

NHS FIFE

2017/18 Annual Audit Report



 **AUDIT SCOTLAND**

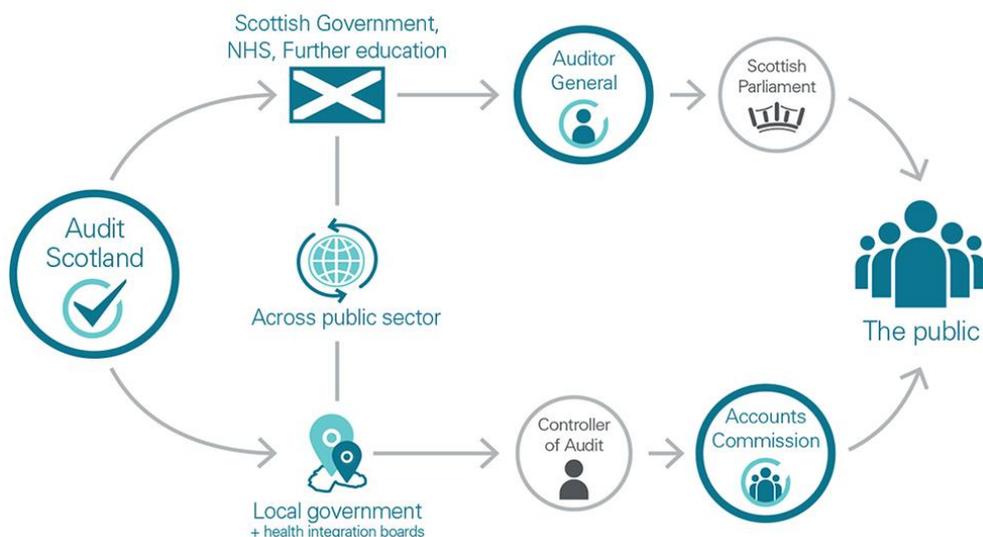
Prepared for the Board of NHS Fife and the Auditor General for Scotland

28 June 2018

Who we are

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

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

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

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

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

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Key Messages

2017/18 annual report and accounts

- 1 Our audit opinions were all unqualified.
- 2 We have identified uncorrected misstatements totalling £2.7 million where we are not satisfied that a present obligation for service expenditure (at 31 March 2018) exists. This is contrary to accounting standards. NHS Fife has accrued for future expenditure for development and patient activity to “match” unspent funding allocations.

Financial management and financial sustainability

- 3 NHS Fife operated within its revenue resource limit reporting an underspend against this of £1.5 million.
- 4 NHS Fife did not achieve its savings target on a recurring basis in 2017/18. It achieved £12 million on a recurrent basis: £17 million short of the target of £29 million.
- 5 Although NHS Fife made some improvements to its budgetary processes in 2017/18, we identified some key weaknesses. Management did not accept or only partially accepted the risks we raised including clarity over the ongoing monitoring of actual expenditure against two separate budget targets including the “run-rate” and a lack of detailed savings projects to support the agreed budget.
- 6 Medium/long term financial planning development has stalled and financial planning through the East of Scotland Regional Delivery Plan is at an early stage.
- 7 There are significant financial challenges in the services delegated to Fife Integration Joint Board which requires significant service redesign across the partners. A three-year recovery plan has been developed to get the FIJB into financial balance.

Governance and Transparency

- 8 During 2017/18 the FIJB governance arrangements were reviewed by the partners but proposals outlined in October 2017 have not yet been fully agreed or actioned.

Value for Money

- 9 NHS Fife has an effective performance management framework, but continues to struggle to meet key national performance targets.

Introduction

1. This report summarises the findings from our 2017/18 audit of Fife Health Board, commonly known as NHS Fife.
2. The scope of our audit was set out in our Annual Audit Plan presented to the 14 December 2017 meeting of the Audit and Risk Committee. This report comprises the findings from:
 - an audit of NHS Fife's annual report and accounts
 - consideration of the wider dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:
 - a review of NHS Fife's main financial systems
 - an audit of NHS Fife's 2017/18 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - consideration of the four audit dimensions.
4. NHS Fife has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are

in accordance with the accounts direction from Scottish Ministers. NHS Fife's annual report and accounts includes the following:

- Performance Report
 - Accountability Report (which includes the Directors' Report, Governance Statement and Remuneration and Staff Report)
 - Financial statements and supporting notes.
5. NHS Fife is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
 6. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and [the Code of Audit Practice \(2016\)](#), and guided by the auditing profession's ethical guidance.
 7. As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the board's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this, we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
 8. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
 9. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.
 10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £154,560, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. Our aim is to add value to NHS Fife by providing insight and foresight on financial sustainability, risk and performance and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help boards promote improved standards of governance, better management and decision making and more effective use of resources.
12. This report is addressed to the board of NHS Fife and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.
13. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual report and accounts



Main judgements

Our audit opinions were all unqualified

There were two significant adjustments that are reflected in the audited financial statements. Net expenditure and the RRL outturn were unaffected.

We identified misstatements totalling £2.7 million where we are not satisfied that a present obligation for service expenditure (at 31 March 2018) exists. This is contrary to accounting standards. This has not been adjusted in the audited financial statements.

Audit opinions on the annual report and accounts

14. The annual report and accounts for the year ended 31 March 2018 were approved by the board on 27 June 2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

The annual report and accounts are the principal means of accounting for the stewardship of resources and performance in the use of those resources.

Submission of annual report and accounts for audit

15. We received the financial statements and most of the associated notes to the accounts on 4 May, but did not receive the performance report and accountability report sections until 11 May 2018. A full version of the unaudited annual report and accounts was provided on 16 May 2018. This did not meet the agreed timetable of 4 May 2018 included in the NHS Fife Annual Audit Plan 2017/18, although IJB transactions were reflected in the accounts earlier than had been the case in 2016/17. The working papers were of a good standard and finance staff provided good support to the audit team.



Recommendation 1

NHS Fife should ensure that the agreed timetable for presenting the unaudited annual report and accounts for audit is met.

Risks of material misstatement

16. [Appendix 2](#) provides a description of areas we assessed as being at risk of material misstatement and the wider dimension risks. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and how the efforts of the audit team were directed. The appendix identifies the audit work we undertook to address these risks and our conclusions from this work.

Materiality

17. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. On receipt of the annual report and accounts we reviewed our planning materiality and concluded that, the materiality levels required only minor adjustment. These are shown at [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£12.1 million
Performance materiality	£6.0 million
Reporting threshold	£100,000

Significant findings from the audit in accordance with ISA 260

18. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

19. The findings include our views about significant qualitative aspects of the board's accounting practices including:

- | | |
|---|---|
| • Accounting policies | • Accounting estimates and judgements |
| • Significant financial statements disclosures | • Timing of transactions and the period in which they are recorded |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements |
| • Misstatements in the annual report and accounts | • Disagreement over any accounting treatment or financial statements disclosure |

Exhibit 3

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Funding allocations from Scottish Government</p> <p>We had raised concerns about the year-end treatment in financial allocations in our management report to the Audit and Risk Committee in May 2018.</p> <p>NHS allocations letters from the Scottish Government give health boards an authority to spend the budget approved in Parliament. These allocations are equivalent to grant-in-aid and should be accounted for on a cash basis in accordance with the Financial Reporting Manual (FRoM). This is distinct from grant funding which may be returned if a specified condition is not met. Earmarked or ring-fenced NHS allocations are not grants and any objectives or policy outcomes stipulated in accompanying allocation letters are not considered conditions from an accounting perspective. This means that allocations cannot be deferred to a future financial period.</p> <p>Where ear-marked funding has been used on other areas then this would need to be funded from allocations in future years. This may lead to financial pressures in future years.</p> <p>NHS Fife has not spent its allocations for four acute (£1.1 million) and two health and social care (£0.6 million) projects identified within the total allocation for 2017/18. NHS Fife, decided that, following discussions with the Scottish Government it would accrue expenditure in 2017/18 to “match” the unspent funding.</p> <p>In our view this accrued expenditure does not represent a present obligation at 31 March 2018 that arises from past events. This is contrary to International Accounting Standard 1 (IAS1) and to the Financial Reporting Manual (FRoM) requirements. Net expenditure and the revenue resource limit outturn is therefore overstated by £1.7 million.</p>	<p>Officers disagree with our assessment of how these funding allocations should be accounted for when elements remain unspent.</p> <p>This is an unadjusted error in the audited annual report and accounts.</p> <p> Recommendation 2 (refer appendix 1, action plan)</p>
<p>2. Holiday pay accrual</p> <p>The holiday pay accrual, included in the financial statements, is £1.4 million and medical and dental staff account for £0.8 million of this. NHS Fife’s financial systems do not currently have a means of easily extracting outstanding holiday leave for medical and dental staff and the maximum carry forward entitlement of five days has been assumed for this category of staff.</p> <p>We conclude that we are unable to obtain sufficient appropriate audit evidence for management’s estimate of the holiday pay accrual for medical and dental staff.</p>	<p>We considered the estimate included in the financial statements in accordance with ISA540. We have raised this issue in previous audits. In 2016/17 the total management estimate was £1.2 million which we determined was overstated by £0.8 million based on the value indicated by the system in place. In 2015/16 the sample estimate was arbitrarily halved by management to £0.7 million. The medical and dental staff estimate could vary between £0 million and £0.8 million, based on the estimate of untaken accrued leave at 31 March, between 0 and 5 days. Our midpoint estimate of this is £0.4 million, based on a normal distribution of</p>

Finding

Resolution

values between these extremes. Our conclusion is that the existing estimate is probably overstated by £0.4 million. **This is an unadjusted error in the audited annual report and accounts.**



[Recommendation 3 \(refer appendix 1, action plan\)](#)

3. Other provision adjustments

Present obligations exist in areas such as pensions and legal/ tribunal cases where there is uncertainty over the timing or amount that might eventually be paid. We identified two areas totalling £0.3 million which are treated as accruals. **We believe these should be classified as provisions.**

The existing provision for pension enhancements has not been based on Scottish life expectancy tables. **The Scottish tables should be used which would reduce the provision by £0.6 million.**

A corrected treatment for these items, would reduce net expenditure by £0.6 million, but because a change in provision is charged against Annually Managed Expenditure rather than the RRL, the RRL net effect is a reduction in the RRL outturn of £0.3 million.

This is an unadjusted error in the audited annual report and accounts.



[Recommendation 2 \(refer appendix 1, action plan\)](#)

4. Prescribing advance

Practitioner Services Division (PSD), within National Services Scotland (NSS), provides services on behalf of health boards to support general practitioners, dentists, opticians and community pharmacies delivering primary care across Scotland. This includes payments made to these practitioners. Transactions are reflected in health board accounts through the “payment on behalf” mechanism.

Prescribing charges from PSD are paid two months in arrears and boards are required to pay a one month advance (based on estimate). Creditors include a prescribing accrual for two months while debtors should include an advance payment for one month.

The unaudited financial statements included £6.7 million “other non-cash costs” in the Consolidated Statement of Changes in Taxpayers Equity (SoCTE). The figure is the movement between the opening and closing advance to pharmacists and we had questioned this approach last year as we did not believe this treatment was consistent with other NHS bodies. Action taken in response to the issue raised in 2016/17 resulted in management’s decision not to reflect the year end debtor. This was incorrect and debtors were therefore understated.

An audit adjustment, of £6.7 million, was made in the audited financial statements to reflect the prescribing advance at 31 March 2018. This reduced the other “non-cash costs” in the SoCTE to £0.03 million.

NHS Fife appears to be the only health board showing the movement between the opening and closing prescribing advance as a “non-cash cost” in the SoCTE. We understand that there is a lack of consistency, across NHS Scotland, in accounting for “payments on behalf”.



[Recommendation 4 \(refer appendix 1, action plan\)](#)

5. CNORIS revision and classification of legal claims and reimbursements

Provisions in the unaudited financial statements were overstated by £7.8 million as a legal claim was settled during the year with an annually recurring payment, however the original provision was not updated to take account of the amount agreed. The associated debtor under CNORIS was

Audit adjustments were made in the audited financial statements to reflect revised payment arrangements and timing of cashflows.

Finding	Resolution
<p>also overstated and the adjustment had no effect on net expenditure</p> <p>Receivables due after more than one year were overstated by £18 million with a corresponding understatement of receivables due within one year. The adjustment was required to ensure that the timing of the debtor is consistent with the timing of the expected cashflows.</p>	

20. [Appendix 3](#) provides details of the unadjusted errors and their impact on the annual report and accounts.

How we evaluate misstatements

21. Total errors exceeded our overall performance materiality of £6 million. We consider that we have identified in full the adjustments to reflect the settlement, timing and reimbursement of clinical and medical negligence claims. We are also clear that the original treatment of the prescribing advance was erroneous and has been corrected with relatively minor remaining issues around the consistency of disclosure with other NHS bodies.
22. The net unadjusted errors total £2.7 million (Appendix 3). This mainly consists of over accruals of expenditure items, where we recognised specific audit risks (treatment of unspent allocations and the holiday pay accrual). We have concluded that the errors are contained and do not indicate further systematic error within the account areas or more pervasively within the financial statements. We considered the impact of these misstatements on our audit approach and decided that further audit procedures were not required.
23. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. Management do not propose to adjust for item 1 in [Appendix 3](#) as their view is that funding allocations against specific projects can only be used for those projects and acceptable treatment is to accrue expenditure to the value of the allocation. No adjustment has been made for item 2 as senior management believe the methodology applied to calculate the holiday pay accrual is defensible.

Data analytics

24. In 2017/18 we used data analytics in NHS Fife as part of our planned audit approach. Data analytics is defined by the International Auditing and Assurance Standards Board (IAASB) as “the science and art of discovering and analysing patterns, deviations and inconsistencies.... in the data underlying.... an audit ...for the purpose of planning and performing the audit”. Such techniques provide ways of dealing with high volumes of transactions as well as complexity. They also enhance audit quality and efficiency.
25. **Accuracy of staff costs.** We carried out a trend analysis which covered 97% of total staff costs to identify outliers and obtained an explanation for these variances. The remaining 3% of staff costs do not get processed through the payroll system. Most of these costs relate to agency staff. We used analytical techniques to predict individual elements of staff cost including wages and salaries, social security costs and agency staff costs. The actual staff cost was within tolerable limits of our predicted amount.
26. **Reperformance of the trial balance/ accounts classification.** We obtained and analysed every general ledger transaction processed in 2017/18: The

collected data was used to reperform the trial balance and confirm that the accounts agree to the ledger.

- 27. Analysis of ledger processing.** Comparative information on financial processing was available for five other NHS territorial boards and in general, NHS Fife's financial processing performance was consistent with its size and complexity. We did not identify any specific risk/issues with NHS Fife processing performance. There were over 140,000 journals with an average of 9.1 lines each, posted from 47 user accounts.
- 28. Risk tagging of individual transactions.** We used a risk-tagging model to review all ledger transactions. The model incorporated factors such as value, timing and nature We investigated high scoring transactions. The results of this testing were satisfactory and we did not identify evidence of fraud or significant management bias.

Follow up of prior year recommendations

- 29.** We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).
- 30.** In total, seven agreed actions were raised in 2016/17. Of these:
- Three have been fully implemented
 - Four are not actioned or have only partly been actioned
- 31.** Overall the NHS Fife has made limited progress in implementing last year's action plan. For those actions not yet implemented, revised responses and timescales have been agreed with management in [Appendix 1](#)

Part 2

Financial management



Main judgements

NHS Fife operated within its revenue resource limit reporting an underspend against this of £1.5 million

NHS Fife did not achieve its savings target on a recurring basis in 2017/18. It achieved £12 million on a recurrent basis against a target of £29 million.

Although NHS Fife made some improvements to its budgetary processes in 2017/18, we identified some key weaknesses. Management did not accept or only partially accepted the risks we raised.

Financial performance in 2017/18

32. NHS Fife has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD) annually. As illustrated in [Exhibit 4](#), NHS Fife operated within all limits during 2017/18, recording an underspend against its revenue resource limit of £1.5 million. In appendix 3 of this report we identify unadjusted errors that would increase the reported underspend by £2.5 million.

Exhibit 4

Performance against resource limits in 2017/18

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	685	684	1.5
Non-core revenue resource limit	40	40	0
Total revenue resource limit	725	724	1.5
Core capital resource limit	6	6	0
Non-core capital resource limit	0	0	0
Total capital resource limit	6	6	0
Cash requirement	726	726	0

Source: NHS Fife Annual Report and Accounts 2017/18, subject to rounding for presentation purposes

Underspend against Revenue Resource Limit (RRL)

33. NHS Fife identified that it needed to make efficiency savings of £29 million (4.7%) in 2017/18 to deliver within its revenue resource limit for 2017/18. The year end outturn (an underspend against RRL of £1.5 million) was delivered by partly delivering on the savings target but also as a result of other factors including some areas of overspend.

- Savings of £22.5 million were delivered (77% of the target) arising from planned efficiency and cost control measures.
- Slippage in financial plan commitments and unspent allocations of £8.4 million
- Additional funding of £1.6 million
- Benefit of £0.3 million arising from the risk share arrangement with Fife Council for the Fife Integration Joint Board (FIJB)
- Year-end adjustment to CNORIS which resulted in a year end benefit of £0.9 million
- Miscellaneous benefits, including infrastructure support and over-recovery of income, of £0.9 million.
- The above benefits were offset by an overspend in operational areas, excluding savings, of £3.9 million, including the impact of incremental progression within Acute nursing and a shortage in the supply of some medicines resulting in an increase in prices.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Efficiency savings

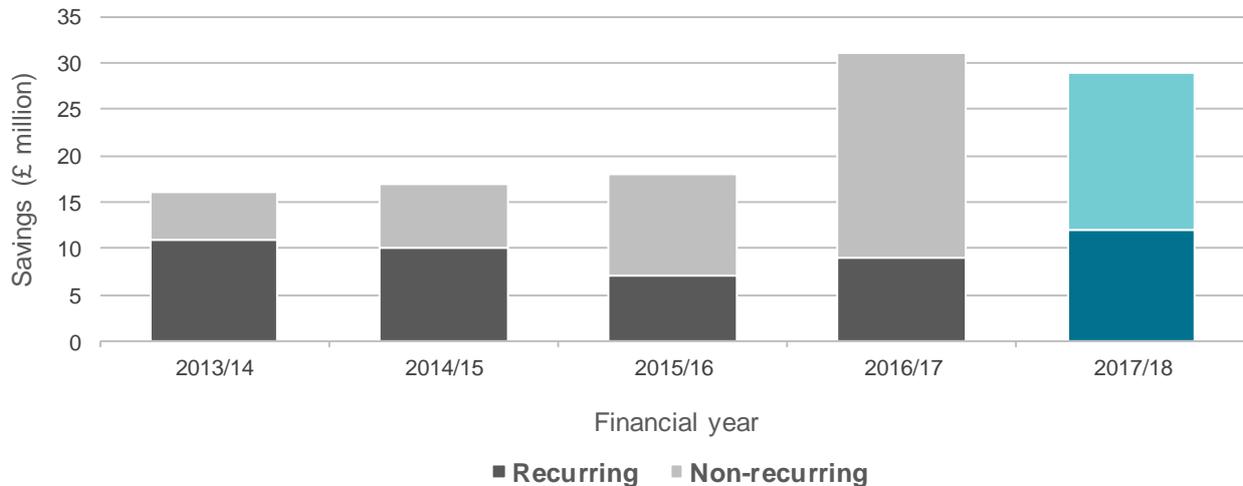
34. Savings targets to address the budgeted financial gap of £29 million were allocated in initial budgets between NHS Fife (£16 million) and FIJB (£13 million). The FIJB element was short by £6.4 million. This was largely due to GP prescribing, as a result of increased costs from a shortage in supplies, and unmet target savings in respect of community services redesign.

35. NHS Fife continues to rely on non-recurring savings as illustrated in [Exhibit 5](#). With 42% of savings delivered on a recurrent basis in 2017/18, the remaining £17 million (58%) of the £29 million savings target will fall to be met again in 2018/19. However, the recurring shortfall is lower than the £22 million (71%) in 2016/17. The level of reliance on non-recurring savings remains significant.

36. Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

Exhibit 5

NHS Fife: Savings – recurring and non-recurring



Source: Audit Scotland Annual Audit Reports

Budgetary processes and quality of financial reporting

37. During the year, we reviewed NHS Fife's budgetary processes and budget monitoring arrangements and we identified some key weaknesses. The key areas for improvement were highlighted in our management report presented to the Audit and Risk Committee on 17 May 2018. Management did not accept or only partially accepted the risks we raised, including:

- the narrative in the Integrated Performance Report (IPR) is, in our view, complex and uses a number of technical terms which may not be easily understood resulting in the risk of ineffective scrutiny. In particular, although the approach taken was to delegate the financial targets to each budget; the monthly finance reports tracked both 'normal' budget performance (run rate), without the budget reductions necessary to achieve the RRL target and also the achievement of savings against budgets set. This point was not accepted by management and the concerns raised were also discussed by non-executive directors at the Finance Performance and Resources Committee in May. At that stage they confirmed they felt (particularly on finance) "fully informed and able to carry out appropriate scrutiny and their assurance role".
- Operational budgets for 2017/18 were adjusted downwards, to address the financial gap of £29 million. A tracker system of specific savings projects was maintained for the NHS Fife element of this. However, £24 million (81%) of the total savings were not mapped to specific projects at the time the budget was agreed - £12 million (76%) for NHS Fife and £12 million (87%) for the FIJB. On the basis that there were no details on the majority of savings required to close the budget gap, we find it difficult to see how NHS Fife was able to conclude at the outset that it had a balanced budget agreed for 2017/18. This point was not accepted by management. NHS Fife describes that "There was an overt view from the outset that these would be delivered across a range of methods as opposed to a definitive list. The Board hasn't provided an explicit statement that the budget was balanced. The decision to approve the budget was taken in a broader context of the overall risk assessment set out in the LDP and budget setting approach". As we note in paragraph 33, this year's outturn indicates that savings were only partially delivered (£22.5 million against a target of £29 million) and the majority of these were non-recurrent.

38. NHS Fife made a number of improvements to the way in which it reports the financial position in the monthly IPR in 2017/18 financial year. These include:

- allocating the total savings target across operational budgets at the start of the year rather than these being held as a central budget
- reporting a prudent, mid-range and best-case forecast outturn position based on possible future scenarios
- reporting the extent of the recurring and non-recurring delivery of savings.

Systems of internal control

39. As part of our audit we identify and inspect the key internal controls in the accounting systems. Our objective is to gain assurance that NHS Fife has sound systems of recording and processing transactions which provide the basis for the preparation of the financial statements.

40. Our findings were included in the management report presented to the Audit and Risk Committee on 17 May 2018. We concluded that the financial controls put in place by management operated satisfactorily. We identified a few control weaknesses and undertook additional audit procedures during our final accounts work to confirm that the internal control weaknesses identified did not result in a material misstatement in the financial statements.

Part 3

Financial sustainability



Main judgements

Medium/long term financial planning development has stalled and financial planning through the East of Scotland Regional Delivery Plan is at an early stage.

There are significant financial challenges in the services delegated to the Fife Integration Joint Board (FIJB) which requires service redesign across the partners. A three-year recovery plan has been developed to get the FIJB into financial balance.

Medium to long-term financial planning

41. NHS Fife's Local Delivery Plan (LDP) for 2017/18 to 2019/20 set out how the board's financial, workforce and services plans implement its strategic priorities. The LDP was submitted to the Scottish Government in line with the required timescales and was approved on 25 April 2017.
42. The three-year financial plan was a key component of the LDP and set out how NHS Fife planned to achieve financial balance over the period and projected a breakeven position in each of the three years. This was based on delivering significant recurring savings of £29 million in 2017/18 (this is 4.3% of baseline RRL), £22 million in year 2 and £17 million in year 3. The plan recognised the significant cost pressures facing NHS Fife including staff pay costs; hospital costs, GP prescribing costs, the cost of using medical locums and demand for services.
43. The LDP was replaced by an Annual Operational Plan (AOP) from 2018/19. This requires a one-year financial plan rather than the three required per the LDP. The AOP projects a savings requirement of £20 million in 2018/19, which is an improvement on the £22 million identified in the previous LDP three-year plan.
44. NHS Fife does not have a current medium/long term financial plan to manage or respond to significant financial risks. In October 2017, the FPRC considered a "first cut" of the financial outlook for a five-year period 2018-23. At that point the development of a medium to long term financial strategy was ongoing. The financial outlook was to be refined as the year progressed and a five-year financial plan approved by 31 March 2018. However, the development of medium/long term financial planning is now dependent on the work of the regional programme and in parallel with regional partners. A five-year financial plan is being developed as part of the East of Scotland Regional Delivery Plan (RDP) but this is still at an early stage.

45. NHS Fife is required to achieve efficiency savings of £20 million on a recurring basis for 2018/19. The majority of savings have been allocated to

workstreams but the detailed plans on how these will be delivered have yet to be developed for 2018/19.



Recommendation 5

NHS Fife should ensure that savings plans are developed identifying how the £20 million of savings in 2018/19 will be made.

The Fife Health and Social Care Integration Joint Board (FIJB)

46. FIJB consistently projected an overspend during both 2016/17 and 2017/18. A recovery plan was developed but only partially addressed the savings required. It achieved a breakeven position in both years, but only as a result of additional funding being received from its partner organisations – NHS Fife and Fife Council.
47. The FIJB is facing significant challenges in its short to medium term financial sustainability with financial forecasts for the next three years to 2020/21 showing increasing overspends (£24 million, £38 million and £50 million excluding acute set-aside. This combines demand, pay and prescribing pressures that exist across local government and health services. The budget gap over the next three years presents a significant challenge and will require service redesign across the Health & Social Care Partnership.
48. Major redesign initiatives include community services and mental health services. Savings of £3 million from the community redesign project were anticipated in 2017/18 however due to slippage these savings have not been achieved. The pace of change on these initiatives will need to increase significantly to address the financial pressures faced.



Recommendation 6

NHS Fife should work with FIJB and Fife Council to accelerate the redesign of adult health and social care services and mitigate medium term financial pressures.

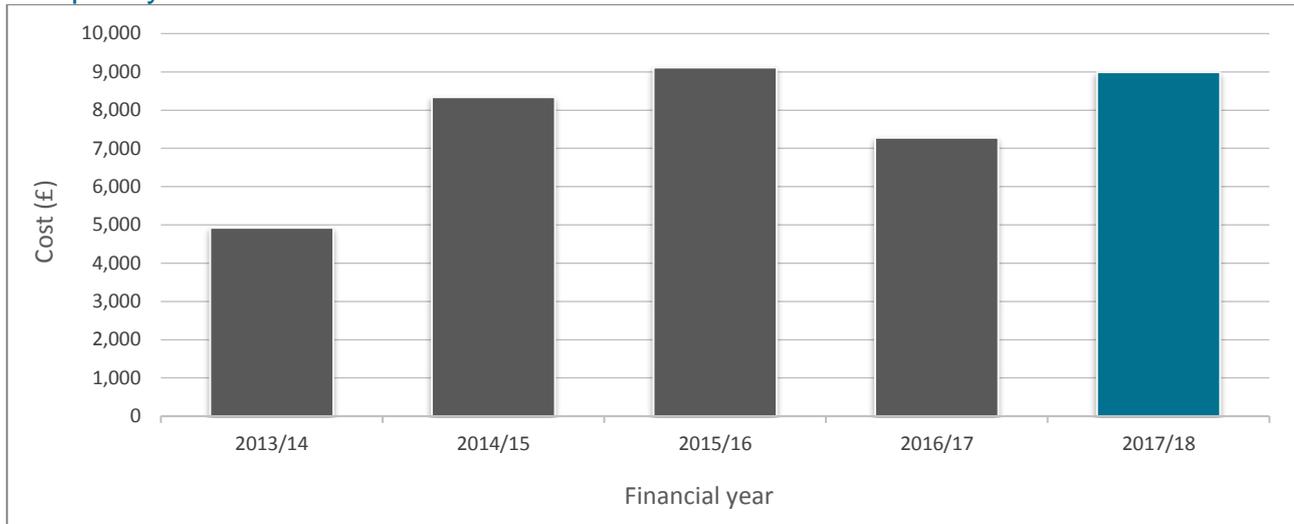
49. The partners have recognised that the challenges faced will take a longer period to resolve and a three-year recovery plan has been developed to get the FIJB into financial balance.

Financial pressures

50. **Temporary staff costs.** As a result of recruitment and retention problems and pressures to meet waiting time targets, expenditure on temporary staff has increased over the last five years as illustrated in [Exhibit 6](#). Although temporary staff provide flexibility in the short term it comes at a cost with spending on temporary staff increasing from £5 million in 2013/14 to £9 million in 2017/18.

Exhibit 6

Temporary staff costs



Source: NHS Fife annual report and accounts

- 51.** The increasing use of temporary staff is putting pressure on NHS Fife's budget and does not represent value for money. An improvement was achieved in 2016/17 follows successful permanent recruitment to medical posts and applying stricter controls on the authorisation process for agency nursing, however, this improvement has not been maintained into 2017/18.
- 52.** NHS Fife like most NHS boards is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence despite measures to maximise attendance at work. As at March 2018 the sickness absence rate was 5.6% compared to 5% for the comparable period last year.
- 53. Ending of public sector pay cap.** In 2018/19 the Scottish Government lifted its 1% pay cap for public sector workers and adopted a 3% increase for those earning under £30,000, 2% between £30,000 and £80,000 and a cap of £1,600 on staff earning more than £80,000. The financial cost of this to NHS Fife was estimated to be £4.4 million and the AOP assumes this will be funded by the Scottish Government. In June 2018, Scottish Government adopted a 3% increase for all agenda for change staff earning up to £80,000 therefore this cost will rise. If additional funding is not provided this will become an additional burden for NHS Fife to meet.

Part 4

Governance and transparency



Main judgements

Overall, we conclude NHS Fife has appropriate governance arrangements in place to support scrutiny of decisions made by the board.

During 2017/18 the IJB governance arrangements were reviewed by the partners but proposals outlined in October 2017 have not yet been agreed or actioned.

Governance arrangements

54. NHS Fife adopted a more formal and structured governance approach in 2017/18 by synchronising meeting cycles. Greater emphasis is now placed on the committees' scrutiny role to enable the board to focus on more strategic issues.
55. The board meets every two months and is supported by four governance committees:
 - Clinical Governance
 - Staff Governance
 - Finance, Performance and Resources
 - Audit and Risk
56. Papers for board/committee meetings are issued one week in advance so members can review these before the meeting. We highlighted a number of governance risks around financial management to the Audit and Risk Committee in May 2018 (refer paragraph 37) but we did not identify any other wider governance issues.
57. There are regular board development sessions which are designed to provide members with additional information on a variety of areas to enable them to adequately carry out their scrutiny role. An induction programme is also in place for new members. Members of the Audit and Risk Committee were also offered "Company on Board" training this year.
58. Overall, we conclude NHS Fife has appropriate governance arrangements in place to support scrutiny of decisions made by the board, but improvements could be made to strengthen financial management arrangements.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

Transparency

59. Transparency means that the public, in particular, local residents have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

60. There is evidence from a number of sources which demonstrate NHS Fife's commitment to transparency including the annual accountability review (where members of the public can attend) and board and committee meetings which are open to the public with sensitive or confidential items held in private session.
61. The remuneration report in the Annual Report and Accounts includes senior employees' remuneration. We reported last year that only board members were included in the remuneration report and recommended that the board reviewed the disclosure for 2017/18 to include other officers, with the power to influence the decisions of the entity (in an advisory capacity). This recommendation has not been implemented and the disclosures in the 2017/18 remuneration report are the same as the previous year.



Recommendation 7

NHS Fife should review the disclosure in the remuneration report for 2018/19.

62. Overall, we concluded that NHS Fife conducts its business in an open and transparent manner.

Internal audit

63. The board's internal audit function is carried out by FTF Internal Audit Services. We reviewed NHS Fife's internal audit arrangements and reported the results of this in our management report to the Audit & Risk Committee in May 2018. We concluded that FTF Internal Audit Services generally operates in accordance with the Public Sector Internal Audit Standards (PSIAS).

National Fraud Initiative

64. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland
65. We reported on progress with the NFI exercise in our 2017/18 Management Report and concluded that good progress had been made with the 2016/17 NFI exercise, NHS Fife's approach also involves following up most of the "non-recommended matches. No frauds or errors were identified and we believe that there is scope for a more risk-based approach to be taken in future exercises to reduce the amount of matches investigated.

Prevention and detection of fraud, bribery and corruption

66. NHS Fife has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.
67. We reported last year that NHS Fife's register of interests met basic requirements in most areas. We have updated our assessment in 2017/18 and found that, overall, NHS Fife can demonstrate good practice and conclude that the board has appropriate arrangements in place for the prevention and detection of fraud, bribery and corruption.

Cyber security and business continuity

- 68.** The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017 which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.
- 69.** NHS Fife has completed a self-assessment against the five technical assurance areas of the Scottish Government's Cyber Essentials Framework – firewalls, secure configuration, user access control, malware protection and patch management. A few areas were identified as not being fully compliant and NHS Fife is working with a security consultant to ensure this is addressed by October 2018.
- 70.** NHS Fife has an eHealth Governance Board which meets quarterly and an IT operations group which meets monthly. eHealth management report periodically to the Finance Performance and Resources Committee on cyber security but we have been unable to find any reports or update at NHS Fife board level on cyber issues. As agreed in our 2017/18 Management Report, reporting to the NHS Fife board will be formalised as action is taken to meet the Scottish Government Cyber Resilience Plan.
- 71.** A few temporary staff have recently been appointed to the eHealth function which has boosted the level of capability and expertise available to perform corrective action such as malware protection and patch management. There is currently no dedicated IT security/cyber security lead and the structure of the eHealth team is being reviewed to include a dedicated team.
- 72.** We concluded that NHS Fife is actively strengthening its cyber resilience arrangements. NHS Fife completed its Cyber Essentials pre-assessment by the required date (31 March) and is taking action to achieve accreditation by the end of October 2018.
- 73.** As an important part of business continuity arrangements, we reviewed disaster recovery arrangements at NHS Fife and noted that testing plans had slipped, although plans are in place to address this in 2018

EU withdrawal

- 74.** There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:
- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
 - Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
 - Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.
- 75.** NHS Fife only has limited information on the number of its workforce who are (non- UK) EU but internal analysis on a sample basis suggest the numbers are low.

General Data Protection Regulation

- 76.** The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998.

77. NHS Fife assessed its readiness for compliance in March 2018 and at that stage significant work was required to meet the new requirements. This risk was included in NHS Fife's corporate risk register stating: "There is a risk that enough progress is not going to be achieved by May 2018 on compliance with GDPR,". Current management actions recorded in the corporate risk register confirm that progress remains slow and there are concerns that non-compliance could result in data breaches, fines and adverse publicity as a result.



Recommendation 8

NHS Fife should identify the actions required to ensure compliance with GDPR as a matter of urgency.

Health and social care

78. A review of the governance arrangements and integration scheme was conducted during the year to ensure there was clarity of roles and responsibilities. Proposals outlined in October 2017 have not yet been agreed by the partners.



Recommendation 9

NHS Fife should also work with partners to ensure the review of governance arrangements is completed and any improvement actions identified are actioned.

Part 5

Value for money



Main judgements

NHS Fife has an effective performance management framework in place.

NHS Fife continues to struggle to meet key national performance targets with 67% categorised as red or amber. There are 11 targets that are out with acceptable standards.

Performance management

79. The Scottish Government monitors how NHS Fife performs against the targets it set in its national performance framework. These include targets and their trajectories (plans) as set out in NHS Fife's LDP. Examples include waiting times for accessing treatment such as the proportion of patients that were seen within 12 weeks, otherwise known as the Treatment Time Guarantee.
80. The board is informed of performance across all areas through the integrated performance report (IPR). Performance is reported using 23 key indicators (including the 21 LDP Standards for 2017/18). The detailed review and scrutiny of most performance has been delegated to the Finance Performance and Resources Committee (FPR) which meets a minimum of four times a year. We regularly attend committees and review papers received by members to find out how well performance is scrutinised.
81. The IPR contains information for each performance target including trend analysis and comparisons with other mainland boards. Further details on indicators that are not being met are included along with the action being taken to improve the position. This enable members to focus on key risks relating to access to treatments and financial sustainability.
82. We concluded that the NHS Fife has an effective performance management framework in place which should help NHS Fife achieve value for money and continually improve how it delivers services.

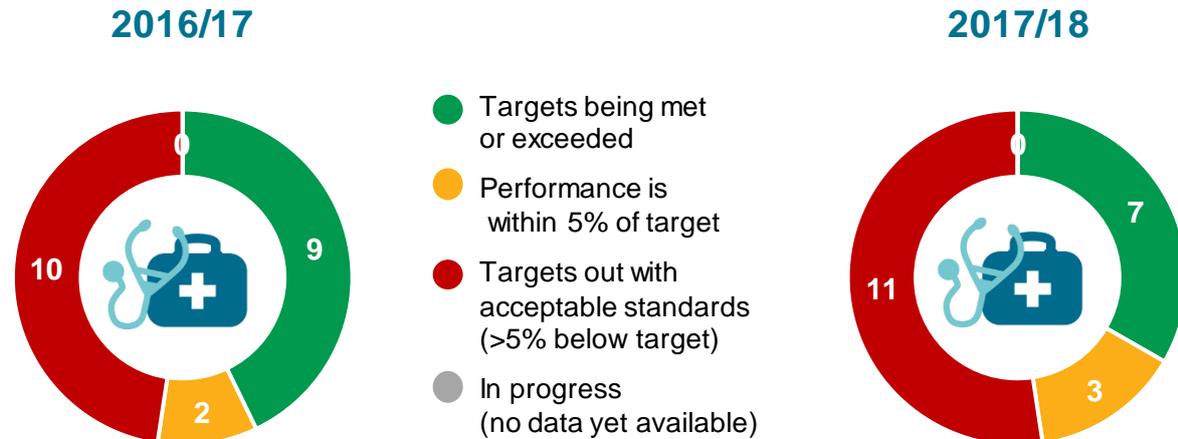
Value for money is concerned with using resources effectively and continually improving services.

Overview of service performance

83. NHS Fife's performance against its 21 LDP Standards as reported in the 2017/18 annual accounts, and based on the most up-to-date position at the end of March 2018 is summarised in [Exhibit 8](#).

Exhibit 8

Overall performance against LDP standards



Source: Annual Report and Accounts

84. Overall, NHS Fife continues to face a number of challenges in delivering performance targets with 67% categorised as red or amber. There are 11 targets that are out with acceptable standards and more details on these are provided in [Exhibit 9](#).

Exhibit 9

Performance against LDP standards that are classed as “red”

Target/standard	Performance at March 2018 ¹	Action being taken by NHS Fife
Treatment Time Guarantee (TTG) Proportion of patients that were seen within 12 weeks TTG	100% ● 79.7%	Implement surgical efficiency programme. Three Consultant Anaesthetists have been recruited, and took up post in February and March. A recovery plan has been developed for 2018/19.
Healthcare Acquired Infection - SABs	0.24 ● 0.40	Report on measures which support SAB reduction and take appropriate action for improvement.
18 Weeks Referral to Treatment	90% ● 79.1%	Covered by actions for TTG
Diagnostic Waiting Times	100% ● 92.6%	Additional capacity being delivered through redesign of services.
Detect Cancer Early	29% ● 26.5%	Performance slipped in the year and is being actively monitored.

Target/standard		Performance at March 2018 ¹	Action being taken by NHS Fife
Delayed Discharge (Delay > 2 weeks)	0	● 15	Ongoing focused on improving earlier supported discharge and earlier transfers from acute setting to community models of care
Dementia Referrals	1,289	● 465	Awaiting further guidance from Scottish Government on what the target is.
Smoking Cessation	779	● 327	Ongoing promotional information to raise awareness. Investigating targeting residential care homes in deprived areas
CAMHS Waiting Times	90%	● 67.7%	Focusing resources on those with longest waiting times
Psychological Therapies Waiting Times	90%	● 68.7%	Being addressed through redesign on mental health services
Sickness Absence	4.5%	● 5.64%	Ongoing implementation of the actions from the staff and managerial surveys which were run in June 2017

Note: 1. Figures still to be validated by NHS Information Services Division.

Source: NHS Fife Integrated Performance Reports

85. Most of the performance targets in [Exhibit 9](#), were also missed last year. It is clear that NHS Fife is continuing to face challenges in delivering its performance targets.

National performance audit reports

86. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 a number of reports were published which are of direct interest to NHS Fife and are highlighted in [Appendix 4](#).

87. NHS Fife 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 2018.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Timetable for unaudited accounts</p> <p>The deadline for receipt of the unaudited annual report and accounts of 4 May 2018 was not met. The information was provided between the 4 and 16 May.</p> <p>Risk: This could delay completion of the final accounts audit beyond 30 June.</p>	<p>NHS Fife should ensure that the agreed timetable for presenting the unaudited annual report and accounts for audit is met and a complete document is provided for audit.</p> <p>Paragraph 15</p>	<p>This recommendation is fully accepted. It is a learning point in respect of internal roles and responsibilities and will be addressed as part of the accounts planning for 2019/20.</p> <p>Director of Finance</p> <p>31 March 2019</p>
2	<p>Funding allocations from Scottish Government</p> <p>NHS Fife accrued expenditure to “match” income relating to four acute projects (£1.1 million); and two health and social care projects (£0.6 million). This is contrary to the accounting requirements of IAS1 and the Financial Reporting Manual.</p> <p>Risk: Expenditure for the year is overstated which results in NHS Fife’s financial outturn being incorrectly reported.</p>	<p>Any funding through the RRL allocation should be accounted for as funding for the year and associated expenditure should only be recognised when a present obligation at 31 March arises from past events. NHS Fife should review its guidance and processes for assessing whether accruals are valid.</p> <p>Paragraph 19</p>	<p>We do not recognise the Audit Scotland’s reference to allocations being “grants-in-aid” as terminology used in NHS Scotland. When allocations are issued from SGHSCD it is our understanding that policy stipulations or conditions attached to these allocations must be adhered to. As such where we have received specific project funding we do not accept that this can be used to support other areas of core revenue expenditure, as this would result in a financial pressure arising in future years when the project is completed. Given the RRL accounting framework does not allow us to ‘defer’ income, we have protected this funding through an accrual to expenditure and a corresponding creditor on the balance sheet. This will allow us to ‘match’ the income and expenditure in the period</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
			<p>in which the costs are incurred.</p> <p>We will seek greater clarity and specific guidance from SGHSCD, to inform our financial management processes; in addition, we will prompt dialogue through the National Directors of Finance Group and Corporate Finance Network.</p> <p>Director of Finance 30 September 2018</p>
3	<p>Holiday pay accrual</p> <p>The holiday pay accrual in the accounts includes medical and dental staff who have individual leave years beginning on their start dates. Due to lack of easily accessible electronic records, a decision was taken to estimate the leave accrual for this group of staff based on a maximum of 5 days. The estimate is not supported by any evidence such as sample testing of individual staff and appears to be a maximum amount.</p> <p>Risk: That expenditure is subject to material manipulation through management estimates and expenditure for the year is overstated which results in the NHS Fife's financial outturn being incorrectly reported</p>	<p>The method for calculating the accrual for medical and dental holiday pay should be reviewed and a method of verifying the figure developed.</p> <p>Paragraph 19</p>	<p>This continues to be an area requiring a degree of judgement but we believe we have continued to refine our methodology to provide as robust an assessment as possible. We do not accept Audit Scotland's position that the accrual is overstated by £0.4m and believe this to be a subjective assessment with no evidence to support it.</p>
4	<p>Prescribing advance</p> <p>NHS Fife appears to be the only health board showing the movement between the opening and closing prescribing advance as a "non cash cost" in the SoCTE. We understand that there is a lack of consistency, across NHS Scotland, in accounting for "payments on behalf".</p> <p>Risk: A material movement in prescribing accrual may lead</p>	<p>NHS Fife should investigate why it is an outlier in the treatment of the pharmacy accrual.</p> <p>Paragraph 19</p>	<p>This recommendation is fully accepted. It is a learning point and will be addressed as part of the accounts planning for 2019/20.</p> <p>Director of Finance 31 March 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	to the financial statements being materially misstated.		
5	<p>Efficiency savings</p> <p>NHS Fife is required to achieve efficiency savings of £20 million on a recurring basis from 2018/19. The majority of savings have been allocated to workstreams but the detailed plans on how these will be delivered have yet to be developed for 2018/19.</p> <p>Risk: Financial targets will not be met as there is a lack of clarity in how the required savings will be achieved.</p>	<p>Detailed savings plans should be developed to ensure that NHS Fife can deliver the required savings.</p> <p>Paragraph 45</p>	<p>Further detail and assurance on the development of savings plans will be sought from Directors, for their respective delegated budgets, for consideration through the Board's governance processes.</p> <p>Director of Finance</p> <p>31 July 2018 (and on-going)</p>
6	<p>Health & Social Care savings</p> <p>There are number of on-going challenges to be addressed by the partners to make health and social care integration effective across Fife including delivering transformation projects.</p> <p>Risk: Transformation and redesign of health and social care services across Fife is insufficient to enable partners to close their funding gaps.</p>	<p>NHS Fife should work closely with its health and social care partners to ensure the required redesign of services across the Fife area is delivered.</p> <p>Paragraph 48</p>	<p>This recommendation is accepted but we recognise the actions must be driven through the governance processes of the Integration Joint Board.</p> <p>Director of Health & Social Care</p> <p>30 September 2018</p>
7	<p>Remuneration report disclosures</p> <p>The remuneration report includes senior employees' remuneration. Though not board members, we believe there are officers who may have the power to influence the decisions of the entity (in an advisory capacity).</p> <p>Risk: NHS Fife is not making appropriate and transparent disclosures.</p>	<p>NHS Fife should review the disclosure in the remuneration report for 2018/19 and consider the inclusion of staff with the power to influence the decisions of the entity (in an advisory capacity), including the Chief Officer and Director of Acute Services and the Director of Health & Social Care.</p> <p>Paragraph 61</p>	<p>This recommendation is fully accepted. It is a learning point in respect of internal roles and responsibilities and will be addressed as part of the accounts planning for 2019/20.</p> <p>Director of Finance</p> <p>31 March 2019</p>
8	<p>Compliance with General Data Protection Regulations</p> <p>NHS Fife has identified concerns with progress on</p>	<p>NHS Fife should take action to address compliance issues as a matter of urgency.</p> <p>Paragraph 77</p>	<p>This recommendation is fully accepted. Actions are underway to address the issues highlighted although challenges remain to meet the required timelines. Updates</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>meeting the requirements of GDPR</p> <p>Risk: Non-compliance could result in data breaches, fines and adverse publicity.</p>		<p>will continue to be provided through the Board's information governance processes.</p> <p>Director of Planning & Strategic Partnerships</p> <p>30 October 2018</p>
9	<p>Health & Social Care savings</p> <p>A review of the governance arrangements and integration scheme was conducted during the year to ensure there was clarity of roles and responsibilities. Proposals outlined in October 2017 have not yet been agreed by the partners.</p> <p>Risk: Governance arrangements for the health and social care partnership are not appropriate.</p>	<p>NHS Fife should agree the governance structures in place with partners to strengthen these arrangements.</p> <p>Paragraph 78</p>	<p>This recommendation is accepted. However, the governance arrangements for integration authorities are inherently complex. Progress on the local governance arrangements is being made and will continue as a priority.</p> <p>Director of Health & Social Care</p> <p>30 September 2018</p>

Follow up of prior year recommendations

b/f	IJB funding transaction	<p>NHS Fife and the IJB should agree a timetable for confirming balances which meets the planned date for preparing the unaudited NHS Fife financial statements. Both parties should ensure that this timetable is met.</p>	<p>The IJB funding transactions were included in the unaudited financial statements provided on 16 May 2018. No further action required.</p>
b/f	Revaluation of health centres and clinics	<p>The remaining health centres/clinics should be revalued in 2017/18 and the associated valuation in the financial statements corrected to reflect the new valuation basis.</p>	<p>The remaining health centres/clinics were revalued in 2017/18. No further action required.</p>
b/f	Holiday pay accrual	<p>Management should review the method for collecting the pay accrual information if they continue to believe that it isn't robust.</p>	<p>The holiday pay accrual for medical and dental staff is not supported by evidence. See point 3 above.</p>
b/f	Movement in prescribing prepayment	<p>Management should review the basis for the transaction and consult with other NHS</p>	<p>The prescribing prepayment was omitted from the 2017/18 unaudited financial statements and an audit adjustment was</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
		bodies to confirm how this transaction should be treated.	required to correct this omission. See point 4 above.
b/f	Financial management - financial reporting	We recommend that any significant change in the outturn financial position is reported and explained to the board timeously and is consistent with reporting to the Scottish Government.	Board members were informed via email of the 2017/18 year end position on a timely basis. No further action required.
b/f	Medium/ long term financial planning	We recommend that a long term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) is prepared. This is increasingly important as NHS Fife's reliance on non-recurrent savings is growing and fundamental service redesign over a longer time frame becomes necessary. Plans should set out scenario plans (best, worst, most likely).	NHS Fife has no medium or long term financial plan. A five-year financial plan is being developed as part of the East of Scotland Regional Delivery Plan (RDP) however this is at an early stage. See paragraph 44 .
b/f	Remuneration report disclosures	We recommended that NHS Fife review the disclosure in the remuneration report for 2017/18 and consider the status of the staff we have identified.	The remuneration report disclosures remain the same as 2016/17. See point 7 above.

Appendix 2

Significant audit risks

The table below sets out the audit risks we identified during our audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls/ management bias</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments including holiday pay accrual and backdated energy costs in Phase 3 of Victoria Hospital. Evaluation of significant transactions that are outside the normal course of business. Use of data analytics and substantive testing of transactions after the year end to confirm expenditure and income has been accounted for in the correct financial year. 	<p>Results We identified that the holiday pay accrual included an estimate for medical and dental staff which did not have adequate supporting evidence. This was reported as an unadjusted error.</p> <p>Conclusion We did not identify any issues as a result of our audit work that would indicate management override of controls that materially affect the year-end position.</p>
<p>2 Risk of fraud over expenditure</p> <p>Audit Scotland's Code of Audit Practice extends the scope of ISA240 and we are required to consider the risk of fraud over expenditure in NHS Fife. Significant expenditure items include FHS, pay and non-pay expenditure.</p>	<ul style="list-style-type: none"> Audit work on the National Fraud Initiative matches. Obtain assurances from the NHS Scotland Counter Fraud Service. Use of data analytics to identify high risk items and exceptions for substantive testing. 	<p>Results: We reviewed the results of the NFI matches and assurances from the NHS Counter Fraud Service and found no issues. There were no significant errors found through our data analytics work.</p> <p>Conclusion We did not identify any fraud issues.</p>
<p>3 Transactions with Fife Health and Social Care Integration Joint Board (FIJB)</p> <p>FIJB has a significantly later reporting deadline for the annual accounts than NHS Fife. There is a risk that the IJB</p>	<ul style="list-style-type: none"> Early discussions with board officers on the year end timetable and process for timely agreement of IJB transactions and balances between the three partner bodies. 	<p>Results The process for consolidation was in line with the integration scheme. The final figures were agreed by the partner bodies.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>transactions and any balance arising from the risk share arrangement to be included in NHS Fife's accounts may not be confirmed prior to the agreed date for submission of the unaudited accounts.</p> <p>There is also a risk that the year end position in the IJB is materially misstated and leads to an error in the figures reported by NHS Fife.</p>	<ul style="list-style-type: none"> Confirm transactions and balances have been agreed by the partner bodies. 	<p>Conclusion – We did not identify any material errors in accuracy or disclosure as a result of our audit.</p>
<p>4 Scottish Government Allocations</p> <p>During the year we queried the treatment of some allocations. Individual allocation letters appear to have conditions attached to how the money is used, this may change the nature of funding (grant rather than grant-in-aid).</p> <p>There is a risk that some funding may have conditions that haven't been met in 2017/18 and attached conditions prevent virement to other areas of expenditure</p>	<ul style="list-style-type: none"> We will seek clarification on the treatment with the Scottish Government through our Professional Support Team membership of the Technical Accounting Group. 	<p>Results We identified that:</p> <ul style="list-style-type: none"> senior officers had accrued expenditure for private healthcare treatment costs scheduled to take place in 2018/19 an accrual was made for expenditure to "match" 2017/18 funding unspent at the year-end relating to health and social care projects. <p>These matters were reported as unadjusted errors as they don't satisfy the conditions for recognition as liabilities under IAS 1</p> <p>Conclusion: The errors identified do not materially affect net expenditure.</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p>5 Financial position</p> <p>The 2017/18 NHS Fife Local Delivery Plan (LDP) identified a break-even position. This position is based on the best-case scenario. Year-end projections, as at September 2017, show the mid-range forecast is a £4.4 million overspend and the prudent position identifies an overspend of £8.3 million. The year-to-date position, which shows a £5.1 million overspend, reflects the fact that a number of planned savings have yet to take effect.</p> <p>Detailed explanations of variances for individual budget lines is restricted to the "run rate" (i.e. budget prior to removal of efficiency savings)</p>	<ul style="list-style-type: none"> Undertake specific audit work on financial reporting and budgeting. This includes reviewing the reliance on, and nature of, non-recurrent savings and the effectiveness of in-year budget reporting. Monitor the development of the budget projection outturn for the remainder of the financial year. Consider any contingency actions if financial balance is not to be achieved. 	<p>Results We reported some issues in our Management Report on the reporting of the financial position. We considered how NHS Fife achieved its break-even position and concluded that NHS Fife only partly delivered its planned savings target and continues to rely on non-recurring savings to meet its break-even target</p> <p>Conclusion – The 2017/18 break-even target was achieved.</p>
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Audit risk	Assurance procedure	Results and conclusions
<p>variance. Savings variances are identified but not fully explained.</p> <p>There is a significant risk that NHS Fife is unable to deliver the savings needed to achieve its statutory break-even target which may have a negative impact on performance.</p>		
<p>6 Financial sustainability</p> <p>An initial five-year financial outlook for the period 2018 to 2023 was presented to the Finance, Performance and Resources Committee in October 2017. This outlook identifies a shortfall in the 2017/18 recurring savings of £19 million which increases the budget gap for 2018/19 to £27 million. There is also a budget gap for the following four years. The recent announcement on the public sector pay cap has not been modelled in this version of the financial outlook as it is assumed that any increase in cost beyond the 1% pay uplift would be funded through an additional allocation from the Scottish Government.</p> <p>Given the extent of the savings required there remains a significant risk that NHS Fife will continue to rely on non-recurring savings and will be unable to deliver the savings required to achieve a balanced budget on a recurring basis.</p>	<ul style="list-style-type: none"> • Undertake specific audit work on financial planning. This work will review scenario planning, planning assumptions and transformation. • Review internal audit reports on Transformation Programme Governance and Transformation Programme Projects. 	<p>Results –NHS Fife does not have a medium to long term financial plan. We have flagged concerns about the on-going reliance on non-recurring savings and the pressure this adds to NHS Fife’s financial sustainability.</p> <p>Conclusions - NHS Fife’s financial sustainability continues to be a significant challenge. Progress will need to be made on redesigning services if financial balance is to be achieved on a recurring basis.</p>
<p>7 Transparency and openness</p> <p>Our 2016/17 assessment of the register of interests identified that NHS Fife was only meeting basic practice in most areas, for example the register:</p> <ul style="list-style-type: none"> • only included interests held by Board members • is difficult to locate on the website. <p>In addition, the papers for the Finance, Performance and Resources Committee meetings in November 2016,</p>	<ul style="list-style-type: none"> • Update the assessment of register of interests. • Review the disclosures in the remuneration report. • Review of 2016/17 annual report and accounts on reporting financial performance and highlight areas for consideration in 2017/18 to improve the accounts. 	<p>Results - We have updated our assessment of the registers of interest which demonstrates good practice.</p> <p>The papers for the FPRC are only available on line up until October 2017.</p> <p>Conclusions NHS Fife has made some improvements to transparency and openness and would improve further if all committee meeting papers were available on line.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>March 2017 and June 2017 are not yet publicly available.</p> <p>The 2016/17 remuneration report disclosures for NHS Fife were restricted to members of the Board.</p> <p>There is a risk that the information made available to the public and other stakeholders is not sufficiently open and transparent.</p>		
<p>8 The ICT Environment</p> <p>The current ICT environment increases the vulnerability of NHS Fife to cyber attacks and other ICT security threats, as a result of:</p> <ul style="list-style-type: none"> • current staff capacity and capability in the eHealth department • lack of a detailed inventory of all ICT/ digital systems, required to deliver services • a bi-monthly rather than a monthly patching policy for PCs, as recommended in response to the WannaCry virus in May 2017, is in place • infrequent patching of a number of servers • the Microsoft and Windows environments which are no longer supported or support is being withdrawn shortly. <p>There is a risk that an increase in the vulnerability to ICT security threats could lead to the loss of data or the corruption of systems.</p>	<p>Undertake specific ICT audit of data security and information governance, including review of:</p> <ul style="list-style-type: none"> • eHealth risk register to ensure all relevant risks are included • the action identified to mitigate risks included in the risk register • progress in implementing action and reporting arrangements • compliance with Scottish Government cyber security arrangements 	<p>Results We reported in our 2017/18 management report that a number of temporary staff have been appointed and NHS Fife has an action plan in place to ensure full compliance the Scottish Government's Cyber Resilience Plan.</p> <p>Conclusion NHS Fife is actively strengthening its cyber resilience arrangements.</p>

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements that are individually greater than our reporting threshold of £100,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 2. We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Consolidated statement of comprehensive net expenditure		Consolidated statement of financial position	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Staff costs	563			
	Income		563		
2	Holiday pay accrual			411	
	Staff costs		411		
3	Accruals			110	
	Provisions				110
4	Accruals			844	
	Other operating expenditure		844		
5	Deferred income			618	
	Other operating expenditure		618		
6	Accruals			207	
	Other operating expenditure		207		
7	Accruals			179	
	Provisions				179
8	Provisions			594	
	Staff costs		594		

Account No. areas	Consolidated statement of comprehensive net expenditure	Consolidated statement of financial position
Net impact on net expenditure and total taxpayers equity	2,674	2,674
Less: Entry 8	(594)	
Add: Entry 3	110	
Add: Entry 7	179	
Net impact on outturn against RRL	2,553	

Notes:

1. Entry 1 relates to outward secondee income which was incorrectly netted against staff costs but should have been shown as income.
2. Entry 2 relates to a lack of evidence to support the holiday pay accrual for medical and dental staff. The total value of the medical and dental staff holiday pay accrual is £822,000. As there is no documentation for this accrual we have estimated the error to be 50% of the total amount.
3. Entry 3 relates to the "pay as if at work" element of accruals but as there is uncertainty over the amount of years to be included in the calculation this should be treated as a provision not an accrual. Although this is an adjustment to the statement of financial position it has an impact on the reported outturn due to the treatment of provisions in calculating the outturn against RRL.
4. Entry 4 relates to accruals for unspent funding allocations. These allocations are equivalent to grant-in-aid and should be accounted for on a cash basis.
5. Entry 5 relates to deferred income for unspent funding allocations. These allocations are equivalent to grant-in-aid and should be accounted for on a cash basis.
6. Entry 6 relates to orthopaedic procedures to be carried out by Spire Healthcare which were booked in 2017/18 but are not due to be carried out until 2018/19
7. Entry 7 relates to the estimated costs of ongoing employment tribunal cases where the degree of uncertainty means that the costs should be treated as a provision not an accrual. Although this is an adjustment to the statement of financial position it has an impact on the reported outturn due to the treatment of provisions in calculating the outturn against RRL.
8. Entry 8 relates to an overstatement of the pension provision due to the use of UK life expectancy tables instead of Scottish life expectancy tables. This error does not impact on the reported outturn as adjustments to provisions are matched with allocations from the Scottish Government.

Appendix 4

Summary of national performance reports 2017/18



		2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

NHS relevant reports

[NHS workforce planning](#) – July 2017

[Self-directed support: 2017 progress report](#) – August 2017

[NHS in Scotland 2017](#) – October 2017

NHS FIFE

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