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

2018/19 annual report and accounts
1 Our audit opinions on the annual report and accounts are all unmodified.
2 We have reported issues with the process of determining the holiday pay accrual for medical and dental staff for several years and the value in the accounts (£0.15 million) is based on management’s estimate, which has varied significantly in the last three years.

Financial management
3 Budgetary processes are appropriate, but NHS Fife continues to rely on non-recurring savings and financial flexibility to meet financial targets with efficiency savings falling short by £8 million.

Financial sustainability
4 NHS Fife has now developed a high-level three-year financial plan, although long term planning at a regional level is still unclear.
5 Detailed plans for short term transformation/efficiency savings for 2019/20 are not yet prepared.

Governance and transparency
6 NHS Fife has appropriate governance arrangements in place. Improvements have been made to financial and performance reporting in the year and there are plans to improve transparency further with a new website being developed.
7 There are still concerns over how well the health and social care partnership in Fife is working.

Value for money
8 Only four of the LDP standards have been met, however this is consistent with the national position and NHS Fife has achieved a slight improvement in the performance against eight key LDP standards since last year.
9 Temporary staff costs have increased to £10 million despite actions to reduce this to £7 million in 2016/17.
Introduction

1. This report summarises the findings from our 2018/19 audit of Fife Health Board, commonly known as NHS Fife (the Board).

2. The scope of our audit was set out in our Annual Audit Plan presented to the Audit & Risk Committee on 13 December 2018. The main elements of our audit work in 2018/19 have been:
   - a review the Board's main financial systems
   - an audit of the Board's annual report and consolidated accounts for 2018/19
   - consideration of the four audit dimensions that form the wider scope of public audit set out in the Code of Audit Practice 2016 (Exhibit 1).

Exhibit 1
Audit dimensions

Adding value through the audit

3. We add value to NHS Fife through the audit by:
   - identifying and providing insight on significant risks and making clear and relevant recommendations for improvements
   - reporting our findings and conclusions in public
   - sharing intelligence and good practice through our national reports (Appendix 4) and good practice guides
providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

4. We aim to help NHS Fife promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

5. NHS Fife has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and consolidated accounts that are in accordance with the accounts direction. The Board’s annual report and consolidated accounts includes:

- a Performance Report
- an Accountability Report (including the Corporate Governance Report; Remuneration & Staff Report and Parliamentary Accountability Report)
- financial statements and supporting notes.

6. The Board is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

7. Our responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000; the Code of Audit Practice 2016 and International Standards on Auditing in the UK.

8. As public sector auditors we give independent opinions on the annual report and consolidated accounts. Additionally, we conclude on:

- the financial position and arrangements for securing financial sustainability,
- the suitability and effectiveness of corporate governance arrangements,
- the appropriateness and effectiveness of the performance management arrangements,

9. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

10. Weaknesses or risks identified in this report 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.

11. This report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and reports progress against these.

12. We confirm that we comply with the Financial Reporting Council’s Ethical Standard. We also confirm that we have not undertaken any non-audit related services. We are not aware of any relationships that could compromise our objectivity and independence.

13. This report is addressed to the Board and the Auditor General for Scotland and will be published on Audit Scotland’s website www.audit-scotland.gov.uk in due course.

14. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.
**Main judgements**

<table>
<thead>
<tr>
<th>Our audit opinions on the annual report and accounts are all unmodified.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The holiday pay accrual for medical and dental staff (£0.15 million) was significantly lower than the previous year (£0.8 million). This is based on a management estimate and a system is required to collect and collate individual leave balances for future years.</td>
</tr>
<tr>
<td>The submission of the annual report and accounts for audit was one week late and some working papers could be improved. Good support was provided to the audit team by finance staff.</td>
</tr>
<tr>
<td>Identified misstatements were significantly less than our performance materiality and there was no evidence of further systematic error.</td>
</tr>
<tr>
<td>NHS Fife has made slow progress in implementing our prior year audit recommendations.</td>
</tr>
</tbody>
</table>

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

**Our audit opinions on the annual report and accounts are all unmodified**

15. The annual report and accounts for the year ended 31 March 2019 were approved by the Board on 26 June 2019. As reported in our independent auditor’s report:

- the financial statements give a true and fair view and were properly prepared

- expenditure and income were regular and in accordance with applicable enactments and guidance

- 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 relevant legislation and directions made by Scottish Ministers.

**The annual report and accounts were one week late and some working papers could be improved. Good support was provided to the audit team by finance staff.**

16. We received the unaudited annual report and accounts on 10 May 2019, a week later than our agreed audit timetable. NHS Fife’s group accounts included the financial results of the Endowment Fund and Fife Integration Joint Board (IJB). The working papers provided were generally of a good standard but as the audit progressed we noted a number of areas where improvements could be made as:
there is no central location for holding the detailed working papers, which support the lead schedules (accounts template) and we had to contact a number of people before the appropriate documentation was obtained.

- some spreadsheets are provided as scanned “pdf” files which can’t be annotated and don’t show cell formulas
- there are key person dependencies in certain areas such as capital accounting, PFI and PECOS which led to delays in getting information and responses to audit queries.

17. Overall finance staff provided good support to the audit team but the areas identified above reduced the efficiency of our audit.

### Recommendation 1

NHS Fife should ensure that the agreed timetable for presenting the unaudited annual report and accounts for audit is met, working papers are available centrally and scanned pdf files are not used in preference to original spreadsheet files. Consideration should also be given to addressing the key person dependencies identified.

### Appendix 2 identifies the audit work we did to address risks of material misstatement

18. Appendix 2 provides our assessment of risks of material misstatement in the annual report and consolidated accounts 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.

### Overall materiality is £12 million

19. 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 materiality and concluded that no changes to the planned materiality levels were required (Exhibit 2).

### Exhibit 2

#### Materiality values

<table>
<thead>
<tr>
<th>Materiality level</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall materiality</td>
<td>£12 million</td>
</tr>
<tr>
<td>Performance materiality</td>
<td>£6 million</td>
</tr>
<tr>
<td>Reporting threshold</td>
<td>£125,000</td>
</tr>
</tbody>
</table>

Source: NHS Fife Annual Audit Plan 2018/19
There are three significant findings from the audit

20. 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.

21. The findings include our views about significant qualitative aspects of the Board’s accounting practices including:

<table>
<thead>
<tr>
<th>Accounting policies</th>
<th>Accounting estimates and judgements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant financial statements disclosures</td>
<td>Timing of transactions and the period in which they are recorded</td>
</tr>
<tr>
<td>The impact on the financial statements of any uncertainties</td>
<td>The effect of any unusual transactions on the financial statements</td>
</tr>
<tr>
<td>Misstatements in the annual report and accounts</td>
<td>Disagreement over any accounting treatment or financial statements disclosure</td>
</tr>
</tbody>
</table>

Exhibit 3
Significant findings from the audit of the financial statements

<table>
<thead>
<tr>
<th>Issue</th>
<th>Resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Holiday pay accrual</td>
<td>The error has not been corrected in the audited financial statements</td>
</tr>
<tr>
<td></td>
<td>The amount is not material to the financial statements but indicates management bias in the estimate which could impact on NHS Fife’s reporting of a surplus against its Revenue Resource Limit, the financial target set by the Scottish Government’s Health and Social Care Directorate.</td>
</tr>
<tr>
<td></td>
<td>✔ Recommendation 2 (refer appendix 1, action plan)</td>
</tr>
</tbody>
</table>

The holiday pay accrual, included in the financial statements, is £0.6 million and medical and dental staff account for £0.15 million of this. NHS Fife’s systems do not currently identify and collate outstanding holiday leave for individual medical and dental staff. This year’s entitlement has been based on the same percentage applied to all other staff which resulted in the equivalent of one day annual leave per medical and dental employee. This was significantly lower than the maximum carry forward entitlement of five days assumed for this category of staff last year and is the lowest estimate for three years.

There is no process in NHS Fife for recording and collating individual medical and dental staff annual leave balances at 31 March which can provide further evidence of the accuracy of management’s estimate. We understand that these staff may have leave entitlement periods which are not 1 April to 31 March and their leave periods may coincide with each individual’s anniversary of their initial employment date. This complicates the estimate as the leave period is not consistent with other nursing, ancillary and administrative staff.

We considered the estimate included in the financial statements in accordance with ISA540 and have expressed concern in previous years about the process and basis for making this estimate.

The previous auditor reported that “In our view the board’s method of estimation of the 2015/16 holiday pay accrual is flawed”
Issue
In 2016/17 we concluded that “we are unable to obtain sufficient appropriate audit evidence for management’s increased accounting estimate and believe that the method of measurement used initially to determine the amount as £0.4 million is appropriate”

In 2017/18 we recommended that “the method for calculating the accrual for medical and dental holiday pay should be reviewed.”

Our estimate is that the accrual should be £0.375 million, based on a midpoint assumption of 2.5 days leave per person.

<table>
<thead>
<tr>
<th>Subjective area (refer to key below for qualitative assessment)</th>
<th>2018/19 audit assessment</th>
<th>2017/18 audit assessment</th>
<th>2016/17 audit assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holiday Pay Accrual</td>
<td>6</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Value included in accounts (medical and dental)</td>
<td>0.15</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>Value in accounts (other staff)</td>
<td>0.4</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>Total Holiday pay accrual</td>
<td>0.55</td>
<td>1.2</td>
<td>1.24</td>
</tr>
</tbody>
</table>

16/17 accrual was increased by management from £431,000 and we do not have a split of this across staff categories.

2. Underspend against prior year Capital Resource Limit

In 2017/18 NHS Fife purchased an industrial dishwasher for £47,000. This should have been a capital purchase, but was treated as revenue expenditure. The error was identified in October 2018 and an adjustment was made to recognise the asset in the capital asset register. The impact in the year was to reduce the amount of capital to revenue funding transfer for 2018/19. Transfers between capital and revenue funding are approved by Scottish Government, but the detail underpinning transfers is not required to support the total transfer. This adjustment was not material to the financial statements, but as the purchase was made in the previous year, it would have impacted on one of the Board’s financial targets (capital resource limit (CRL)) which was underspent by only £2,000 in 2017/18.

As noted, NHS Fife has included this reclassification of expenditure in its unaudited and audited accounts in 2018/19 and the equipment is included in its asset register.

NHS Fife also obtained confirmation from the Scottish Government that a reduction in the capital to revenue transfer during 2017/18 would have been approved, had this been requested, to accommodate the higher level of capital spend. We are therefore content that CRL and RRL would have been adjusted in 2017/18 and both financial targets would have been achieved.

3. Indexation of provisions for early retirements and clinical/medical negligence claims

The Board has a number of provisions for early retirements which are long term liabilities. The time value of money in such cases can be material and these provisions should be discounted to reflect this. This is a two-step process accounting for both an inflation factor and a discounting (back to current value) amount. We found that the

These errors have not been corrected in the audited financial statements and are included as unadjusted misstatements in Appendix 3.

Management have confirmed that the calculation will be correctly actioned in future years.
<table>
<thead>
<tr>
<th>Issue</th>
<th>Resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>calculation had been incorrectly applied resulting in an over provision of £266,000 in the provision for early retirement and an understatement of £300,000 on the provision for structured clinical and medical negligence claims.</td>
<td></td>
</tr>
</tbody>
</table>

Source: 2018/19 annual accounts

**Identified misstatements of £0.8 million were significantly less than our performance materiality of £6 million and there was no evidence of further systematic error**

22. Total misstatements identified were £0.8 million. However the impact on net expenditure was only £0.3 million (Appendix 3). The misstatements mainly consists of under accruals of expenditure items (calculation of the holiday pay accrual and provisions). It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have not adjusted for the items in Appendix 3 as they consider the amounts are not material in the context of the financial statements.

23. We have concluded that the misstatements identified arise from issues that have been isolated and identified in their entirety 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.

**Data analytics**

24. In 2018/19 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. **Reperformance of the trial balance/ accounts classification.** We obtained and analysed every general ledger transaction processed in 2018/19. The collected data was used to reperform the trial balance and confirm that the accounts agree to the ledger.

26. **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.

**Follow up of prior year recommendations**

27. NHS Fife has made slow progress in implementing our prior year audit recommendations with two fully achieved, three partially achieved and four outstanding. Two of the nine recommendations are dependent on actions also being taken by Fife IJB. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in Appendix 1 or in our 2018/19 Management Report.
Part 2
Financial management

Main judgements

NHS Fife operated within its Revenue Resource Limit reporting an underspend against this of £0.26 million.

Budgetary processes are appropriate, but NHS Fife continues to rely on non-recurring savings and financial flexibility to meet financial targets with efficiency savings falling short by £8 million.

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

NHS Fife operated within its Revenue Resource Limit (RRL)

28. 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 reported in the annual report and consolidated accounts that it operated within all limits during 2018/19.

Exhibit 4
Reported performance against resource limits in 2018/19

<table>
<thead>
<tr>
<th>Resource Limit</th>
<th>Resource Limit £m</th>
<th>Actual reported £m</th>
<th>Underspend reported £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core revenue resource limit</td>
<td>707.1</td>
<td>706.8</td>
<td>0.3</td>
</tr>
<tr>
<td>Non-core revenue resource limit</td>
<td>23.2</td>
<td>23.2</td>
<td>0</td>
</tr>
<tr>
<td>Total revenue resource limit</td>
<td>730.3</td>
<td>730.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Core capital resource limit</td>
<td>8</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>Non-core capital resource limit</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total capital resource limit</td>
<td>8</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>Cash requirement</td>
<td>760</td>
<td>760</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: NHS Fife Annual Report and Accounts 2018/19, subject to rounding for presentation purposes
Budgetary processes are appropriate

29. We reported in our 2018/19 Management Report that the financial position section of the Integrated Performance Report (IPR) has been revised for 2018/19 to increase transparency. We concluded that NHS Fife has appropriate budget setting and monitoring arrangements that allow both members and officers to carry out scrutiny of the Board’s finances.

The final outturn differed from the in-year projected overspend.

30. Throughout the year, budgetary reporting identified that, based on a mid-range point, an overspend was likely in NHS Fife. At 28 February 2019, the mid-range forecast outturn for 2018/19 was an overspend of £2.5 million (0.3% of total revenue budget) with a best case scenario being close to breakeven. The positive improvement in the position between February and March 2019 of around £2.5 million was due to £0.9 million anticipated spends on acute services not being required and £1.6 million technical accounting adjustments including holiday pay accruals and CNORIS provisions, which increased the underspend on corporate services.

Efficiency savings of £12 million were achieved against a target of £20 million (2.6% of net expenditure)

31. The NHS Fife 2018/19 budget required efficiency savings of 3% (£24 million) to be delivered, although this was subsequently reduced to £20 million on receipt of confirmation from the Scottish government that the pay uplift funding would be given on a recurring basis. The savings were allocated across acute and other Fife NHS budgets (£12 million) and budgets delegated to Fife Integration Joint Board (£8 million), neither of which were delivered in full. The non-delegated element was short by around £5 million largely due to expected savings from service redesign not being delivered and the IJB delegated element was short by around £3 million.

NHS Fife continues to rely on non-recurring savings (including £11 million financial flexibility) and this is now the largest proportion of total savings compared to the last 5 years

32. We reported in our 2018/19 Management Report that NHS Fife continues to rely on non-recurring savings (including financial flexibility of £11 million) to meet financial targets. Financial flexibility includes any new and unanticipated allocations from Scottish Government, which are not expected to be spent in-year. It also includes any budgets identified as part of budget setting that are not fully used during the year.

33. NHS Fife received additional funding allocations throughout the year totalling £70 million, £54 million of this was on a non-recurring basis. Whilst this funding was significant in achieving a balanced budget in 2018/19 the significant non-recurring element means the Board has ongoing financial pressures in future years.

34. As illustrated in Exhibit 5 £4 million (20%) of savings were achieved on a recurring basis this year, the remaining £16 million (80%) were non-recurring. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

35. Although, the total savings target was lower than in the previous two financial years (£29 million in 2017/18 and £31 million 2016/17), the proportion of savings being delivered on a recurring basis has fallen. See also paragraph 48 and Recommendation 3.
**Exhibit 5**  
**Savings – recurring and non-recurring**

Source: Audit Scotland Annual Audit Reports

### Systems of internal control operated satisfactorily

36. 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.

37. Our findings from the review of systems of internal controls were included in the management report presented to the Audit Committee on 16 May 2019. 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.

### We were unable to review results of any of the relevant planned internal audit work

38. We reviewed the Board’s internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could use the work of internal audit. We did not plan to place formal reliance on internal audit’s work to support our audit opinion. However as part of our wider dimension audit responsibilities we planned to consider nine internal audit reports but five of these were incomplete at June 2019, two were moved to next year and one was completed towards the end of our annual accounts audit and was used to inform the governance element of our group accounts work on endowments. We agreed to follow up on progress with the Internal Audit recommendations from the 2017/18 Transformation Programme Governance report as part of our interim work.

### There are appropriate standards of conduct and arrangements for the prevention and detection of fraud and error

39. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
40. 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.

NHS Fife is progressing National Fraud Initiative matches received

41. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify ‘matches’ that might suggest the existence of fraud or irregularity.

42. NFI activity is summarised in Exhibit 6. This shows that the exercise is ongoing in NHS Fife. Two matches have been identified as high risk as at June 2019 and these are being investigated, along with a sample of other matches. There has been a delay nationally in providing NHS bodies with creditors matches. An update on the outcome of the NFI exercise will be provided to the Audit and Risk Committee once the exercise is complete.

<table>
<thead>
<tr>
<th>Exhibit 6</th>
<th>NFI activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>195</td>
<td>Matches (as at June 2019)</td>
</tr>
<tr>
<td>2</td>
<td>High risk cases (as at June 2019)</td>
</tr>
<tr>
<td>0</td>
<td>Completed/closed investigations (as at June 2019)</td>
</tr>
</tbody>
</table>

Source: NFI secure website: www.nfi.gov.uk

There are no significant issues reported by the service auditors of shared systems

43. The NHS in Scotland procures a number of service audits each year for shared systems: NHS National Services Scotland (NSS) procures service audits covering primary care payments and the national IT contract; and NHS Ayrshire & Arran procure a service audit of the National Single Instance eFinancials service. We considered the content of the service auditor assurance reports and did not identify any significant issues in these shared services.
Financial sustainability looks forward to the medium and long term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered.

Over the last four years revenue funding in real terms has grown, last year by 1.4%.

Revenue funding to NHS Fife from the Scottish Government has grown by 3.5% in cash terms and 1.4% in real terms compared to 2017/18 (Exhibit 7) but this includes additional funding for new developments. NHS Fife has had to manage significant financial pressures and relies on a significant proportion of new development funding each year as a source of non-recurring savings to balance its financial position. This development funding is applied to meet ongoing costs at the year-end, when the full-year funding for developments is not required, but this does not alleviate medium-term recurring pressures (paragraph 35).
Exhibit 7
Cash and real term core funding to NHS Fife

Source: NHS Fife accounts/ Audit Scotland

NHS Fife has now developed a high level three-year financial plan

45. A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies’ financial planning.

46. Medium term financial planning is being developed. NHS Fife considered a financial plan for 2019-20 to 2012-22 in March 2019. This included details of the underpinning assumptions and methodology adopted to inform the financial planning process for 2019/20 and beyond, and was the basis for the financial aspects of the Annual Operational Plan for 2019/20.

Long term planning at a regional level is still unclear

47. The development of long-term financial planning is dependent on the work of the regional programme and regional partners. A five-year financial plan is being developed as part of the East of Scotland Regional Delivery Plan (RDP). We were informed that a draft RDP has been submitted to the Scottish Government but we have not had sight of this document and we are unable to comment on the financial planning information it may contain. As reported in 2017/18, progress with the RDP has stalled and the Board is waiting for feedback from the Scottish Government before taking this further.

Detailed plans for short term transformation/ savings for 2019/20 are not yet fully prepared. NHS Fife does not have a good track record of delivering recurring savings

48. NHS Fife is required to achieve efficiency savings of £17 million in 2019/20 on a recurring basis. The majority of savings have been allocated to workstreams, such as service redesign and workforce, but the detailed plans on how these will be delivered have yet to be fully developed for 2019/20. A more detailed plan for acute services was discussed at the May 2019 Finance, Performance
and Resources Committee meeting. Further information on the savings related to services delegated to the IJB for Health & Social Care, which were agreed by the IJB in March 2019, have yet to be considered by the NHS Board. In recent years NHS Fife has not had a good track record in achieving recurring savings (Exhibit 5).

Recommendation 3

NHS Fife should ensure that detailed savings plans are developed identifying how the £17 million of savings in 2019/20 will be made on a recurring basis.

Medium-term savings targets have been identified, but these depend on achieving recurring savings

49. Indicative medium-term savings for future years of £6.6 million for 2020/21 and £3.5 million for 2021/22 have been identified. These do not take account of any shortfall in recurring savings from the prior year and could increase if recurring savings targets are not delivered.
Part 4
Governance and transparency

Main judgements

NHS Fife has appropriate governance arrangements

We have recommended improvements to NHS Fife's website to assist transparency and a new website is planned in 2019

Reporting of financial and performance reporting has improved

There are still concerns over how well the health and social care partnership is working

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.

Overall NHS Fife has appropriate governance arrangements

50. The Board meets every two months and is supported by four governance committees: Clinical Governance; Staff Governance; Finance, Performance and Resources and Audit and Risk. Papers for Board/committee meetings are issued one week in advance so members can review these before the meeting. Since 2017, greater emphasis has been put on the committees’ scrutiny role to enable the Board to focus on more strategic issues.

51. There are regular board development sessions which are designed to provide members with additional information to enable them to adequately carry out their scrutiny role. An induction programme is also in place for new members.

52. A new self-assessment approach was put in place this year and we highlighted in our 2018/19 Management Report that this provides assurance that committees are operating effectively and some specific areas for further improvement have been identified.

NHS Fife’s Board and Committee meetings are open, but we have recommended improvements to its website to assist transparency

53. We highlighted in our 2018/19 Management Report scope to improve the openness and transparency of NHS Fife’s website to ensure papers and other relevant documents could be found. There are plans to invest in a new website in 2019 to make it easier for staff and residents to find information which will improve the transparency.

Performance reporting was fair balanced and understandable

54. As part of our audit, we raised several points to improve the content and balance of the performance report in the Annual Report. These included explaining the impact of the prior year reported surplus, clarifying when in-year allocations were received, consistently reporting performance measures included within the report and providing more detail on progress against
transformation projects. These were agreed by management and the changes made resulted in a more balanced performance report.

**Reporting of financial and performance information internally and to the Scottish Government has been improved**

55. The financial position section of the Integrated Performance Report (IPR) has been revised for 2018/19 to increase transparency. The changes include:

- a more comprehensive narrative summary
- an updated savings table
- new appendices which provide a breakdown of financial flexibility and efficiency savings, adjustments to revenue resource limit allocations, budget variances across corporate directorates and details of payments to other healthcare providers.

56. Members have been encouraged to comment on any areas for improvement in the format and content of the report and/or clarification on specific issues. The narrative included in the IPR is now provided to the Scottish Government as part of the monthly Financial Performance Return (FPR) which ensures consistency of reporting.

**There are still concerns over how well the health and social care partnership is working**

57. We raised a number of concerns in our 2018/19 Management Report on the governance arrangements in place around health and social care in Fife. Members of the Board have expressed concerns about the operation of the health and social partnership arrangements and there appears to be further work to be done to ensure that staff, senior management and members work in partnership. The Board recognises that the governance structure of the Fife Integration Joint Board (IJB) is still under development and the Chief Executive, in conjunction with colleagues at the IJB and Fife Council, has committed to addressing this by September 2019.

58. Resources to be made available to the IJB fall into two categories:

- payments for the delegated functions and
- resources used in “large hospitals” that are set aside by NHS Fife and made available to the IJB for inclusion in the Strategic Plan.

59. The amount set aside for 2018/19 was £34 million, 4.5% of the Board's overall £727 million budget. £2 million of planned savings on the set aside budget were not achieved and the outturn position was an overspend of £3.7 million. It was expected that this budget would be transferred in full to the IJB in 2018/19 but this has been deferred.

**NHS Fife is unlikely to be compliant with General Data Protection Regulations until December 2019**

60. NHS Fife has identified that it is not expected to be fully compliant with General Data Protection Regulations (GDPR) until December 2019. An audit is currently being conducted of the 12 GDPR areas as part of a business improvement plan, to ensure full compliance from December 2019.
Key dependencies exist with a small number of suppliers, with reliance on NSS and local monitoring

61. The impact of underperformance or failure of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or disruptions in the continued provision of vital services.

62. We identified key suppliers in our 2018/19 Management Report, with 15 suppliers accounting for £51 million (6%) of non-pay gross expenditure. These mainly consist of the PFI providers, pharmaceutical suppliers, agency staff companies and healthcare providers.

63. We noted that NHS Fife places reliance on NSS National Procurement for national contracts including governance and business continuity. NHS Fife’s procurement department carries out financial viability checks before awarding local contracts and continues to monitor the financial viability of suppliers on an ongoing basis. Possible issues with the supply chain are also being considered as part of NHS Fife’s preparations for EU withdrawal.

NHS Fife set up governance processes to review, assess and manage risks associated with EU withdrawal, but actions have not yet mitigated the identified risks

64. There remains significant uncertainty surrounding the terms of the UK’s withdrawal from the European Union (EU). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business.

65. In our 2018/19 Management Report, we identified that NHS Fife has established a Brexit Assurance Group (BAG) which is supported by the NHS Fife Resilience Forum. This had identified and considered a number of areas which could be affected by EU withdrawal, including “workforce”, “medicines and medical technologies” and “procurement and supply chain”. The associated risks are recognised in the NHS Fife Brexit Risk Register. Each of the risk areas has been allocated to an Executive Director and appropriate scrutiny committee to monitor. There are three high, four moderate and one low risk included in the register.

66. None of the Board’s management actions had reduced the risk levels by 6 February 2019 (latest risk register provided).
Part 5
Value for money

Main judgements

NHS Fife has a best value framework in place

Only 4 of the 19 LDP standards are being met. However this is consistent with the national position.

Temporary staff costs have increased to £10 million and improvements in 2016/17 have not been maintained. Sickness absence rates have improved but are outwith the national performance standard.

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

NHS Fife has a Best Value Framework

67. Ministerial guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out the Accountable Officer’s duty to ensure that arrangements are in place to secure best value. NHS Fife approved a Best Value Framework in January 2018 covering the best value themes of:

- Vision and leadership
- Effective partnerships
- Governance and accountability
- Use of resources
- Performance management
- Sustainability and equality.

Only 4 of the 19 LDP standards are being met

68. The Scottish Government monitors how NHS Fife performs against the targets it sets in its national performance framework. These include the 11 targets and their trajectories (plans) as set out in NHS Fife’s Annual Operational Plan (AOP). The AOP states that:

- “where performance standards have been met in 2017/18, this will be sustained into 2018/19

- where performance standards have not been met in 2017/18, a trajectory has been agreed with an action plan to bring improvements in performance back in line with March 2017. The performance standards planned to bring back in line with March 2017 are TTG, Outpatient Waiting Times, Diagnostic Waiting Times, CAHMS Waiting Times and Psychological Therapies Waiting Times.”
69. The Board is kept informed of performance across all areas through the integrated performance report (IPR). Performance is reported using 23 key indicators (including 19 “LDP” Standards for 2018/19).

70. The Board’s performance against the 19 LDP Standards as reported in the 2018/19 Annual Report at the end of March 2019 is summarised in Exhibit 8.

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**Exhibit 8**

**Overall performance against LDP standards**

<table>
<thead>
<tr>
<th>Target</th>
<th>Standard</th>
<th>Performance</th>
<th>Action being taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cancer 62 Day RTT</td>
<td>95%</td>
<td>93.1%</td>
<td>Performance was affected by staff shortages and delays to appointments for MRI, TRUS biopsy and post NDT appointments. The backlog of patients who have breached will...</td>
</tr>
<tr>
<td>Target</td>
<td>standard</td>
<td>performance</td>
<td>Action being taken</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>----------</td>
<td>-------------</td>
<td>-----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>18 Weeks RTT</strong></td>
<td>90%</td>
<td>76.9%</td>
<td>The Recovery Plan for 18 Weeks RTT is covered by the delivery of the Patient Treatment Time Guarantee, Diagnostics and Outpatient Waiting Times Recovery Plans; there are no new specific actions</td>
</tr>
<tr>
<td><strong>Patient Treatment Time Guarantee (TTG)</strong></td>
<td>100%</td>
<td>68.7%</td>
<td>Additional resources and elective capacity to be secured to deliver waiting time improvement plan.</td>
</tr>
<tr>
<td>Proportion of inpatients or day case that were seen within 12 weeks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Outpatients waiting less than 12 weeks</strong></td>
<td>95%</td>
<td>93.4%</td>
<td>If performance drops significantly below the Standard for 3 consecutive months, a drill-down process is instigated.</td>
</tr>
<tr>
<td><strong>A &amp; E attendees</strong></td>
<td>95%</td>
<td>95.2%</td>
<td>Standard achieved</td>
</tr>
<tr>
<td><strong>Cancer 31 Days RTT</strong></td>
<td>95%</td>
<td>94.2%</td>
<td>If performance drops significantly below the Standard for 3 consecutive months, a drill-down process is instigated.</td>
</tr>
<tr>
<td><strong>Drug and Alcohol 21 days</strong></td>
<td>90%</td>
<td>96.8%</td>
<td>Standard achieved</td>
</tr>
<tr>
<td><strong>CAMHS Waiting Times</strong></td>
<td>90%</td>
<td>77.7%</td>
<td>Provide early intervention, improve initial assessments and increase effectiveness of signposting thus reducing the overall burden on both GPs and the Tier 3 CAMH service. Improved access to therapeutic intervention (additional provision for approximately 380 children per annum)</td>
</tr>
</tbody>
</table>

Note: 1. Figures still to be validated by NHS Information Services Division.
Source: NHS Fife Integrated Performance Report April 2019

Temporary staff costs have increased to £10 million (1.3%)

73. As a result of recruitment/ retention problems and additional pressures to meet waiting time targets, expenditure on temporary staff has increased over the last five years, from £8 million in 2014/15 to £10 million in 2018/19 (1.3% of net expenditure), as illustrated in Exhibit 10.
An improvement was achieved in 2016/17 following successful permanent recruitment to medical posts and applying stricter controls on the authorisation process for agency nursing, however, this improvement in the spend has not been maintained and agency costs have increased by over £3 million (40%) since then.

**Sickness absence levels have improved but exceed the national standard**

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 2019 the sickness absence rate was 5.4% compared to 5.6% for the comparable period last year.

**National performance audit reports**

Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 a number of reports were published which are of direct interest to the board and are highlighted in Appendix 4.

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 December 2018.
# Appendix 1
## Action plan 2018/19

<table>
<thead>
<tr>
<th>No.</th>
<th>Issue/risk</th>
<th>Recommendation</th>
<th>Agreed management action/timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Timetable for unaudited accounts</strong></td>
<td>We received the unaudited accounts on 10 May 2019; therefore, the deadline of 3 May 2019 agreed in our annual audit plan was not met. We identified several areas where improvements to working papers or dependency on key personnel could improve the efficiency of the audit. <strong>Risk:</strong> This could delay completion of the final accounts audit beyond 30 June.</td>
<td>NHS Fife should ensure that the agreed timetable for presenting the unaudited annual report and accounts for audit is met and a more complete set of working papers should be readily accessible. Consideration should also be given to addressing key person dependencies. <strong>Paragraph 17</strong></td>
</tr>
<tr>
<td>2</td>
<td><strong>Holiday pay accrual</strong></td>
<td>The holiday pay accrual includes medical and dental staff who have individual leave years beginning on the anniversary of their start dates. There is no centralised record of annual leave and data from individual staff are not collected. Management estimates the leave accrual for this group of staff based on the percentage applied to all other staff. This amounted to one day per medical and dental individual. In the previous year this was set as a maximum of five days. The estimate is subject to management bias. <strong>Risk:</strong> Expenditure is subject to manipulation through management estimates and expenditure for the year is misstated.</td>
<td>A method of collecting and collating a significant sample of individual balances should be introduced for medical and dental staff. <strong>Exhibit 3 point 1</strong></td>
</tr>
</tbody>
</table>

Agreed. We will review our internal timetable and key responsibilities to ensure the complete draft accounts are available on a timely basis. We accept the level of knowledge and expertise in some technical areas is held by one individual but in a small team, it is difficult to have more than one person fully up to speed but where feasible, we will look to put cross over arrangements in place.

*Director of Finance*

*31 March 2020*

We will review the sampling method in place to determine if it is feasible to replicate the process for medical & dental staff or identify an alternative means of ensuring a robust approach for this calculation.

*Deputy Director of Finance*

*31 March 2020*
### Follow up of prior year recommendations

<table>
<thead>
<tr>
<th>No.</th>
<th>Issue/risk</th>
<th>Recommendation</th>
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</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Efficiency savings</td>
<td>Detailed savings plans should be developed to ensure that NHS Fife can deliver the required savings. Paragraph 48</td>
<td>There are detailed plans in place for the health budgets delegated to the Health &amp; Social Care Partnership (c£7 million). The remaining £10 million target (for the Acute Services Division) is under review and a detailed plan requested for the Finance, Performance &amp; Resources Committee in July 2019. Significant efforts have been made to reduce from a recurring gap of £30 million in 2016/17 to a £17 million gap for 2019/20.</td>
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</table>

**Chief Operating Officer**

31 July 2019

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### Follow up of prior year recommendations

<table>
<thead>
<tr>
<th>No.</th>
<th>Issue/risk</th>
<th>Recommendation</th>
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</tr>
</thead>
<tbody>
<tr>
<td>b/f</td>
<td>Timetable for unaudited accounts</td>
<td>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.</td>
<td>Outstanding. The unaudited accounts were provided one week later than the agreed timetable. See point 1 above.</td>
</tr>
<tr>
<td>b/f</td>
<td>Funding allocations from Scottish Government</td>
<td>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.</td>
<td>Complete. Following last year’s recommendation clarification confirmed that health and social care funding could be accrued once funding was agreed with the IJB, however the point is still relevant to acute projects. There were no instances of expenditure being accrued to match income identified this year.</td>
</tr>
<tr>
<td>b/f</td>
<td>Holiday pay accrual</td>
<td>The method for calculating the accrual for medical and dental holiday pay should be reviewed and a method of verifying the figure developed.</td>
<td>Outstanding. The holiday pay accrual for medical and dental staff is not supported by evidence again this year. See point 2 above.</td>
</tr>
<tr>
<td>b/f</td>
<td>Prescribing advance</td>
<td>NHS Fife should investigate why it is an outlier in the</td>
<td>Outstanding. This issue was not resolved in the year and a movement of</td>
</tr>
<tr>
<td>No.</td>
<td>Issue/risk</td>
<td>Recommendation</td>
<td>Agreed management action/timing</td>
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<td></td>
<td>treatment of the pharmacy accrual.</td>
<td>£91,000 was included in this year’s SOCTE. We have discussed possible options to resolve this anomaly with finance staff again this year and will follow this up during our interim work at the Board in 2019/20 with a view to resolving the issue in the 2019/20 accounts.</td>
<td></td>
</tr>
</tbody>
</table>

| b/f | Efficiency savings               | Detailed savings plans should be developed to ensure that NHS Fife can deliver the required savings. | In progress<br>We reported in our 2018/19 Management Report that there was no information on the specific savings plans within the high level workstreams reported in the IPR nor were there proposals to address outstanding savings. The Board continues to rely on non-recurring savings and financial flexibility to deliver a break-even position. It was agreed that detailed savings plans would be developed by May 2019. See point 3 above |

| b/f | Health & Social Care savings     | 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. | Outstanding<br>Savings across both acute and IJB services continue to be challenging and transformation is not progressing as quickly as anticipated by the Board. Actions to address this have been agreed in our 2018/19 Management Report<br>This will be followed up as part of our 2019/20 audit |

<p>| b/f | Remuneration report disclosures  | 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 &amp; Social Care. | Complete&lt;br&gt;The remuneration report has been expanded to include four members of the senior management team who could influence decisions. |</p>
<table>
<thead>
<tr>
<th>No.</th>
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</thead>
</table>
| b/f | Compliance with General Data Protection Regulations | NHS Fife should take action to address compliance issues as a matter of urgency.                      | In progress.  
We reported in our 2018/19 Management Report that the health Board is not expected to be fully compliant with GDPR until December 2019. Management advised that NHS Fife are conducting a robust audit of the 12 areas in relation to GDPR as part of a business improvement plan, to ensure full compliance which is anticipated to be completed by no later than 31/12/19.  
This will be followed up as part of our 2019/20 audit. |
| b/f | Health & Social Care governance                     | NHS Fife should agree the governance structures in place with partners to strengthen these arrangements. | In progress.  
We reported on in our 2018/19 Management Report that some of the local challenges around operational and governance arrangements for the health and social care partnership have not been fully resolved. Management confirmed the governance structure of the IJB remains under development.  
This will be followed up as part of our 2019/20 audit. |
Appendix 2
Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the 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.

<table>
<thead>
<tr>
<th>Audit risk</th>
<th>Assurance procedure</th>
<th>Results and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risks of material misstatement in the financial statements</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 1 Risk of management override of controls | • Review of accounting estimates.  
• Focused testing of accruals and prepayments including holiday pay accrual and unspent funding allocations.  
• Evaluation of significant transactions that are outside the normal course of business.  
• Data analytics risk assessment of ledger transactions (including journals) and testing of these.  
• Testing of transactions after the year end. | Results We identified that the holiday pay accrual included an estimate for medical and dental staff which did not have adequate supporting evidence and was extremely optimistic. We estimated the impact of adjusting this would be £225,000.  
Conclusion No adjustment was made to the audited accounts as it wasn’t material in this context, but our view is that this could be manipulated to ensure a financial target is met. [See Exhibit 3 point 1](#) |
| 2 Risk of fraud over income and expenditure | • 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. | Results: The NFI work is ongoing as at June 2019. A report will go to committee once the exercise has been completed. To date two high risk cases have been identified and work is ongoing to investigate these.  
We reviewed the assurances from the NHS Counter Fraud Service and found no issues.  
There were no significant errors found through our data analytics work.  
Conclusion We did not identify any fraud issues. |
### Appendix 2 Significant audit risks identified during planning | 31

<table>
<thead>
<tr>
<th>Audit risk</th>
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<th>Results and conclusions</th>
</tr>
</thead>
</table>
| 3 Estimation and judgements | • Review of reports from the District Valuer to confirm asset valuations.  
• Sample testing of indexation calculations.  
• Sample testing of CNORIS claims and associated reimbursements.  
• Verification of the CNORIS provision recognising the future liability from participating in the scheme with reference to the contribution rate provided by the CLO. | Results: We reviewed the reports from the District Valuer and confirmed these to asset valuations with no issues identified.  
Our testing of indexation calculations identified issues with values applied to CNORIS and pension provisions. (Exhibit 3 point 3).  
Conclusion: We identified a few errors that were not material and remain unadjusted in the audited accounts. |
| 4 Funding allocations | • Use of data analytics to identify high risk items and exceptions for substantive testing.  
• Sample testing of accruals at the year end.  
• Ongoing review of the financial performance section in the monthly Integrated Performance Report (IPR).  
Regular communication with the Director of Finance. | Results: Our data analytics work and sample testing of accruals at year end did not identify any expenditure to match income.  
We reviewed a small sample of allocation letters for acute services and confirmed funding had been properly accounted for in the year.  
Conclusion: We did not identify any inappropriate treatment of funding allocations or accrual of related expenditure. |

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

| 5 Financial position | • Undertake follow up work on financial management. This includes reviewing progress on the delivery of savings plans and the effectiveness of in-year budget reporting.  
• Monitor the development of the budget projection for the remainder of the financial year.  
• Consider any contingency actions if financial balance is not to be achieved.  
• Review internal audit reports on the Savings Programme (B23/19) | Results: We reported in our 2018/19 Management Report that financial reporting was more transparent but that the Board continues to rely on non-recurring savings to meet its break-even target.  
Conclusion: The financial position remains challenging, but is more transparently reported |

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There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.

Allocations from the Scottish Government for acute services should be accounted for as funding for the year and associated expenditure recognised only when a present obligation at 31 March arises from past events.

We reported errors in accruing expenditure to match allocations in our 2017/18 annual audit report and have since clarified the flexibility that can be afforded to IJB funding. There is a risk that unspent allocations are incorrectly accounted for in the current year.

The 2018/19 NHS Annual Operational Plan (AOP) identified a break-even position dependent on NHS Fife achieving savings of £19.6 million. The year-to-date position at the end of October 2018 was a £1.3 million overspend and a forecast year-end overspend of £2.6 million. The majority of savings identified for 2018/19 have been allocated to workstreams but the detailed plans on how these will be delivered have yet to be developed.
<table>
<thead>
<tr>
<th>Audit risk</th>
<th>Assurance procedure</th>
<th>Results and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a significant risk that NHS Fife is unable to deliver the savings needed to achieve its statutory break-even target.</td>
<td>and Financial Management (B25/19).</td>
<td><strong>Results</strong> – Refer to our 2018/19 Management Report. NHS Fife does not have a 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. <strong>Conclusions</strong> - NHS Fife’s financial sustainability continues to be a significant challenge. A long-term financial plan has not yet been prepared, but a high level medium term financial plan has been developed.</td>
</tr>
<tr>
<td><strong>6 Financial sustainability</strong> An initial three-year financial outlook for the period 2019/20 to 2021/22 was presented to the FPR Committee in September 2018 and updated in November 2018. This recognised a potential financial gap of approximately £10 million per annum for the next three years assuming that recurring savings from 2018/19 onwards are achieved. £19.6 million recurring savings are required this year and as at September 2018 only £3.6 million had been identified on a recurring basis. Unachieved legacy savings will increase the budget gaps further. There is a significant risk that NHS Fife will continue to rely on non-recurring savings and be unable to deliver the savings required to achieve a balanced budget on a recurring basis over the new three-year planning and performance cycle.</td>
<td>• Undertake follow up work on financial planning. This work will review the reliance on and nature of non-recurring savings in year and progress and achievement of medium-term financial plans. • Review internal audit report on Financial Planning (B24/19).</td>
<td></td>
</tr>
<tr>
<td><strong>7 Best value</strong> NHS Board Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value (BV). We have identified the following BV risks at the board: • Performance management – ongoing challenges in meeting key national performance targets with 13 targets outwith acceptable standards in the October 2018 IPR. NHS Fife had the highest sickness absence rate (5.8%) among the territorial boards for 2017/18. • Workforce sustainability – an ageing workforce and recruitment challenges in key specialities</td>
<td>• Review of a sample of performance targets considering what improvement action is being taken and how planned improvements are monitored. • Review of NHS Fife’s transformation programme to consider the scale, timetable and expected outcomes of key projects and consider the processes for community engagement, consideration of equality (EOIA), and reporting progress. • Review internal audit report on Organisational Performance Management (B14/19).</td>
<td><strong>Results</strong> - The findings from our review of performance targets and the transformation programme were reported in our 2018/19 Management Report. The internal audit report on Organisational Performance Management has been deferred to 2019/20. <strong>Conclusions</strong> - The Board is continuing to face significant challenges in delivering its performance and financial targets and the transformation programme is not progressing as planned.</td>
</tr>
</tbody>
</table>
### Appendix 2 Significant audit risks identified during planning

<table>
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<tr>
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<th>Assurance procedure</th>
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</tr>
</thead>
<tbody>
<tr>
<td>• Use of assets – backlog maintenance costs have increased to £77.6m.</td>
<td>We will complete a short questionnaire, prepared by Audit Scotland, to establish the extent, value and nature of key supplier dependencies that can inform the national position.</td>
<td>Results: The findings from our work on key supplier dependency were reported in our 2018/19 Management Report. See also paragraph 61-63.</td>
</tr>
<tr>
<td>• Transformation and redesign, including services delivered by Fife Health and Social Care Partnership (H&amp;SCP).</td>
<td>We will review business continuity arrangements for a sample of key systems, including TrakCare.</td>
<td>Conclusions: We did not find any significant issue with dependency on key suppliers which NHS Fife is not managing.</td>
</tr>
<tr>
<td>There are a number of ongoing challenges to be addressed to redesign acute services and make health and social care integration effective across Fife.</td>
<td>We will consider the arrangements in place, within NHS Fife, to monitor the ongoing financial position of key suppliers.</td>
<td></td>
</tr>
</tbody>
</table>

#### 8 Dependency on key suppliers

NHS Fife is dependent on a number of key suppliers to support essential operational activities e.g. InterSystems who provide the Patient Management System, TrakCare. There is a risk that hospital services may be disrupted if any of these suppliers encountered financial difficulties.

- We will consider compliance with the Audit Scotland guidance note on openness and transparency.
- We will consider the operation and scrutiny of committees by arranging a meeting with non-executive members to discuss any issues and explore effectiveness.
- We will continue to attend board and committee meetings.
- Our work on performance targets, the transformation programme and financial management includes consideration of the reporting and scrutiny arrangements.

Results: The findings from our work on key supplier dependency were reported in our 2018/19 Management Report. See also paragraph 61-63.

Conclusions: We did not find any significant issue with dependency on key suppliers which NHS Fife is not managing.

#### 9 Leadership and openness

The NHS in Scotland 2018 report, published in October 2018, highlighted the need for effective leadership and more openness across NHS Scotland. A number of non-executive members have resigned from the board in the last two years and there have also been some changes in the Executive Directors Group.

A new governance structure was introduced in 2017 with more scrutiny being undertaken at committee rather than board level. Membership of committees has changed over the period which increases the risk of a loss of knowledge and experience.

We note that the papers for the FPR Committee have not been

Results: The findings from our work on leadership and openness were reported in our 2018/19 Management Report. NHS Fife is to introduce a new website to improve the accessibility of information. Results of committee self-assessment were generally positive.

Conclusions: We did not find any significant issue with the operation and scrutiny of committees.
### 10 EU withdrawal

The UK will leave the European Union on 29 March 2019, and NHS Fife is planning for a significant impact from this, particularly on:

- Maintaining services if there is a loss of employees who are EU citizens or difficulties in recruiting people to fill vacancies.
- Nuclear medicine: diagnostic and treatment, and other scarce items.
- Impact on patient access to medicines and medical technologies.
- Procurement and the supply chain.
- Cross-border cooperation on public health matters.
- Impact on the economy.

As the board has not evaluated these risks or prepared appropriate action plans there is a risk that it is not adequately prepared for EU withdrawal.

#### Results and conclusions

**Results:** The findings from our review of the work done by the Board for EU withdrawal were reported in our 2018/19 Management Report. NHS Fife had identified risks from EU withdrawal on 29 March 2019 but we did not identify any significant progress in implementing the mitigating actions at that point.

**Conclusion:** NHS Fife continues to monitor the risk it has identified relating to EU withdrawal.
Appendix 3
Summary of uncorrected misstatements

We report all uncorrected misstatements that are individually greater than our reporting threshold of £125,000.

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.

<table>
<thead>
<tr>
<th>No.</th>
<th>Account areas</th>
<th>Comprehensive income and expenditure statement</th>
<th>Balance sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Dr £000</td>
<td>Cr £000</td>
</tr>
<tr>
<td>1</td>
<td>Staff costs</td>
<td>225</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Holiday pay accrual</td>
<td></td>
<td>225</td>
</tr>
<tr>
<td>2</td>
<td>Expenditure</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provisions</td>
<td></td>
<td>300</td>
</tr>
<tr>
<td>3</td>
<td>Provisions</td>
<td></td>
<td>266</td>
</tr>
<tr>
<td></td>
<td>Expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Net impact on net expenditure and total taxpayers’ equity</strong></td>
<td><strong>259</strong></td>
<td><strong>259</strong></td>
</tr>
</tbody>
</table>

Subtract Entry 2  (300)

Add: Entry 3  266

**Net impact on outturn against RRL**  225

Notes:
1. Entry 1 relates to a lack of evidence to support the holiday pay accrual for medical and dental staff. The assumption made by NHS Fife in the previous year was that 5 days was the best estimate of the year-end balance. The current year estimate is 1 day which gives an accrual of £150,000. Error based on 2.5 days (midpoint) less the 1 day accrued in the current year.
2. Entry 2 arises from NHS Fife’s share of the CNORIS liability (provision) for participation in the scheme being understated. This arose due to errors in the application of indexation and discounting of structured settlements. This is funded from annually management expenditure which does not impact on the core RRL target.
3. Entry 3 arises from an overstatement of the early retirement pension provision due to an error in discounting the projected cashflows. This is funded from annually management expenditure which does not impact on the core RRL target.
Appendix 4
Summary of national performance reports 2018/19

**NHS relevant reports**

*Children and young people’s mental health* – September 2018

*NHS in Scotland 2018* – October 2018

*Health and social care integration: update on progress* – November 2018