

# NHS FIFE

Management report 2019/20



 AUDIT SCOTLAND

Prepared for NHS Fife

June 2020

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# Audit findings

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## Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at NHS Fife. 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 2019/20 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, governance and transparency and value for money.

## COVID-19

4. The audit work contained in this report pre-dates the COVID-19 global pandemic and our audit approach may require further revision once we are clearer about the accounting and auditing frameworks that will apply to the audit of the 2019/20 financial year.

## Conclusion

5. 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 1](#) where we will be carrying out additional work in response to these findings.

6. In terms of our wider dimension audit work we concluded that NHS Fife continues to face a number of challenges in delivering financial and performance targets, and the governance arrangements for the Board's transformation programme are still not operating effectively. We note there have been some improvements to governance arrangements on openness and transparency, health and social care partnership arrangements, and data recovery procedures.

7. Specific areas for improvement in respect of our wider dimension work are set out in [Exhibit 1](#). too.

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 2019/20 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 and control and feeder system reconciliations. Areas for further improvement are detailed at [Exhibit 1](#). Action plan nos. 1-4



#### 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.

### Financial capacity

11. During 2019/20 there have been a number of staff changes in Finance. The service is currently operating below establishment and one key staff member is employed on a temporary basis. Two senior officers are employed on a part time basis and one of these officers is on a temporary contract.

12. There is a risk of increased weakness in the control environment and a risk that there is insufficient financial capacity, particularly at a senior level.

[Refer to Exhibit 1. Action plan no. 5](#)

### Wider dimension audit work

13. We followed up the findings from our prior year work on financial planning and financial management including reviewing progress on the delivery of savings plans and the effectiveness of in year budget reporting. We also considered the reliance on and nature of non- recurrent savings.

### Financial management

14. From our review of financial and performance reports and associated minutes we have concluded that the Board receives timely reports with reliable financial information and explanations for variances.

### NHS Fife continues to be reliant on non- recurrent savings, including financial flexibility, to meet financial targets

15. We have reported for a number of years that NHS Fife continues to rely on non-recurrent savings, including financial flexibility, to deliver against its financial targets and this has continued in the current year. Financial flexibility is expenditure within the financial plan that is not incurred (or turns out to be less than estimated) in the year and unspent Scottish Government allocations.

16. The impact of non-delivery of recurring savings in the previous year (2018/19) of £14.7 million was a significant factor in the initial budget gap of £17.3 million for 2019/20. The Annual Operational Plan identified, at the start of the year, that around £10 million of the required savings should be met within the Acute Services Division. However, there were no specific savings plans developed at the start of

the year, and despite significant work internally, and externally by Deloitte LLP professional services (Deloitte LLP), detailed savings plans have still not been developed for 2019/20.

[Refer to Exhibit 1. Action plan no. 6](#)

**17.** At 31 December 2019, only 11.3% of the savings target for the year had been achieved on a recurring basis, and a further 18.6% on a non-recurring basis, meaning that £7.6 million (70.2%) of the savings target for the year was reported as outstanding. Outstanding savings for 2019/20 will have a detrimental impact on the budget position in future years and are likely to impact on NHS Fife's ability to achieve their medium-term financial plan.

**The year-end forecast outturn is an overspend, estimated to be in the range £3.5 million to £9.8 million**

**18.** NHS Fife has been reporting overspends throughout 2019/20. The financial position worsened as the year progressed reaching a peak overspend of £7.5 million in October, until reducing in December to an overspend of £5.4 million. The most recent year end forecast at February 2020, prior to applying financial flexibility of unspent allocations, ranges from £3.5 million overspend best case to £9.8 million overspend worst case.

**19.** The main reasons for the expected overspend have been:

- **failure to achieve savings in the Acute Services Division (ASD)** – at the end of December 2019, ASD reported unmet savings of £5.7 million, and a net overspend of £11.9 million. During 2019 the Scottish Government commissioned Deloitte LLP professional services to provide advice on service transformation for ASD. Deloitte LLP published a report in November 2019 with recommendations designed to improve transformation and deliver savings for ASD. Implementing the consultant's recommendations was expected to lead to savings being achieved this year, but NHS Fife has been slow to respond, and savings are not now expected until 2020/21.
- **overspends incurred by the Integration Joint Board (IJB) and impact of the risk share agreement** – the agreed budget for 2019/20 assumes a capped risk share cost to NHS Fife of £7.05 million. The most recent forecast overspend of the IJB is significantly higher than the original approved budget gap (and capped risk share pressure) with a potential further £3.3 million - £3.8 million impact on the NHS Fife position at year end.
- **the increasing cost pressure associated with non-Fife activity** and, the continuing number of specialist high cost, low volume procedures undertaken in Edinburgh reported in recent months.

**20.** The main mitigating actions during the year have been the review undertaken by Deloitte LLP, management of financial flexibility and ongoing discussions with Scottish Government. Discussions have also been ongoing regarding the IJB risk share although this agreement will remain in place for the current financial year.

**21.** At this stage it appears unlikely that NHS Fife will achieve their financial target in 2019/20 without further financial assistance from the Scottish Government, as there are no detailed savings plans and financial flexibility is not likely to be enough to offset the overspends.

[Refer to Exhibit 1. Action plan no. 7](#)

### The IJB risk share agreement presents a specific challenge for financial management and reporting within NHS Fife

**22.** The risk share arrangement as set out in the Integration Scheme for the Fife Integration Joint Board presents a specific challenge for financial management and reporting within NHS Fife.

**23.** The existing risk share arrangement means that NHS Fife is committed to funding 72% and Fife Council 28% of the IJB's overspend. For 2019/20 the IJB overspend this year is mainly attributable to social care costs. This results in NHS Fife sharing an estimated additional cost of £7 million. In previous years, NHS Fife has benefitted from the risk share when overspends have occurred in areas like community prescribing.

**24.** Discussions are ongoing to review the terms of the Integration Scheme but for 2019/20 the arrangement included in Integration scheme agreed in 2015 remains extant. Any changes to the agreement would need to be agreed with Fife Council and the IJB and approved by the Scottish Government. The current risk share arrangement is not typical of most integration schemes but in our view, it is a positive indicator of partnership working and risk ownership across the partners.

### Governance and transparency

**25.** We reviewed leadership and openness within NHS Fife. This involved reviewing board and committee minutes, observing several board and committee meetings and considering the information made available to the public.

**26.** We have commented previously on a lack of timeliness in uploading committee papers to the NHS Fife website and the need to make the website more user friendly. Most committee papers are now up to date and available online, with the exception of Finance, Performance and Resources Committee papers. However, the latest papers for this committee for January and March 2020 are now online with those for November, September and July 2019 still to be uploaded.

**27.** Progress has also been made during 2019/20 with the NHS Fife investing in the creation of a new website design.

### There is evidence that Committee items escalated to the Board are now being adequately discussed

**28.** The Board is progressing our recommendation from 2019, "that there should be sufficient time and resources set aside at Board meetings to ensure there is proper consideration of the items escalated from committees". We have noted that all the issues raised in the Finance Performance and Reporting meetings are now included in subsequent agendas for Board meetings. The Chair of the Board confirms whether there are any items for discussion and if so, appropriate time is allocated to the discussion.

### The committee self-assessment process provides assurance that committees are operating effectively

**29.** We noted concern in our Management Report 2018/19 that no action was being taken to implement changes following the 2018 committee self-assessment process. Since then, a Board Development Session has been held to discuss the committee's self-assessment alongside an NHS Scotland Blueprint for Good Governance self-assessment. An action plan was agreed, and an update was provided to the Board six months later, which showed evidence of progress.

**30.** From attendance at audit and risk committee meetings there is also evidence that members have considered results of the self-assessment and have held various development sessions for members.

### The transformation programme has been refreshed and governance arrangements have been strengthened

**31.** Transformation governance arrangements have been refreshed during 2019/20. A workshop took place on 23 July 2019 which provided an overview of the

key work being undertaken in NHS Fife and Fife Health and Social Care Partnership with the most impact on the whole health and social care system. The workshop was attended by Executive Directors and Board members of NHS Fife; members of Fife Integration Joint Board, senior managers and clinicians with staff side representation. An update paper on the stocktake workshop was presented to the Clinical Governance Committee in September 2019.

**32.** The work streams discussed broadly aligned with the 4 strategic priorities of:

- Acute Services Transformation
- Joining Up Care - Community Redesign
- Mental Health Redesign
- Medicines Efficiencies.

**33.** From this event it was agreed that the transformation programme required to be refreshed, and in particular, that the governance and leadership arrangements be reviewed and strengthened. To oversee and take this work forward, an Integrated Transformation Board was established in August 2019 with joint leadership from the Chief Executives of NHS Fife and Fife Council. For the initial scoping of the programme and establishment of governance arrangements, the Chair of Clinical Governance Committee, Chair of the IJB Clinical and Care Governance Committee and Fife Council Elected Member on the NHS Fife Board were also in attendance. There have been 4 meetings of the Integrated Transformation Board to date.

**34.** Key elements of the strengthened governance have included:

- introduction of an Interim Programme Management Office Director role to support the design and delivery of the programme and strengthen governance arrangements.
- development of a Stage and Gate Process to ensure clarity in relation to governance of change projects and the key milestones that each progresses through in its development, consultation, approval and implementation.
- development of supporting documentation based on Scottish Capital Investment Manual (SCIM) guidance to ensure consistency of Business Case development to enable improved tracking of anticipated benefits, costs, workforce implications and risks.

**35.** A paper was provided to the Clinical Governance Committee in March outlining progress and agreeing the scrutiny arrangements as change projects impacting on clinical care delivery were developed and implemented.

**36.** It is anticipated that further reflection will be required to capture the opportunities presented by the COVID mobilisation arrangements where significant change has been implemented at pace.

**37.** During 2019/20 the frequency, consistency and completeness of reporting to the Board on the transformation programme has reduced. Going forward, the Integrated Transformation Board needs to ensure that sufficient information is provided to the Board to ensure transformation is effectively monitored and scrutinised by members.

### Non-executive members have concerns about the operation of the health and social care partnership arrangements

**38.** In our 2018/19 Annual Audit Report we recommended that the operational and governance arrangements between the Board and IJB should be clarified to ensure

that staff, senior management and members of the partner bodies work as a partnership.

**39.** A Section 102 report was made to the Accounts Commission in January 2020 following its 2018/19 annual audit report. The Accounts Commission welcomed progress made by the IJB in 2019/20 in securing senior appointments, adopting a new strategic plan, and progressing reviews of its integration scheme and of its medium-term financial strategy. However, they underlined the need to strengthen financial management and performance reporting, and the need for responsibilities of the board and its relationship with its partners, Fife Council and NHS Fife to be clearer.

**40.** The IJB has been working with the Scottish Government's Director of Delivery of Health and Social Care Integration to improve the Boards understanding of its governance responsibilities and is implementing new statutory guidance on Directions. this work is still being undertaken and we expect that the review of the integration scheme will be concluded in 2020/21.

### Cyber security and GDPR compliance

**41.** In our 2019 Annual audit report we highlighted that the Board was not receiving regular updates on issues such as progress towards achieving cyber essentials accreditation and that the Board did not expect to be fully compliant with GDPR until December 2019.

**42.** We have been advised that progress is ongoing to derive the scope and context of reports to be provided to Board members. NHS Fife now reports that it is fully compliant with GDPR.

### Value for money

#### NHS Fife has improved reporting on sickness absence performance, but targets are not being met

**43.** We followed up on the findings from our prior year work on the steps being taken to improve and report on sickness absence performance. We also considered the findings of Internal Audit report B23A/20 on Attendance Management.

**44.** Reporting on performance in the Integrated Performance and Quality Report (IPQR) has improved, with improvement actions, progress and timescales now being provided. Internal Audit found several actions being taken including seeking good practice from other Boards, regular training sessions for managers and the Well@Work initiative, which supports staff in achieving a positive work-life balance. They also made four recommendations for improvement, which have been accepted by Management.

**45.** However, despite ongoing efforts to improve attendance, sickness absence rates are still above national and local targets. For the year to 31 December 2019, the NHS Fife absence rate was 5.71%, which is above the Scottish average for the same period of 5.45% and the national target of 4%. NHS Fife has a local target of reducing absence to 4.89% by the end of March 2020, however the planned trajectory was not met in the first nine months of 2019/20.

**46.** [Refer to Exhibit 1. Action plan no. 9](#)

### Risks identified

**47.** The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

**48.** 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.

## Additional audit work due to systems weaknesses

49. Interim testing has identified additional audit work to be carried out during our financial statements audit as follows:

- We will test a sample of PECOS payments focussing on the five users with inappropriate access to confirm entries are appropriate. (see [Exhibit 1: PECOS access controls](#)).
- We will select a sample of changes to supplier bank details and request confirmation through officers that changes are valid and have been confirmed with suppliers where appropriate. (see [Exhibit 1: Changes to supplier details](#)).
- We will select a sample of leavers and ensure they have been removed from the payroll and that they have not continued to be paid after their date of leaving NHS Fife. (see [Exhibit 1: Changes to the payroll](#))
- We will select a small sample of journals focussing on those raised by the individual identified during interim testing, to ensure they have been appropriately posted. (see [Exhibit 1: Authorisation of journals](#))

## Exhibit 1 Key findings and action plan 2019/20

Issue/ risk (Year first reported)	Recommendation	Agreed management action/ timing
<p><b>1. PECOS and ledger access controls (2018/19)</b></p> <p>In 2018/19 we found three users of the PECOS system had approval rights despite having left the health board. Management confirmed that they would work with HR colleagues to remind line managers of the requirement to advise on movers/leavers.</p> <p>This year we selected a sample of ten users who had access to PECOS and found that five of the individuals no longer worked for NHS Fife.</p> <p>In February 2020 we found one user who had ledger access and was on the Standing Data Authorisation Matrix but had left NHS Fife at the beginning of January 2020.</p> <p><b>There is a risk of fraud.</b></p>	<p>User access permissions for all financial systems need to be reviewed on a frequent basis to ensure that the permissions granted are appropriate to job roles and relate only to current employees.</p>	<p>A formal review process is conducted quarterly with the financial services team in liaison with the efinancials national systems team. Management will consider whether there is a requirement to complete this review more frequently.</p> <p>The ledger access related to a member of senior staff who transferred to another NHS Board, the staff member has since been removed from the matrix.</p>
<p><b>2. Changes to supplier details (2017/18)</b></p>	<p>Agreed procedures need to be followed for all changes to supplier</p>	<p>Staff had followed the procedure however omitted to evidence who</p>

Issue/ risk (Year first reported)	Recommendation	Agreed management action/ timing
<p>We reported last year that there was no agreed or consistent procedure for verifying changes to supplier details. During 2019, management addressed this control weakness and confirmed new procedures with ledger staff.</p> <p>We tested 20 changes to supplier details in 2019/20 and found 10 instances where staff had not followed the revised procedures.</p> <p><b>There is a risk of exposure to fraud.</b></p>	<p>details.</p>	<p>had actioned the change by adding a signature to the transaction. This has been corrected and staff reminded of the need to add this evidencing signature going forward.</p>
<p><b>3. Changes to the payroll</b></p> <p>eESS is a national HR system which holds data relating to payroll for the NHS. Standard operating procedures require managers from the individual health boards to ensure the data is kept up to date by inputting any changes on a timely basis.</p> <p>Data from eESS should be sent three times each day to the payroll system in NHS Fife and used to pay employees their monthly salaries.</p> <p>The payroll manager has advised that managers in Fife do not always update eESS accurately or on a timely basis, and data is not always received daily from eESS. There is therefore a risk that leavers continue to be paid after the date they ceased employment.</p> <p><b>There is a risk of fraud and error.</b></p>	<p>Controls require to be implemented to ensure that all leavers are removed timeously from the payroll system.</p>	<p>The national HE system is new to NHS Fife and staff and managers are embedding the system requirements into process. Managers will be reminded to ensure that the system is updated timeously to avoid any incorrect payments to staff. Management will continuously review the effectiveness of the system as it operates with payroll.</p>
<p><b>4. Authorisation of journals</b></p> <p>We tested 20 journals and found four which had not been appropriately authorised. The four journals had all been processed by the same individual.</p> <p><b>There is a risk of fraud and error.</b></p>	<p>Management should ensure all staff are familiar with procedures for authorising journals and ensure controls are in place to detect those which have not been properly authorised.</p>	<p>Management has reviewed this with the individual and has ensured appropriate training and guidance is now in place to avoid a repetition of this error.</p>
<p><b>5. Financial capacity</b></p> <p>During 2019/20 there have been several staff changes in Finance. The service is currently operating below establishment and one key staff member is employed on a temporary basis. Two senior officers are employed on a part time basis and one of these officers is on a temporary contract.</p> <p><b>There is a risk of increased weakness in the control environment and a risk that the</b></p>	<p>Management needs to ensure controls operate effectively and that the board has sufficient skills and capacity to produce a quality set of financial statements.</p>	<p>On taking up post (part-time initially) in February 2020 the Director of Finance assessed the operational capacity and capability of the senior financial services team. Since then capacity has been increased and some roles extended to ensure more opportunity for succession planning across the team. The temporary contract</p>

Issue/ risk (Year first reported)	Recommendation	Agreed management action/ timing
financial statements might not be completed in time.		arrangement has been removed as part of this process. There has also been an appointment in April 2020 (on a temporary and part-time basis) to the Assistant Director of Finance post.

## Audit dimensions - issues and risks

### Financial management and financial sustainability

#### 6. Delivery of savings

NHS Fife is required to achieve efficiency savings of £17 million on a recurring basis during 2019/20. The detailed plans on how these will be delivered have yet to be fully developed.

Risk: Financial targets will not be met as there is a lack of clarity in how the required savings will be achieved.

Specific and achievable savings plans should be developed to ensure that the Board can deliver the required savings. Sufficient information on these plans should be provided to enable the FP&RC and Board to carry out effective scrutiny.

Moving into 2020/21, a formal and detailed assessment of resource levels and service costs is underway including a risk assessment of the deliverability of the required level of savings required to balance in 2020/21. This will be all the more challenging given the impact on services and costs of the response required to the COVID 19 pandemic. Of equal importance will be developing robust and consistent forecasting which does not mirror the level of change to forecast seen in 2019/20. This will involve continuing close working with the IJB and also a continuation of the discussion on the current risk sharing agreement terms. It will also require a detailed assessment of the costs associated with delivering our acute services and the transformation required to enable that on a recurring basis within planned resource levels.

#### 7. Reliance on non-recurrent savings

NHS Fife continues to rely on non-recurrent savings to deliver against their financial targets and is relying on financial flexibility to offset the significant overspend within Acute Services.

The Board should take steps to reduce its reliance on non-recurrent savings to achieve financial targets.

The comment in relation to recommendation 6 also applies to this point.

Issue/ risk (Year first reported)	Recommendation	Agreed management action/ timing
<p>Risk: At this stage it appears unlikely that NHS Fife will achieve their financial target in 2019/20 without further financial assistance from the Scottish Government, as there are no detailed savings plans and financial flexibility is not likely to be enough to offset the overspends.</p>		
<p><b>Governance and transparency</b></p>		
<p><b>8. Service Transformation</b></p> <p>During 2019/20 the transformation programme has been refreshed and governance arrangements have been strengthened.</p> <p>However, throughout the year the frequency, consistency and completeness of reporting to the Board on the transformation programme has reduced.</p> <p>Going forward, the Integrated Transformation Board needs to ensure that sufficient information is provided to the Board to ensure transformation is effectively monitored and scrutinised by members.</p> <p>Risk: There is a risk that transformation is not progressing as quickly as anticipated by the Board.</p>	<p>Further work is required to accurately capture and report the required information to enable effective monitoring and scrutiny of the programme by the Integrated Transformation Board and the Board.</p>	<p>The progress made to strengthen governance arrangements to support integrated transformation will include improvements in how progress is reported to both the relevant governance committees and the NHS Fife Board. This will be developed and delivered in the context of the current and understandable focus on the COVID 19 response. Capturing the learning from that rapid response to system change will also be important.</p>
<p><b>9. Sickness absence</b></p> <p>Sickness absence remains at a high level despite continuing efforts to improve performance.</p> <p>Risk: There is a risk that sickness absence will remain at a high level and impact on staff morale, quality of care and the achievement of statutory performance targets.</p>	<p>NHS Fife should continue developing a better understanding of the underlying reasons behind sickness absence levels and implement actions to reduce sickness absence.</p>	<p>A review of the reasons for sickness absence, in particular long term absence, was planned with the setting up of a SLWG, however, shortly after the Terms of Reference were drafted, the pandemic work started, so this will need to be revisited post pandemic. The work is to be resurrected later in June, with feedback to the September 2020 APF meeting. The long term plans for staff support to enhance excising provision will contribute.</p>

**50.** All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# NHS FIFE

## Management report 2019/20

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