we concluded that the board has appropriate governance arrangements in place and they provide a framework for effective organisational decision making.

Internal control

81. As part of our audit we review and test the board's systems of internal control for the purposes of our audit of the financial statements. Our objective is to obtain sufficient audit evidence to support our opinion on the board's financial statements.
82. We noted in our 2015/16 report on our review of governance arrangements and internal controls that 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. Overall, we consider the systems of internal control to be effective.

Internal audit

83. Internal audit provides the Board and Accountable Officer with independent assurance on the board's overall risk management, internal control and corporate governance processes. The internal audit function is carried out by FTF Audit and Management Services (FTF).
84. We carried out a review of the adequacy of the internal audit function of FTF. Overall, we have concluded that, in general, FTF operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
85. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2015/16 we placed formal reliance on internal audit's work on trade payables.
86. Delivery of the 2015/16 internal audit plan proved challenging to FTF due to staffing issues experienced during the year. In March 2016, FTF reported to the Audit and Risk Committee that seven audits from the 2014/15 and 2015/16 audit plans which had been planned to be delivered in 2015/16 would be carried forward into 2016/17. By May 2016, however, significant progress had been made in completing the remainder of the 2015/16 plan.

87. Staffing issues also impact on the internal audit plan for 2016/17. The updated Strategic Internal Audit Plan submitted to the March 2016 Audit and Risk Committee showed a reduction in the 2016/17 planned audit days from 665 days to 543 days. The combination of audits carried forward from 2015/16 and the reduction in audit days may make it challenging for FTF to deliver sufficient reports to support the overall conclusion in the 2016/17 Annual Governance Statement. In discussion with key officers, we were advised that 2016/17 is only one year of the remaining three year strategic plan and that the level of coverage will increase again in subsequent years to give the board the assurance that business objectives will be met.

ICT audit

88. ICT is a key area of control as it underpins all systems used by the board. In 2015/16 we undertook a follow-up review of our 2014/15 computer service review report and a review of the board's preparedness for cyber attack.
89. In relation to our 2014/15 report on the computer service review we noted that one out of four actions remained outstanding: management have not formally considered if the service levels defined in the service level agreement are appropriate to support front line services at a time of increasing reliance on new technology (the eHealth service levels were defined in 2013). Management advised that they will undertake a review by March 2017.

90. In respect of our review on cyber attack preparedness we concluded that although it is not possible to fully eliminate the threat of a cyber attack, the board is aware of the risks associated and is taking appropriate action to mitigate the risk.

Arrangements for the prevention and detection of fraud and other irregularities

91. 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).
92. We concluded that the board has put in place effective arrangements for the prevention and detection of fraud.

National Fraud Initiative in Scotland

93. 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 (counter parties), and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.
94. We undertook an assessment of NHS Fife's arrangements for the most recent NFI exercise in February 2016. Our overall assessment was that the arrangements are mostly adequate but areas of improvement were identified. The areas identified for

improvement were: regular reporting on NFI to members of the Audit and Risk Committee; updating the NFI database with the investigation approach taken; closure of NFI reports; and review of counter party queries.

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. There are established procedures for preventing and detecting corruption including annual reviews of Standing Financial Instructions and Standing Orders.
96. Based on our review of the evidence we concluded that the board has effective 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 with the exception of the availability of up to date versions of registers of interest and registers of gifts and hospitality for directors on the board website.
97. We reported last year that current versions of registers of interest and gifts and hospitality were not available on the website. We noted in our 2015/16 review of governance arrangements and internal controls report that the situation was unchanged. Since April 2016 a 'Schedule of Board Directors' Registerable Interests' has been placed on the board website but the website remains to be updated with the current register of gifts and hospitality.

Transparency

98. 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.
99. 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 health boards. The latest annual review was for 2014/15 and was held on the 10 September 2015. This was attended by Board members led by the chairman and a Scottish Government Official. There was an open session where the public asked questions of Board members and the official from the Scottish Government.
100. The annual review letter contained 6 action plan points for the board to progress. We reported in our 2015/16 Review of governance arrangements and internal controls report that the details of the Scottish Ministers' Annual Review for 2014/15 have not been made available on the website.
101. 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. As we noted last year, some committee dates and venues and agendas and papers are not always available on the website. We also note that although standing committee

meetings are open to the public, this is not overtly advertised on the website.

- 102. Management have confirmed that they are actively addressing issues around the availability of information on the website and plan to have addressed the issues by March 2017.
- 103. In an effort to make information as accessible as possible a number of organisations broadcast board meetings live on the web and/or make recordings of meetings available via their websites. As part of the commitment to openness and transparency the board should consider whether this would be an option for the future.
- 104. Overall we 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.

Integration of health and social care

- 105. The Public Bodies (Joint Working) (Scotland) Act (the Act) received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.
- 106. The integration of health and social care services straddles both the local government and health sectors but only covers some of their functions. This is a change to the delivery of health and social care of considerable scale and complexity.
- 107. Audit Scotland and the Accounts Commission published a report, "Health and Social Care Integration", (December 2015). This is the

first in a series of three reports that will chart progress in health and social care integration (HSCI) in the coming years.

- 108. The report emphasises that HSCI is important for delivering care in community based settings. Also, it highlights a range of risks that partners face in the initial stages of implementing HSCI, as summarised in the following extract.

Partners need to set out clearly how governance arrangements will work in practice, particularly when disagreements arise. This is because there are potentially confusing lines of accountability and potential conflicts of interests for board members and staff. There is a risk that this could hamper the ability of an Integration Joint Board (IJB) to make decisions about the changes involved in redesigning services. People may also be unclear who is ultimately responsible for the quality of care. In addition, IJB members need training and development to help them fulfil their role.

IJBs must have strategic plans that do more than set out the local context for the reforms. To deliver care in different ways, that better meets people's needs and improves outcomes, IJBs need to set out clearly:

- the resources, such as funding and skills, that they need
- what success will look like
- how they will monitor and publicly report on the impact of their plans.

NHS boards and councils must work with IJBs to agree budgets for the new IJBs. This should cover both their first year and the next few years to give them the continuity and certainty they need to develop and implement strategic plans. IJBs should be clear about how they will use resources to integrate services and improve outcomes.

Source: Audit Scotland's Health and Social Care Integration Report (Dec 2015)

109. Fife IJB was legally established on 3 October 2015 and became fully operational on 1 April 2016, when delegated services transferred to them. NHS Fife (and Fife Council) has provided support to help the IJB to develop its governance arrangements including internal audit arrangements, standing orders and financial regulations, performance arrangements and risk management arrangements. A report to the April 2016 meeting of the IJB recognised that ongoing work was required for the continued development of the IJB in line with the Act.
110. Membership of Fife IJB includes representatives from NHS Fife and Fife Council. The IJB has also appointed a Chief Officer and a Chief Finance Officer, however both of the current incumbents to the role are scheduled to retire in 2016. A replacement Chief Officer has recently been appointed to take over the role. It is important that the changes are carefully managed to ensure there is no loss of direction and momentum for the IJB and its working relationship with NHS Fife and Fife Council.
111. The IJB has a Strategic Plan which was formally approved by the IJB in February 2016. The plan sets out how delegated services will be delivered over the next three years and sets out the financial framework for the IJB, including initial indicative budgets.
112. On 17 March 2016 the IJB considered a report on due diligence work which examined the historical financial position of the delegated services and the revised proposed and indicative budgets. This report anticipated a £15 million shortfall in the sums required to deliver the delegated and managed services and that the

development of investment and savings proposals are crucial to address this position. It also recognised the additional financial risks arising from the increased financial pressures in relation to 2016/17 budgets.

- 113. The IJB approved an indicative 2016/17 budget in March 2016, however as at the start of June 2016, the IJB's 2016/17 budget had not yet been finalised as it is dependent on NHS Fife formalising its budget through its Scottish Government approved 2016/17 LDP. At the time of writing, the LDP remains in draft.
- 114. It is of some concern that very little detailed information on the IJB financial position has been presented to the NHS Fife Board. In addition, the Chief Internal Auditor, in his Annual Report has also cited a number of instances where Board members are not well sighted on other IJB matters, including accountability structures, staff governance and risk management.
- 115. It is important that NHS Fife Board members are provided with sufficient information to allow them to discharge their responsibilities as Board members of NHS Fife.

Action plan, point 5

- 116. We have concluded that, overall, good progress towards health and social care integration has been achieved by NHS Fife and Fife Council but some critical work remains, including how to address the significant issue around the funding position of the IJB.

2020 Vision

- 117. The Scottish Government's vision is that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. Audit Scotland published its annual overview report, "[NHS in Scotland 2015](#)", in October 2015. It found that the pace of change needs to increase if the 2020 Vision is to be achieved.
- 118. In August 2015 the Cabinet Secretary for Health, Wellbeing and Sport opened a national conversation on improving the health of the population and on the future of health and social care. It is envisaged that the national conversation will be used to influence a programme of work to drive greater progress towards the 2020 vision and any necessary changes over the next 10 to 15 years. This is a clear signal from the Scottish Government that it intends to promote faster progress through NHS boards.
- 119. Furthermore, the Scottish Government's National Clinical Strategy published in February 2016 emphasised the need to "design services based around supporting people, rather than single disease pathways, with a social foundation of integrated health and social services based on new models of community-based provision". This strategy seeks to further develop the 2020 Vision but over a longer timeframe i.e. up to 2025-30.
- 120. Throughout 2015/16 NHS Fife continued to develop its new clinical strategy within the board's overarching Strategic Framework. The new clinical strategy is scheduled to be presented to the Board in June 2016 after which it will go through the public consultation process before it is formally approved in late 2016.

121. We have been advised that the new clinical strategy will reflect the 2020 Vision and should provide clarity on NHS Fife's own vision and priorities and that it will inform all aspects of the board's strategic operation, including its workforce strategy.
122. In order to achieve the 2020 Vision, the board (along with its partners) will have to develop new ways of working through transformational change. The board has introduced a Programme Management Office (PMO) to facilitate this.
123. We have concluded that the board's progress towards the 2020 Vision is dependent on the development of its clinical strategy. It is important, therefore, that work in this area continues at an appropriate pace.
126. The success of the PMO is critical to NHS Fife, to enable it to transform how it operates and enable it to deliver its objectives within available funding for the short, medium and longer term.
127. A PMO update report is included as part of the IPR which is considered by the Board and the Finance and Resources Committee at each of their meetings. We note that the update is narrative in nature. It does not detail intended project timelines and does not give any indication of progress against timelines (whether projects are on track and delivering as intended). It is not possible to judge project progress based on the information presented as part of the IPR. There is therefore a risk that board members and residents are not fully aware of progress, whether projects are being delivered as intended and how the board is taking decisions.

Action plan, point 6

Transformation

124. During 2015/16 the board established the PMO to take forward significant transformation projects. The remit of the PMO is to provide support and direction to individual project teams with the intention that improvement in performance and efficiency is achieved across a range of inter-dependent clinical and non-clinical services.
125. The PMO projects currently relate to: the new clinical strategy; prescribing efficiencies; demand and capacity; optimising surgical efficiencies; out-facing activity; workforce strategy; workforce efficiency; well at work; and estates and facilities management efficiency.

Risk management

128. The board's risk management framework was approved by the Board in August 2014. At that time it was noted that two areas of the new framework were still to be developed i.e. a board assurance framework (BAF) and the board's risk appetite.
129. A report to the Audit and Risk Committee in March 2016 advised that in light of the revised Code of Corporate Governance including changes to committee structures approved at the Fife NHS Board in February 2016, and developments in Health and Social Care Integration, the arrangements for the reporting of corporate risks would be reviewed and updated as part of an overhaul of the NHS

Fife Risk Management Framework in Quarter 2 of 2016. The report also noted the Executive Directors' Group (EDG) would review the corporate risk register to ensure it accurately reflected the current risk profile for NHS Fife, draft a risk appetite statement and agree the timescale and actions to facilitate the production of a BAF.

130. The EDG has since met and updated the corporate risk register and drafted a plan for the production of the BAF. It is important that work in this area continues at an appropriate pace to ensure that NHS Fife's risk management arrangements are sufficiently mature.

Clinical Governance

131. In December 2015 Internal Audit reported their results of an audit which considered clinical governance assurance processes and procedures. The report was graded C (adequate) and contained 16 action plan points.
132. A significant finding in the report related to significant clinical concerns from staff which had not been responded to appropriately or escalated by the Clinical Governance Committee and that a Special Board Meeting had to be convened to discuss the issue. It was agreed that lessons learned from this incident be fed into to the Clinical Governance assurance system and that clinical risks and associated actions are appropriately recorded and escalated.
133. It is important that work in clinical governance continues at an appropriate pace to ensure that NHS Fife's arrangements are robust.

Outlook

134. NHS Fife faces continuing challenges in a number of areas including increasing financial challenges, achievement of performance targets, successful integration of health and social care services and delivery of the Scottish Government's aim of people living longer and healthier lives at home or a homely setting (i.e. the 2020 Vision).
135. Embedding robust governance arrangements will be an essential element in meeting these challenges and maintaining accountability for all stakeholders.
136. Good governance will be particularly important where resources and service delivery are devolved to the IJB. It will be crucial that the board implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an ongoing focus on governance and assurance to ensure that the national and local priorities are being addressed.
137. As the way in which health and social care is delivered changes, the structures of the NHS, and its relationship with local government, will need to reflect those changes. The Scottish Government plans to build on the integrated approach and review the number, structure and regulation of health boards and their relationship to local councils.

Best value



138. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.

Arrangements for securing best value

139. The board is committed to the principles of best value and continuous improvement. Internal Audit has consistently reported in recent years that the board maintains a Best Value Framework and in 2015/16 assessed the board's arrangements in this area as category A, which is considered to represent best practice.

140. 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.

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

Performance management

142. The performance of NHS Fife is monitored by the Scottish Government against a number of Local Delivery Plan Standards which support the delivery of the Scottish Government's national performance framework. These targets and their trajectories (plans) are set out in the board's Local Delivery Plan (LDP).

143. Performance against the LDP standards is presented to each meeting of the Board in the form of the Integrated Performance Report (IPR). The IPR is also presented to the Finance and Resources Committee, which as of April 2016, became the Finance, Performance and Resources Committee. This means the full Board are given an update on performance every second month and in the intervening period the Finance, Resources and Performance Committee are provided with an update on performance.

144. During 2015/16 the IPR was refined to give more focussed attention to improvement actions required to sustain or improve performance.

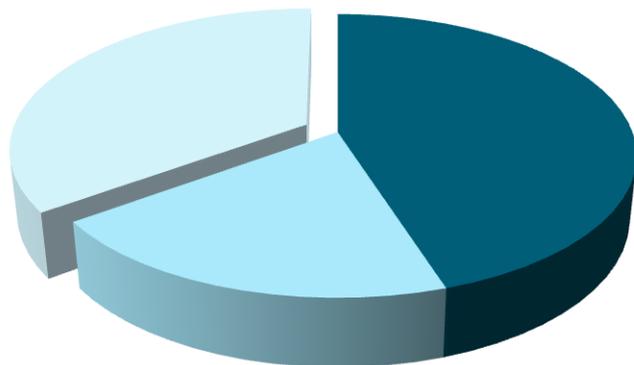
Performance is also discussed at the Annual Review meeting held between the Scottish Government and the Board.

145. We concluded that the board had a well established performance management framework in place during 2015/16.

Overview of performance targets in 2015/16

146. The board's performance against its 20 LDP Standards as reported in the 2015/16 annual accounts and based on the most up to date data available regarding the position at the end of March 2016, is summarised in the following diagram.

Overall performance 2015/16



■ Green Status (9) ■ Amber status (4) ■ Red Status (7)

147. Of 20 LDP Standards, nine were categorised as green, four amber and seven red, where:

- green means performance meets or exceeds its planned value or standard
- amber means performance is behind, but within 5% of planned recovery trajectory
- red means performance is more than 5% behind the planned recovery trajectory

148. Overall, NHS Fife's performance is broadly comparable with 2014/15, with 55% of the targets categorised as green or amber (53% in 2014/15).

149. There are 7 measures that are categorised as red (9 in 2014/15). These relate to:

- 12 week patient treatment time guarantee
- cancer waiting times: 62 day right to treatment
- hospital acquired infection Staphylococcus Aureus Bacteraemia (SAB)
- delayed discharges, greater than 2 weeks
- smoking cessation
- child and adolescent mental health waiting times
- psychological therapies waiting times

150. All of these, except hospital acquired infection SAB were also categorised as red in 2014/15.

151. Of the seven areas categorised as red, four relate to access and waiting times. The board recognises that it faces significant challenges in these areas and action plans have been put in place

to improve performance. The Board and the Finance and Resources Committee monitor performance to ensure that action plans lead to improvement.

- 152. During 2015/16 performance against the delayed discharges measure of no patient in delay for more than 2 weeks, has been challenging. The number of patients in delay increased month on month, peaking at 112 patients in delay in November 2015. Since then the number of patients in delay has reduced with 29 patients in delay at March 2016.
- 153. An action plan is in place to manage performance and includes a range of measures including: a joint delayed discharge task group which meets to manage the demand for placements and services across the Fife partnership; and capacity modelling to understand service pressures and why patients discharge is delayed. The Scottish Government provided additional funding to the board to reduce the number of patients in delay following the capacity modelling exercise.
- 154. Overall, we concluded that the board has good performance monitoring arrangements in place that enable members to exercise effective scrutiny. An exception to this as previously noted relates to the lack of detail provided on progress against milestones as part of the PMO section of the IPR.

Clinical and medical negligence

- 155. The Performance Analysis contained in the Annual Report and Accounts highlights an increasing level of provisions held for clinical

and medical negligence claims. Provisions have increased since 2013/14: 2013/14: £13.0 million, 2014/15: £26.1 million, 2015/16: £46.8million. This represents a significant financial exposure to the NHS and may indicate a worrying trend in terms of potential failings in clinical and medical care at NHS Fife.

National performance audit reports

- 156. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the board. These are outlined in [appendix III](#) accompanying this report
- 157. 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 Executive Directors' Group and a summary report is presented to the Audit and Risk Committee, most recently in May 2016. From our attendance at the Audit and Risk Committee we have concluded that the arrangements for considering national performance audit reports are adequate.

Equalities

- 158. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and

every two years thereafter, public bodies must publish a report on the progress made to achieve the equality outcomes it has set.

159. The board's Equality Outcomes Progress Report was published in April 2015. In December 2015, the Board considered a Public Sector Equalities Duties Update Report. The report advised that progress has been made in gathering employee information and using this information to meet the public sector equalities duty and that gender pay gap information had been published.

Outlook

160. Audit Scotland in its annual overview of the NHS in Scotland (October 2015) highlighted that pressures on NHS boards have intensified over the past year as has the urgency for fundamental changes such as introducing new ways to deliver healthcare and developing a national approach to workforce planning. The strong focus on performance targets may not be sustainable when combined with the additional pressures of increasing demand and the overall NHS budget static or decreasing in real terms. The effort that NHS boards are making to meet challenging financial and performance targets each year makes it more difficult for them to focus on the long-term planning required to achieve the Scottish Government's 2020 Vision.

161. The Scottish Government is to carry out a review of national NHS targets, with an expert group being set up, working with staff, stakeholders, social care and clinical bodies, to examine a range of

national targets to ensure they are continuing to deliver better outcomes for patients as well as making best use of NHS resources.

162. It will also look at how target setting aligns with the Government's strategy for the future direction of NHS and social care services, in the context of the existing outcomes and indicators for health and social care integration.

163. Audit Scotland has been changing how it develops its programme of work shifting to a longer-term and strategic approach focusing on the key risks and opportunities facing Scotland's public sector. Within health a number of studies are planned to address key areas of risk including the NHS workforce (2016/17), self-directed support (2016/17), children and adolescent mental health (2017/18) and digital in health (2017/18). Full details of our future work programme can be found at www.audit.scotland.gov.uk.

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
Risk of material misstatement in the financial statements		
<p>Financial balance and sustainability</p> <p>Ongoing financial balance and delivery of year on year efficiency savings continues to present the board with significant challenges both now and in the future. At the end of October 2015 only £8.3 million cash releasing schemes had been identified out of the £10.3 million required for financial balance, with more than 40% of savings identified as ‘high risk’ of non delivery (equating to £4.3 million for the full year).</p> <p>Risk: The required efficiency savings and expenditure reduction measures may not be achieved resulting in the board failing to break even at the year end. Longer term service delivery remains at risk of not being affordable and is a very significant challenge to the board moving forward.</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. • Cut-off testing of both trade payables and trade receivables to ensure that expenditure and income are accounted for in the correct financial year. 	<p>Results:</p> <ul style="list-style-type: none"> • Monitored position throughout the year. • Substantively tested a sample of income and expenditure transactions. • Carried out cut-off testing on income and expenditure transactions. <p>Conclusion:</p> <ul style="list-style-type: none"> • Reported continuing and increasing risk to financial sustainability earlier in this report.

Audit risk	Assurance procedure	Results and conclusions
<p>Income recognition</p> <p>Auditing standard ISA 240 requires auditor's to presume a risk of fraud where income streams are significant. Income from external sources can present a risk of fraud. Particular areas for concern include: FHS income; cash receipts; non-mainstream income generating activities.</p> <p>Risk: The extent of income means there is an inherent risk that income could be materially misstated. ISA 240 requires auditors to evaluate which types of revenue transactions give rise to such risks.</p>	<ul style="list-style-type: none"> • Analytical review of income streams. • Evaluation of the effectiveness of systems of internal control for income recognition and recording. • Compliance testing of internal controls associated with income recognition and recording. • Sample of transactions tested substantively to confirm income has been correctly accounted for. • Monitoring of frauds and false exemptions reported. • Examination of the NHS National Services service auditor report covering Practitioner Services. 	<p>Results:</p> <ul style="list-style-type: none"> • Undertook audit assurance procedures including: analytical review; controls evaluation and testing; substantively tested a sample of income transactions; monitored frauds reporting; and reviewed the NHS National Services service auditor report covering Practitioner Services. <p>Conclusion:</p> <ul style="list-style-type: none"> • No issues to report.

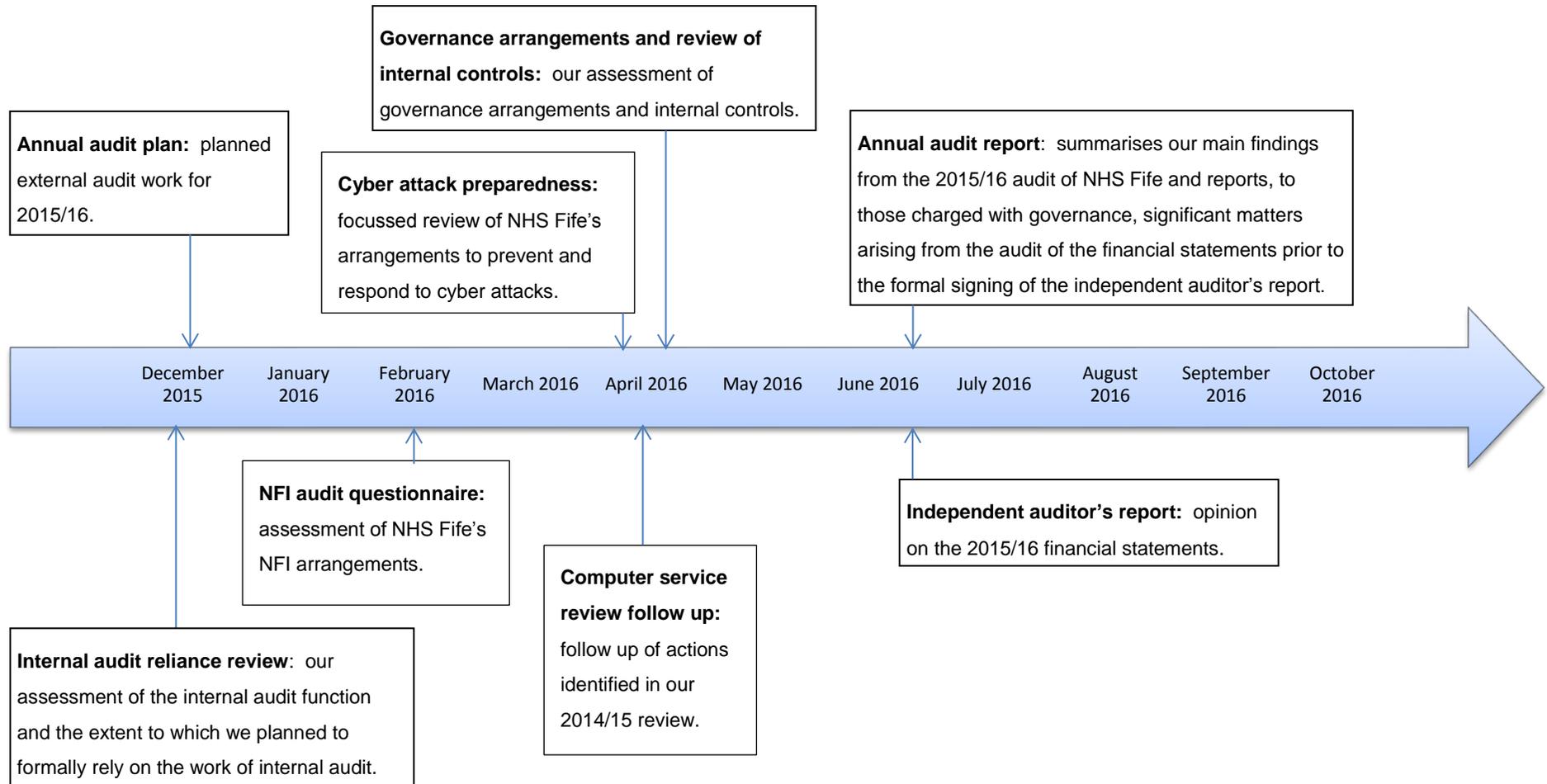
Audit risk	Assurance procedure	Results and conclusions
<p>Management override of controls</p> <p>ISA 240 also requires auditors to consider, on all audits, management’s ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Risk: Management may take advantage of their unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates for bias. • Sample of transactions tested substantively to confirm they have been correctly accounted for. • Evaluation of significant transactions to identify any that are outside the normal course of business. 	<p>Results:</p> <ul style="list-style-type: none"> • Undertook audit assurance procedures including: substantive testing a sample of journals; reviewed accounting estimates; substantively tested a sample of transactions; evaluated significant transactions to identify if any outside the normal course of business. <p>Conclusion:</p> <ul style="list-style-type: none"> • No issues to report.
<p>Integration Joint Board and the Annual Report and Accounts for NHS Fife</p> <p>The Fife Integration Joint Board (IJB) was established on 3 October 2015 (and will be required to prepare its own annual accounts for 2015/16). As a result the NHS Fife Annual Report and Accounts will be required to include relevant financial and governance disclosures regarding the IJB for 2015/16.</p> <p>Risk: NHS Fife may not include appropriate disclosures on the IJB within its Annual Report and Accounts.</p>	<ul style="list-style-type: none"> • Planning meeting with NHS Fife and the Chief Officer / Chief Finance Officer for the IJB. • Review of disclosures. 	<p>Results:</p> <ul style="list-style-type: none"> • Planning meetings held. • Reviewed disclosures against guidance. <p>Conclusion:</p> <ul style="list-style-type: none"> • Annual Report and Accounts disclosures in line with guidance.

Audit risk	Assurance procedure	Results and conclusions
<p>Changes to the reporting requirements under the Government Financial Reporting Manual (the FReM)</p> <p>The FReM is the technical accounting guide for the preparation of NHS annual reports and accounts. The 2015/16 FReM requires changes to the annual report and accounts which should now be structured to include a performance report and an accountability report.</p> <p>Risk: NHS Fife may not include appropriate disclosures within its annual report and accounts in line with the FReM.</p>	<ul style="list-style-type: none"> Review of NHS Fife’s application of the FReM. 	<p>Results:</p> <ul style="list-style-type: none"> Reviewed disclosures against guidance. <p>Conclusion:</p> <ul style="list-style-type: none"> The information in the performance report and accountability report is consistent with our understanding of NHS Fife. However, we have noted that there is scope for improvement in the content of the Performance Report - Overview to ensure it fully complies with the guidance (reported earlier in this report).

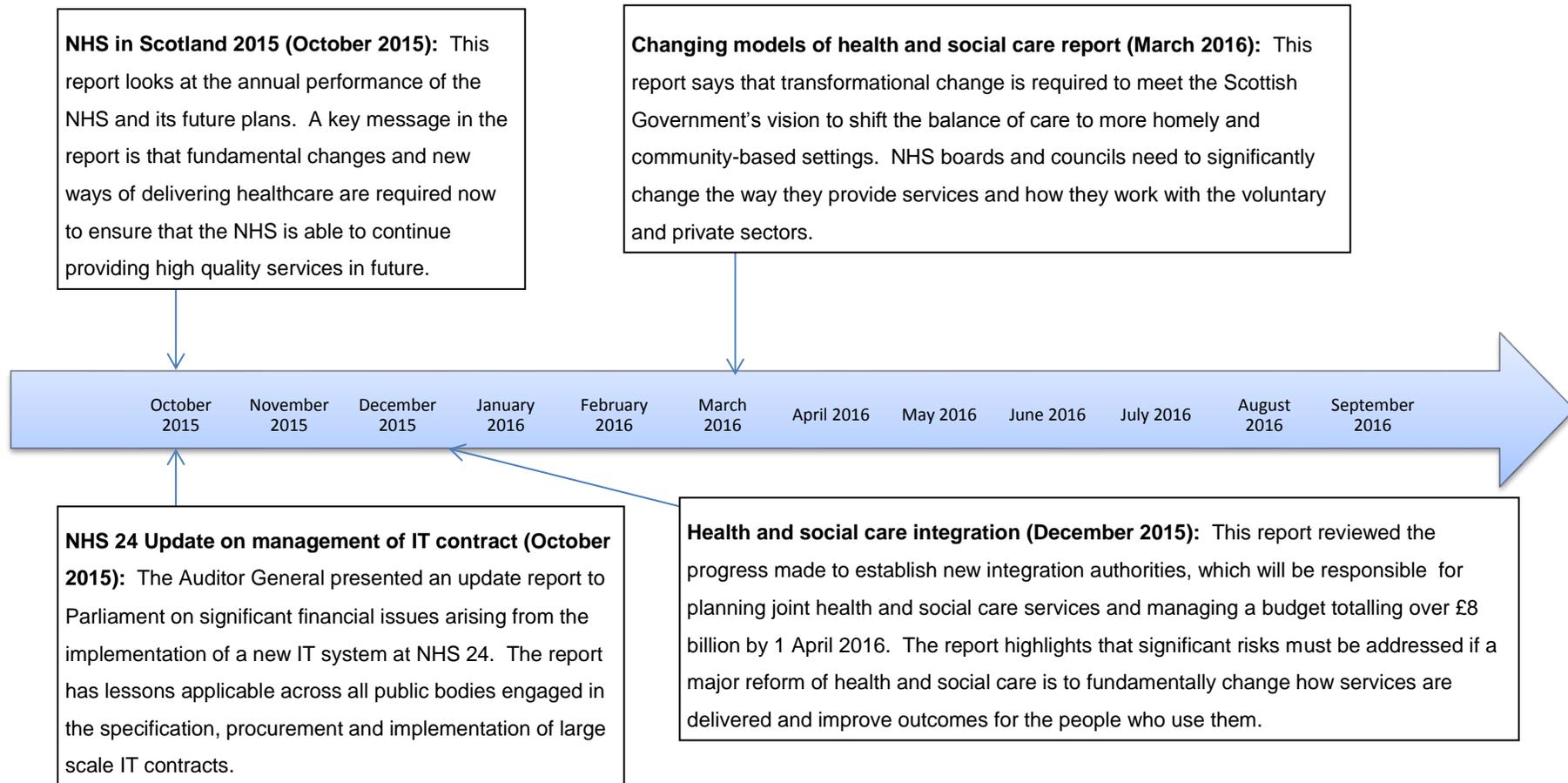
Audit risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>Workforce management</p> <p>The board continues to experience a number of workforce challenges, including sickness absence levels above the national target, low level of completed Knowledge and Skills Framework/Personal Development Plans and recruitment difficulties requiring the use of bank and agency staff and locums.</p> <p>Risk: This may impact on the board's plans to achieve the savings required for longer term financial sustainability. Service delivery may also be affected and ultimately patient safety.</p>	<ul style="list-style-type: none"> Audit Scotland published a report on <i>Scotland's Public Sector Workforce</i> in November 2013. This was followed by <i>Scotland's Public Sector Workforce – Good Practice Guide</i> in March 2014 which provided guidance on developing, implementing and scrutinising workforce plans and workforce change programmes. We plan to carry out local follow-up work based on the recommendations in the 2013 report. 	<p>Results:</p> <ul style="list-style-type: none"> Reviewed workforce planning as part of local follow-up audit of Scotland's Public Sector Workforce report. <p>Conclusion:</p> <ul style="list-style-type: none"> Work on NHS Fife's new Workforce Strategy is ongoing but cannot be completed until the new Clinical Strategy is approved. Other workforce management issues identified (use of temporary workforce, sickness absence and KSF/PDP completion) which have been reported earlier in this report.

Audit risk	Assurance procedure	Results and conclusions
<p>Information technology - cyber attacks</p> <p>Over the past 12 months several Scottish public organisations have been victims of cyber attacks and related activities. The threat from cyber attacks will continue to develop, potentially leading to reputational and financial harm.</p> <p>Risk: Cyber attacks could disrupt the availability of critical patient systems as well as affect the board’s financial systems.</p>	<ul style="list-style-type: none"> Undertake a focused review of NHS Fife’s arrangements to prevent and respond to cyber attacks. 	<p>Results:</p> <ul style="list-style-type: none"> Cyber attack preparedness review completed and reported. <p>Conclusion:</p> <ul style="list-style-type: none"> No significant issues noted.
<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. Although the Integration Joint Board has been established and good progress has been made, significant aspects of health and social care integration still require to be progressed.</p> <p>Risk: NHS Fife and its partner may not be fully prepared for the integration of health and social care. Financial pressures and political tensions could also adversely impact on the effectiveness of the move to full and effective implementation of health and social care integration.</p>	<ul style="list-style-type: none"> Continue to review progress towards implementation by reviewing the reports presented to the Board. Review of internal audit report on health and social care integration. 	<p>Results:</p> <ul style="list-style-type: none"> Reviewed progress reports on HSCI presented to the Board. Reviewed internal audit report on health and social care integration. Reviewed IJB committee papers. <p>Conclusion:</p> <ul style="list-style-type: none"> Ongoing risks identified, most specifically concerning financial sustainability of Fife IJB. Findings and conclusions noted earlier in this report.

Appendix II: Summary of NHS Fife local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16



Appendix IV: Action plan

No.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / target date
Financial statements issues and risks				
1.	24	<p>Holiday pay accrual</p> <p>Issue: In our view the board's method of estimation of the 2015/16 holiday pay accrual is flawed, primarily due to the use of 2014/15 leave records as the basis for the estimation and the application of a 50% reduction to the initial 2015/16 calculation for which there is minimal basis.</p> <p>Risk: The holiday pay accrual may be misstated.</p> <p>Recommendation: Going forward, the method of estimation of the holiday pay should be reviewed in order to provide a more robust calculation.</p>	We will review the holiday pay accrual in line with a wider review of balance sheets across NHS Scotland and in line with national decisions which may impact on our approach.	Director of Finance December 2016

No.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / target date
2.	24	<p>Performance Report - Overview</p> <p>Issue: The Performance Report - Overview should provide the lay user with enough information so that there is no requirement to look further into the rest of the annual report and accounts. In our view there is scope for improvement in the level of detail that is contained in the board's 2015/16 Performance Report - Overview to ensure it fully meets this requirement.</p> <p>Risk: The Performance Report - Overview does not provide the lay user with enough information so that there is no requirement to look further into the rest of the annual report and accounts.</p> <p>Recommendation: Going forward, the board should review the content of the Performance Report - Overview against the requirements of the FReM.</p>	There is narrative on the performance of the Board and consideration will be given in the 2016/17 accounts to aligning this as suggested.	Director of Finance March 2017

No.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / target date
Wider dimension issues and risks				
3.	56	<p>Financial sustainability</p> <p>Issue: The board has identified that significant cumulative cash releasing savings of £30.8 million in 2016/17, rising to £49.0 million in 2018/19 will be required to achieve financial balance. The realisation of these savings will become progressively more challenging year on year.</p> <p>Risk: The board may not be able to deliver the targeted savings in 2016/17 and beyond.</p> <p>Recommendation: The board should ensure that robust, risk assessed saving plans are developed identifying how the savings in 2016/17 and beyond will be achieved.</p>	<p>The Board are well informed and very focussed on the need to deliver significant savings amounting to £49m over the next 3 years.</p> <p>Work is continuing to identify efficiency linked to new ways of working and service redesign as part of the Clinical Strategy.</p> <p>The Board is also in close dialogue with Scottish Government on progress in identifying savings.</p>	<p>Director of Finance</p> <p>On going</p>

No.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / target date
4.	59	<p>Workforce strategy</p> <p>Issue: NHS Fife does not currently have an up to date workforce strategy. Work in this area is ongoing under the remit of the board's PMO. The new workforce strategy is to be informed by the new Clinical Strategy which is planned to be approved by the Board in late 2016.</p> <p>Risk: The board may not be able to plan and effectively manage its workforce. Ongoing issues in relation to use of temporary staff, sickness absence and completion of KSF/PDP may continue in the absence of an up to date strategy.</p> <p>Recommendation: The workforce strategy should be finalised as soon as practicable.</p>	<p>The Board continues to undertake the required workforce planning and will submit its numbers to Scottish Government for the end of June 2016. The workforce strategy is due to be finalised in August 2016 with the corresponding implementation plan by the end of of December 2016.</p> <p>A recovery plan to enable 80% compliance for completed KSF by March 2017 is in place.</p>	<p>Director of HR December 2016</p> <p>Director of HR March 2017</p>

No.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / target date
5.	115	<p>Fife IJB</p> <p>Issue: Very little detailed information on the financial and governance arrangements of the IJB has been presented to the NHS Fife Board.</p> <p>Risk: NHS Fife Board members may not have sufficient information on the IJB to allow them to discharge their responsibilities as Board members of NHS Fife.</p> <p>Recommendation: Consideration should be given to the level of information provided to NHS Fife Board members in relation to the IJB.</p>	The Board has received regular updates on the IJB during 2015/16. Agreed that for 2016/17 consideration will be given to the level of information the Board requires going forward in relation to the IJB.	Director of Finance supported by other EDG members October 2016

No.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / target date
6.	127	<p>Programme Management Office updates</p> <p>Issue: During 2015/16 the board established a Programme Management Office (PMO) to take forward significant transformation projects. A PMO update report on progress is regularly reported to the Board and the Finance and Resources Committee. The update is narrative in nature and does not detail intended project timelines and provide an indication of progress against those timelines. It is not possible to judge project progress based on the information presented.</p> <p>Risk: Board members and Fife residents may not be fully aware of project progress, whether projects are being delivered as intended, and how the Board is taking decisions.</p> <p>Recommendation: PMO update report information should be extended to include timelines for projects and progress against those timelines.</p>	The work of the PMO will be reviewed to ensure that appropriate updates are included within the IPR in 2016/17.	Director of Planning and Director of Finance August 2016