

NHS Fife

2020/21 Annual Audit Report



Prepared by Audit Scotland
September 2021

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Key messages

2020/21 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 Significant adjustments were made in the audited accounts due to the exceptional impact of Covid-19 creating unusual transactions including PPE, advances to pharmacy contractors and IJB outturns.

Financial management and sustainability

- 3 NHS Fife operated within its Revenue Resource Limit (RRL) but Covid-19 had a significant impact with additional funding of £53 million including additional costs of staffing, equipment and vaccinations.
- 4 Overall financial systems of internal control are operating effectively, but Covid-19 contributed to issues with FHS payment verification and payroll processing.
- 5 NHS Fife has a one-year financial plan, with a 2021/22 budget gap of £22 million. This includes unachieved legacy savings of £14 million. The plan assumes that these will be funded by Scottish Government.
- 6 The transformation programme has been paused due to Covid-19, but there are plans to create a Programme Management Office to coordinate change projects.

Governance, transparency and value for money

- 7 Governance arrangements have been appropriate.
- 8 Covid-19 had a significant impact on increased staff costs (+£39 million) and staff turnover (increased to 19.4%). It also had a significant impact on service performance, but there have been some improvements since 31 March 2021.

Introduction

1. This report summarises the findings from our 2020/21 audit of NHS Fife. The scope of our audit was set out in our Annual Audit Plan presented to the 18 March 2021 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of the body's annual report and accounts
- consideration of the wider dimensions that frame the scope of public audit set out in the [Code of Audit Practice 2016](#)

2. The main elements of our audit work in 2020/21 have been:

- an audit of NHS Fife's 2020/21 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- a review of NHS Fife's key financial systems
- consideration of the four audit dimensions.

3. The global coronavirus pandemic has had a considerable impact on NHS Fife during 2020/21. This has had significant implications not least for the services it delivers but also for the costs of healthcare provision. Risks related to the pandemic were included in our Annual Audit Plan, and we have adapted our planned audit work to address any new emerging risks.

Adding value through the audit

4. We add value to NHS Fife through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides.

5. 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

6. 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 the Scottish Ministers.

7. NHS Fife is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. This report raises matters from our audit. 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.

10. 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 any outstanding actions from last year and progress against these.

Auditor Independence

11. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

12. 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 2020/21 audit fee of £160,970, as set out in our Annual Audit Plan, remains unchanged. 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. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance.

Main judgements

Our audit opinions on the annual accounts are unmodified.

Significant adjustments were made in the audited accounts due to the exceptional impact of Covid-19 creating unusual transactions including PPE, advances to pharmacy contractors and IJB outturns.

Our audit opinions on the annual report and accounts are unmodified

14. The board approved the annual report and accounts for the year ended 31 March 2021 on 28 September 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- 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 unaudited annual report and accounts were received in line with our agreed audit timetable

15. As a result of the continuing impact of Covid19 the Scottish Government extended the deadline for the submission of health board audited annual report and accounts from 30 June 2021 to 30 September 2021. This mirrored the 2019/20 arrangements.

16. The unaudited annual report and accounts were received on 1 June 2021, in line with our agreed audit timetable.

17. The working papers provided to support the accounts were generally of a good standard and the audit team received support from finance staff which

helped ensure the final accounts audit process ran smoothly. However, working papers to support contributions to/ from the IJB were incomplete, resulting in further detailed discussions with officers of NHS Fife and the IJB. The impact of Covid-19 on funding of the IJB and the fact that the IJB recorded a surplus for the first time contributed to this. This resulted in amendments that are reflected in the audited financial statements. Refer to [Exhibit 2](#).

Overall materiality is £13.7 million

18. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£13.7 million
Performance materiality	£8.2 million
Reporting threshold	£200,000

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

19. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and inform where the efforts of the team are directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

We have significant findings to report on the annual report and accounts

20. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. Issues that we have identified are included in the action plan at [Appendix 1](#).

21. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Integration Joint Board adjustments</p> <p>The accounts were amended to disclose NHS Fife's share of reserves held by the IJB of £15 million and to ensure the level of commissioning funding and income agrees to the disclosure in the IJB accounts.</p> <p>Contributions from NHS Fife to Fife IJB totalled £503 million, including £83 million resource transfer and £11 million transferred to IJB reserves. This was offset by £408 million funding received from the IJB for NHS services.</p>	<p>Management have adjusted for this in the audited 2020/21 Annual Report and Accounts with adequate disclosure provided.</p> <p>The adjustments are reflected in notes 3b, 4 and 26B of the accounts. Commissioning funding and income decreased by £30 million to correct a mis posting by NHS Fife.</p>
<p>2. Holiday pay accrual</p> <p>The holiday pay accrual included in the financial statements is £5.2 million. This is a significant increase of £3.7 million on the prior year, due to COVID-19 and an improved methodology for estimating Medical & Dental staff.</p> <p>The estimate is now based on the actual returns submitted by small sample of individuals in a single department.</p> <p>The total also includes a new element related to the cost of a Pay As If At Work (PAIAW) settlement which has recently been agreed.</p> <p>We have expressed concern in previous years about the process and basis for making this estimate. We consider the change in methodology to be a positive step but still believe that further improvements can be made to the process and coverage of staff used to arrive at the estimate.</p> <p>We considered the estimate in accordance with ISA 540. and have concluded that it is reasonable and is less than our overall materiality level however, we note that there is a considerable variation between the amount of leave accrued for medical/dental and other staff; and compared to a sample of seven other Scottish NHS Boards and have concluded that the estimate is probably slightly optimistic.</p>	<p>NHS Fife should continue to develop the process used to calculate the accrual to ensure the medical and dental estimate is based on returns from a variety of services, reducing the risk that the estimate is subject to significant uncertainty.</p> <p>Recommendation 1 (refer Appendix 1, action plan)</p>

Issue	Resolution			
Qualitative audit assessment	4	2	6	2
Accounts values	£m	£m	£m	£m
medical and dental	3.5	0.7	0.15	0.8
other staff	1.2	0.8	0.4	0.4
PAIAW estimate	0.5	-	-	-
Total Holiday pay accrual	5.2	1.5	0.55	1.2

3. PPE and testing kits

To protect health staff during Covid-19, NHS National Supplies Service (NSS) ordered supplies of PPE and issued it to health boards across Scotland at £nil value.

We advised the Scottish Government in April 2021 that we did not agree with this treatment.

This national issue was addressed in June 2021 during the course of the audit. The Scottish Government agreed to revise the accounting treatment and provided figures to be reflected in each health board's accounts. Revised funding allocation letters were issued to cover the cost of these items. The accounts have been updated to reflect costs and corresponding funding of £6.3 million.

The costs and funding for Covid-19 testing kits of £1.2 million have also been reflected in the revised accounts.

Management have adjusted for this in the audited 2020/21 Annual Report and Accounts.

4. Valuation of medical negligence annual payment provisions

NHS Fife has applied discount factors as advised nationally to calculate the provisions for ongoing medical negligence payments in accordance with annex c to PES (2020) 12. These estimates are subject to considerable uncertainty however this issue has not been recognised by either SG or the Treasury. The period over which they will be paid depends on individual life expectancy. However, we consider that the tables used to discount are flawed and in accordance with ISA 540 we have assessed that the provisions are reasonable but optimistic (Qualitative audit assessment = 4).

The duration of the annual cost commitment is subject to significant uncertainty and is reimbursed to NHS Fife via the CNORIS scheme. The application of discount factors to the ongoing payment should be reviewed by 31 March 2022.

Recommendation 2

(refer [Appendix 1](#), action plan)

Issue	Resolution
<p>5. Cash advances to pharmacists</p> <p>Pharmacists received advanced payments totalling £14 million in April 2020 to support an anticipated surge in demand due to Covid-19. As of 31 March 2021, £2.5 million was still to be repaid. This was netted off payables rather than treated as a receivable in the draft accounts.</p>	<p>Management have adjusted for this in the audited 2020/21 Annual Report and Accounts.</p>

Source: Audit Scotland

Identified misstatements of £55 million were adjusted in the accounts

22. Total misstatements identified were £55 million (no impact on outturn position against RRL). The significant components of this are described in [Exhibit 2](#) above (items 1,3 and 5).

23. The circumstances of 2020/21 were unusual (Covid-19 and IJB surpluses), and this contributed to the misstatements.

24. We have reviewed the nature and causes of these misstatements and considered the need for further audit procedures. We concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

25. In addition to the misstatements, Covid-19 restrictions also meant that we were unable to attend hospital locations to physically verify assets and were reliant on staff to provide photographic evidence of existence for 18 plant and machinery items out a sample of 20. For the remaining two items we considered the need to further amend our audit procedures but accepted that the lack of evidence did not constitute a material risk of misstatement in the wider population.

26. The adjustments in the audited accounts increased net expenditure by £6.3 million and increased net assets by the same amount.

27. 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 adjusted all identified misstatements above our reporting threshold and there are no unadjusted errors to report.

Good progress was made on prior year recommendations

28. NHS Fife has fully implemented one of our prior year recommendations and is progressing the remaining three recommendations. We are pleased to report that Financial capacity issues have been addressed and the timetable

for presenting the unaudited annual report and accounts for audit was met with working papers provided as required.

29. A new Strategic Planning and Resource Allocation Process which includes the development of medium- term financial plan is being progressed.

30. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out [in Appendix 1](#).

2. Financial management

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

Main judgements

NHS Fife operated within its Revenue Resource Limit (RRL).

Covid-19 had a significant impact on NHS Fife's finances with additional funding of £53 million and additional costs of staffing, equipment and vaccinations and planned saving activities were deferred.

Overall financial systems of internal control are operating effectively, but Covid-19 contributed to issues with FHS payment verification and payroll processing.

NHS Fife operated within its Revenue Resource Limit (RRL)

31. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within.

32. [Exhibit 3](#) shows that NHS Fife operated within its limits during 2020/21, reporting an underspend of £0.3 million (£340,000).

Exhibit 3

Performance against resource limits in 2020/21

Performance against resource limits set by SGHSCD	Resource Limit £million	Actual £million	Underspend £million
Core revenue resource limit	854.9	854.6	0.3
Non-core revenue resource limit	22.4	22.4	0
Total revenue resource limit	877.3	877.0	0.3
Core capital resource limit	17.3	17.3	0
Non-core capital resource limit	0	0	0
Total capital resource limit	17.3	17.3	0

Performance against resource limits set by SGHSCD	Resource Limit £million	Actual £million	Underspend £million
Cash requirement	921.0	921.0	0

Source: NHS Fife Annual Report and Accounts 2020/21

Covid-19 had a significant impact on NHS Fife finances with additional funding of £53 million

33. In February 2020 NHS Fife's draft annual operational plan set an overall budget for 2020/21 of £754 million.

34. As part of the NHS remobilisation exercise, NHS Fife estimated the financial impact of the pandemic. This included increased costs for Covid-19 related activity and decreased costs due to reduced demand in other areas and loss of income. These estimates were kept under review and reported to the Scottish Government on a regular basis.

35. Additional funding from the Scottish Government for Covid-19 totalled £53 million. This included £8 million for Fife IJB and £20 million for social care, which was transferred to Fife Council. The remaining £25 million was for health board services.

Additional costs were incurred on staffing, equipment and vaccinations and planned saving activities were deferred

36. The major areas of additional expenditure included:

- increased community prescribing (£1.9 million)
- staff overtime (£4.8 million) and temporary staffing (£6.1 million)
- digital technology for remote working and consultations (£2.2 million)
- Covid-19 vaccination (£2.9 million) and contact tracing (£1.9 million)
- £10.1 million of non-recurring savings, which were not delivered due to Covid-19
- equipment and supplies associated with quadrupling intensive care unit capacity and rearranging wards (£1.2 million).

Budget processes were appropriate.

37. Covid-19 related expenditure was tracked using specific account codes in the general ledger and disclosed in the accounts. [Exhibit 4](#) shows the expenditure in these areas compared to additional Covid-19 funding.

Exhibit 4 Covid-19 costs compared to additional funding

	Total Funding Received (£million)	Total Expenditure (£million)	Difference (£million)
NHS Board			
Covid-19 Additional Allocations	24.8	24.7	0.1
PPE funded by Scottish Government	6.3	6.3	0
Covid-19 donations from UK Government for testing kits	1.2	1.2	0
Health & Social Care			
Covid-19 Additional Allocations	28.5	28.5	0

Source: NHS Fife

£11.7 million of savings were achieved with £5.4 million on a recurring basis. £10.1 million of savings targets were affected by Covid-19 and were funded by the Scottish Government

38. NHS Fife's Annual Operational Plan reported a savings target of £20 million or 2.7 percent of its budget for 2020/21, including unachieved savings of £12.6 million brought forward from previous years. This target increased to £21.8 million, with an additional £1.8 million savings target identified by the IJB after the start of the financial year.

39. £11.7 million of savings were achieved, but with only £5.4 million (46 per cent) on a recurring basis.

40. The remaining £10.1 million of target savings was not achieved due to the impact of Covid-19. This was reported as part of the Local Mobilisation Plan to the Scottish Government in July 2020. In February 2021 Scottish Government agreed they would fund this element in 2020/21.

NHS Fife made additional Covid-19 funding to the Integrated Joint Board

41. A number of additional Covid-19 allocations were earmarked by the Scottish Government for the use by the Integration Joint Boards. These were included in full as part of NHS Fife funding to the IJB. In line with flexibility arrangements, £2 million of SG Covid specific HB funding was allocated to the IJB to support the delivery of services during the pandemic.

42. IJBs are able to retain any unspent funding within their reserves. NHS Fife made additional contributions to the IJB late in the year including £6.8 million of additional Scottish Government funding for specific activities and £1.5 million uplift on resource transfer funding. NHS Fife contributed a total of £11.3 million to IJB reserves on 31 March 2021.

43. Fife IJB reported year end reserves balances of £30 million and NHS Fife's share of these balances totals £15 million.

NHS Fife spent its capital allocation and progressed the Elective Orthopaedic Centre project

44. NHS Fife received a total capital allocation for 2020/21 of £17.3 million. This included an increase of £2 million for Covid-19 related capital costs. This was fully spent in 2020/21 and NHS Fife progressed its Elective Orthopaedic Centre capital project. This will provide three outpatient areas, inpatient and short stay wards and three theatres. The full business case was approved by the Board in November 2020 and the Scottish Capital Investment Group on 11 March 2021. Construction started on 1 March 2021 and is expected to be completed in September 2022. Capital expenditure in 2020/21 on this project was £2.2 million and £18.5 million is expected to be spent in 2021/22. The forecast total cost of the project is £33.2 million.

Overall, financial systems of internal control are operating effectively

45. Our management letter presented to the Audit and Risk Committee on 17 June 2021 concluded our findings from the review of systems of internal controls. We concluded that overall, the controls tested were operating effectively. We identified some control weaknesses in relation to the staff list verification exercise and the authorisation of journals. We also found that Covid-19 had resulted in a significant reduction in counter fraud activity related to payments to primary care practitioners. We revised our audit approach in response to the weaknesses identified to obtain sufficient assurance to conclude on the 2020/21 annual accounts.

Payroll services are experiencing recruitment issues and increased activity due to Covid-19 with increased risks of error

46. NHS Fife has been experiencing difficulties in recruiting payroll staff. Work is ongoing to try to resolve the issues and some current payroll officers are due to retire.

47. We note in paragraph 69. that staff turnover was 19.4% in 2020/21 and this increased the workloads of human resources and payroll services to ensure staff are available to deliver services.

48. Unfortunately, our testing of 10 leavers identified 2 of the sample had not been notified to, or actioned by, payroll in sufficient time and this resulted in overpayments of salary of £8,670. These were correctly accounted for as debtors to NHS Fife and one of the overpayments was recovered in full by 31 March 2021.

Recommendation 3

Recruitment issues in payroll services need to be addressed to prevent wider risks to service provision.

NSS Controls over Practitioner and Counter Fraud Services did not operate effectively during the year

49. The 2020/21 NSS service auditor's report covering Practitioner and Counter Fraud Services was qualified. This related to the design or operating effectiveness of controls and NHS Fife has included a reference to the qualification in its Governance Statement.

50. We reviewed the qualifications contained within the service auditor reports and have undertaken additional substantive audit procedures including analytical review of GMS payments to conclude that the service auditor's controls' qualification did not have an adverse impact on our audit opinion.

Standards of conduct for prevention and detection of fraud and error are appropriate

51. There are appropriate arrangements for the prevention and detection of fraud, error and irregularities. NHS Fife is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. NHS Fife is also responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

52. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. NHS Fife has recently started work to investigate creditors matches for the 2020/21 exercise. Work has not started on investigating payroll matches due to resourcing challenges in the payroll team. NHS Fife aims to complete the exercise by December 2021.

3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services.

Main judgements

Covid-19 funding has led to a 6 per cent increase in revenue funding.

NHS Fife has a one-year financial plan in line with national planning arrangements.

The 2021/22 budget gap of £22 million includes unachieved legacy savings of £14 million. The plan assumes that these will be funded by Scottish Government.

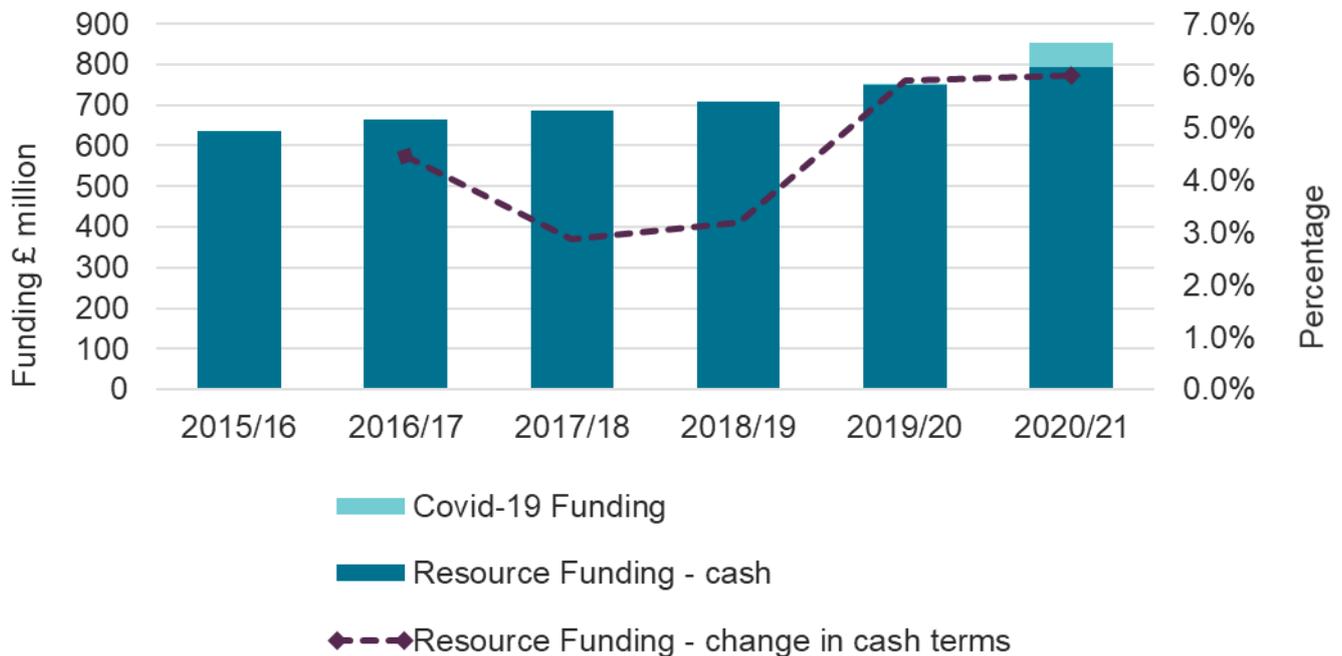
The transformation programme has been paused due to Covid-19 but there are plans to create a Programme Management Office to coordinate change projects.

Covid-19 funding has led to a 6 per cent increase in revenue funding in cash terms

53. Core revenue funding to NHS Fife in 2020/21 from the Scottish Government has grown by 6 per cent in cash terms compared to 2019/20 ([Exhibit 5](#)). There was an additional £53.3 million funding for Covid-19 in 2020/21. The current 2021/22 Scottish budget includes a rise in baseline funding for NHS Fife of £16.2 million (2.3%). A further £869 million of additional Covid-19 related funding will also be distributed across NHS Scotland in 2021/22.

Exhibit 5

Core funding to NHS Fife has increased



Source: NHS Fife accounts/ Audit Scotland

NHS Fife has a one-year financial plan in line with national planning arrangements

54. The requirement to produce three-year financial plans as part of the medium-term financial framework has been paused by the Scottish Government due to the pandemic. NHS boards were asked to complete a one-year plan for 2021/22.

55. NHS Boards have replaced Annual Operational Plans (AOPs) for 2021/22 with Remobilisation Plans (RMPs). NHS Fife's RMP was approved by the Board on 24 March 2021 and includes the 2021/22 financial plan.

56. NHS Fife's 2021/22 financial plan identifies additional costs of £32.4 million (£23.6 million Health Board and £8.8 million delegated to the IJB) relating to Covid-19. There are also additional costs related to recovering and addressing service backlogs in other areas.

The 2020/21 budget gap of £22 million includes unachieved legacy savings of £14 million. The plan assumes that these will be funded by Scottish Government.

57. The financial plan includes an in-year additional budget gap of £8.1 million for 2021/22, and a total gap of £21.8 million. This includes unachieved legacy savings brought forward of £14 million. The plan includes the assumption that the full unachieved legacy savings brought forward will be funded by Scottish Government, however this has not yet been confirmed.

58. Work is underway to develop recurring savings plans and so far NHS Fife has reported that it expects to deliver £5 million recurring savings through reviewing external commissioning costs (£1 million), a review of workforce capacity and utilisation (£1 million) and 1.3 per cent staff turnover assumption (£3 million).

Recommendation 4

NHS Fife needs to prepare contingency plans if the unachieved legacy gap is not to be funded by the Scottish Government.

59. Based on the current allocations announced by the Scottish Government, NHS Fife is forecasting to overspend in 2021/22.

The transformation programme has been paused due to Covid-19 but there are plans to create a Programme Management Office to coordinate change projects

60. NHS Fife recognises that transformation is required to ensure future financial sustainability.

61. We have previously reported on the need to accelerate development of transformation. Fife's Transformation Programme was at an early stage when the Covid-19 pandemic began. The formal programme was paused in 2020 as the NHS responded to changed priorities directed by Scottish Government. Remobilisation of services has been the focus during 2020/21, alongside new significant areas of work including Test and Protect and Covid-19 vaccinations.

62. NHS Fife plans to revisit the formal Transformation Programme as part of the new Strategic Planning and Resource Allocation (SPRA) process and the development of a new Population Health and Wellbeing Strategy for Fife (replacing the Clinical Strategy).

63. Investment of £500k in a Programme Management Office (PMO) has been agreed to coordinate change projects and recruitment is in progress to secure a Programme Management officer to oversee delivery of the project. The SPRA process is at an early stage and significant work is required to achieve the level of change and savings required.

Recommendation 5

NHS Fife needs to ensure the transformation agenda is rebooted once priorities are no longer exclusively on responding to the Covid-19 pandemic.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information.

Main judgements

Governance arrangements have been appropriate.

Covid-19 had a significant impact on increased staff costs (£39 million) and turnover (at 19.4%)

Governance arrangements have been appropriate

64. The impact of Covid-19 from March 2020 has been set out in the Governance Statement in NHS Fife's annual accounts. We reported in last year's annual report on the revised governance arrangements introduced by NHS Fife.

NHS Fife launched a new website and Board meetings can be accessed live, on request

65. NHS Fife continue to publish Board and Committee papers on their website. NHS Fife launched a new website during 2020/21 and meeting papers and other information about the Board and Committees is easy to access. Although meetings continue to be held remotely due to Covid-19, local media and the public can request to watch Board meetings online.

The review of Fife IJB's integration scheme has not yet been completed

66. The Public Bodies (Joint Working) (Scotland) Act 2014 required a review of integration schemes by March 2021. NHS Fife has been reviewing its arrangements with Fife Council. This is ongoing, with negotiations around the risk share agreement still to be finalised. NHS Fife is working towards having the integration scheme agreed by the Board in September 2021.

Covid-19 had a significant impact on increased staff costs (£39 million) and turnover (at 19.4%)

67. National workforce planning was suspended in 2020 due to Covid-19, however local workforce planning continued. The local Strategic Workforce Planning Group continued to meet virtually and an Operational Workforce Planning Group was introduced. The current Workforce Strategy for NHS Fife (2019 – 2022) will be updated by 31 March 2022.

68. Staff costs increased by almost £39 million (10%) compared to 2019/20, which can be partly attributed to Covid-19. This increase includes:

- £14.5 million due to a 4% increase in whole time equivalent staff (10% increase in headcount)
- £16 million of pay increases in 2020/21 (2.95% for Agenda for Change staff in 2020/21 plus a pay award of up to 4% backdated to December 2020 agreed in 2021/22)
- £4 million for Covid-19 bonus payments
- £3 million increase in the holiday pay accrual.

69. The net increase in staff numbers above consists of new staff, with 2,891 starters joining the payroll, and exiting staff (1,308). Some of these new starts were appointed to the staff bank and did not necessarily work any shifts during 2020/21. Based on the average number of starters and leavers and the average headcount in the two years, the average staff turnover was 19.4% in 2020/21 and 16.7% in 2019/20.

5. Value for money

Using resources effectively and continually improving services.

Main judgements

The remobilisation plan has a series of actions to address backlogs and restore performance levels.

Covid-19 has had a significant impact on service performance, but there have been some improvements since 31 March 2021.

Sickness absence rates have improved and there is a renewed focus on staff health and wellbeing.

The remobilisation plan has a series of actions to address backlogs and restore performance levels

70. The Scottish Government has requested NHS boards produce and regularly revise Remobilisation plans for the restoration of normal health services.

71. NHS Fife has included a series of planned actions to address backlog/waiting times caused by Covid-19. These include:

- clinical prioritisation of waiting lists
- a phased approach to increasing theatre capacity
- reintroducing elective and outpatient appointments
- work to increase capacity in key services including a request to Scottish Government for funding to increase staffing levels.

Performance monitoring and reporting reflects the Clinical Prioritisation Framework.

72. In November 2020 the Scottish Government published the Framework for Clinical Prioritisation providing guidance for prioritising elective care whilst ensuring appropriate Covid-19 safety and priority measures are in place.

73. While the duties under the Patient Rights (Scotland) Act 2011 still apply, it is expected that the framework is the primary tool for monitoring service performance during Covid-19.

74. NHS Fife has adapted its internal performance reporting to reflect this and performance reports have been considered by the Finance, Performance and

Resources Committee regularly throughout 2020/21. Performance against the framework has been publicly reported.

Covid-19 has had a significant impact on service performance, but there have been some improvements since 31 March 2021

75. The 2020/21 annual report and accounts include the performance position at the end of March 2021 against national waiting time standards. These are not currently the board's primary focus, but they provide context for the scale of the impact of Covid-19 on the delivery of health services. [Exhibit 6](#) demonstrates this and [Exhibit 7](#) provides a comparison of current waiting times compared to prior years.

76. [Exhibit 6](#) shows there has been a significant impact on waiting times, with the number of people waiting longer than 6 weeks for diagnostic tests increasing from 54 in December 2019 to 917 in March 2021. The number of people waiting longer than 12 weeks for an inpatient or day case admission or an outpatient appointment has also increased significantly due to the pandemic.

77. There has been an improvement in some areas since 31 March 2021. Outpatients waiting less than 12 weeks has improved from 53.6% to 60.3% at 31 May 2021. The Treatment Time Guarantee (inpatient or daycase patients receiving treatment within 12 weeks) has improved from 49.7% to 62.7% at 31 May. However, services continue to face challenges due to enhanced infection control measures and requirements for social distancing.

Exhibit 6

Trends in demand and activity per acute services

Demand		% change
Number waiting for diagnostic tests	<p>Monthly Dec 2019 to March 2021</p> <p>3,970 4,743</p>	19.5%
Number of patients waiting for an inpatient or day case admission	<p>Quarterly Dec 2019 to March 2021</p> <p>3,218 3,095</p>	-3.8%
Number of patients waiting for a new outpatient appointment	<p>Quarterly Dec 2019 to March 2021</p> <p>13,217 19,281</p>	45.9%
Activity		
Number of scheduled elective operations in theatre system	<p>Monthly Dec 2019 to March 2021</p> <p>1,287 1,048</p>	-18.6%
Number of inpatient and day case admissions	<p>Quarterly Dec 2019 to March 2021</p> <p>3,667 2,188</p>	-40.3%
Number of new outpatient appointments	<p>Quarterly Dec 2019 to March 2021</p> <p>22,087 13,500</p>	-38.9%
Length of waits		
Number waiting longer than 6 weeks for diagnostic tests	<p>Monthly Dec 2019 to March 2021</p> <p>54 917</p>	1598.1%
Number of patients waiting longer than 12 weeks for an inpatient or day case admission	<p>Quarterly Dec 2019 to March 2021</p> <p>326 1,494</p>	358.3%
Number of patients waiting longer than 12 weeks for a new outpatient appointment	<p>Quarterly Dec 2019 to Dec 2020</p> <p>1,056 9,137</p>	765.2%

Source: Public Health Scotland

Exhibit 7

Impact of Covid-19 on national waiting time standards

Target/standard	Performance at March 2019	Performance at March 2020	Performance at March 2021 ¹
Cancer 62 Day RTT Proportion of patients that started treatment within 62 days of referral	93.1%	85.3%	82.8%
18 Weeks RTT Proportion of patients that started treatment within 18 weeks of referral	76.9%	81.4%	78.3%
Patient Treatment Time Guarantee (TTG) (patients waiting) Proportion of inpatients or day case that were seen within 12 weeks	68.7%	83.2%	49.7%
Outpatients waiting less than 12 weeks Proportion of patients on the waiting list at month end who have been waiting less than 12 weeks since referral at month end	93.4%	95.2%	53.4%
A & E attendees Proportion of A & E attendees who were admitted, transferred or discharged within 4 hours	95.2%	92.6%	94.0%
Cancer 31 Days RTT Proportion of patients who started treatment within 31 days of decision to treat	94.2%	95.7%	98.0%
Drug and Alcohol 21 days Proportion of drug and alcohol patients that started treatment within 21 days	96.8%	95.2%	93.1%
CAMHS Waiting Times Proportion of patients seen within 18 weeks of referral	77.7%	71.6%	74.6%

Note. 1: Figures still to be validated by NHS Information Services Division.
 Source: NHS Fife Performance Reports

Sickness absence rates have improved and there is a renewed focus on staff health and wellbeing

78. The average sickness absence rate improved from 5.5% in 2019/20 to 5% in 2020/21 but has dipped more recently. NHS Fife has demonstrated commitment to improving health and wellbeing across the organisation and has implemented a range of initiatives including a health and wellbeing resources pack for staff, online mindfulness sessions, information sessions for managers on supporting staff and new staff support hubs.

79. Health and wellbeing is a key focus for NHS Fife going forward and plans are in place to further develop this in 2021/22.

NHS Fife has a Best Value framework

80. *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. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

81. All Standing Committees have completed a Best Value Framework assessment alongside their Annual Statement of Assurance. The assessments, which demonstrate a level of continuing improvement, set out the Best Value characteristics and list measures, expected outcomes and evidence against each characteristic. The committees also receive regular updates on performance through the Integrated Performance and Quality Reports.

National performance audit reports

82. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of direct interest to the board and are highlighted in [Appendix 3](#).

83. The NHS Overview Report on the 2020/21 audits will include a review of the response to the Covid-19 pandemic by the NHS in Scotland along with a report on financial and operational performance. This is due to be published early 2022.

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1 Holiday pay accrual</p> <p>The holiday pay accrual included in the financial statements is £5.2million. This is a significant increase of £3.7million on the prior year, due to COVID-19 and a change of methodology in how the accrual is estimated for Medical & Dental staff.</p> <p>Risk –The process and coverage of staff still provides significant uncertainty in the estimate.</p>	<p>NHS Fife should continue to develop the process used to calculate the accrual to ensure the medical and dental estimate is based on returns from a variety of services, reducing the risk that the estimate is subject to significant uncertainty.</p> <p>Exhibit 2</p>	<p>Agreed management action:</p> <p>NHS Fife will continue to develop the process as described in the recommendation.</p> <p>Responsible officer: Director of Finance and Strategy</p> <p>Agreed date: 31 March 2022</p>
<p>2 Discounting of annual medical negligence payments</p> <p>NHS Fife has correctly applied discount factors to calculate the provisions for ongoing medical negligence payments in accordance with annex c to PES (2020) 12. These estimates are subject to considerable uncertainty. The period over which they will be paid depends on individual life expectancy. However, we consider that the tables used to discount are flawed.</p> <p>Risk –incorrect discounting understates the long term estimate.</p>	<p>The duration of the annual cost commitment is subject to significant uncertainty and is reimbursed to NHS Fife via the CNORIS scheme. The application of discount factors to the ongoing payment should be reviewed by 31 March 2022.</p> <p>Exhibit 2</p>	<p>Agreed management action:</p> <p>NHS Fife will review the application of discount factors in relation to the CNORIS scheme.</p> <p>Responsible officer: Director of Finance and Strategy</p> <p>Agreed date: 31 March 2022</p>
<p>3 Recruitment of payroll staff</p> <p>NHS Fife have been experiencing difficulties in recruiting payroll staff and some payroll officers are due to retire. Staff turnover</p>	<p>Recruitment issues in payroll services need to be addressed to prevent wider risks to service provision.</p> <p>Paragraph 46.</p>	<p>Agreed management action:</p> <p>NHS Fife recognise the ongoing recruitment issues in relation to payroll services. The Board is working independently and also with</p>

(19.4%) has placed increased demands on staff.

Risk: Increasing demand and payroll workforce issues will impact on the performance of payroll services.

the South East Region Payroll Consortium to explore options for both the short and medium term.

Responsible officer:

Director of Finance and Strategy

Agreed date:

31 March 2022

4 Savings for 2021/22 still need to be identified

The financial plan includes an in-year budget gap of £8.1million for 2021/22, and a total gap of £21.8 million. This includes unachieved legacy savings brought forward of £14 million. The plan includes the assumption that the full unachieved legacy savings brought forward will be funded by Scottish Government, however this has not yet been confirmed.

Work is underway to develop recurring savings plans and so far NHS Fife has only identified £5 million savings on a recurring basis.

Risk: NHS Fife is unable to deliver its budget for 2021/22 and beyond.

NHS Fife needs to prepare contingency plans if the unachieved legacy gap is not to be funded by the Scottish Government.

[Paragraph 57.](#)

Agreed management action:

NHS Fife is in discussion with the Scottish Government in relation to this matter. We are exploring all options to address this including requesting an acceleration of funding to support the current gap from NRAC parity.

Responsible officer:

Director of Finance and Strategy

Agreed date:

31 March 2022

5 Transformation

Fife's Transformation Programme was at an early stage when the Covid-19 pandemic began. The formal programme was paused in 2020 as the NHS responded to changing priorities directed by Scottish Government.

NHS Fife plans to revisit the formal Transformation Programme as part of the new Strategic Planning and Resource Allocation (SPRA) process and the development of a new Health and Wellbeing Strategy for Fife (replacing the Clinical Strategy).

Risk: Delaying the transformation of services presents a risk to future financial sustainability and

NHS Fife needs to ensure the transformation agenda is rebooted once priorities are no longer exclusively on responding to the Covid-19 pandemic.

[Paragraph 60.](#)

Agreed management action:

NHS Fife have developed a range of improvement and change activity areas which will be aligned to the developing Population Health and Wellbeing Strategy and will deliver cash releasing savings and capacity increases over the medium term. The SPRA and PMO infrastructure will support, guide and report formally on this work.

Responsible officer:

Director of Finance and Strategy

Agreed date:

31 March 2022

delivery of performance targets.

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>4. Financial capacity and working papers 2019/20 AAR</p>	<p>Financial capacity issues should be addressed as a priority. Going forward, NHS Fife should ensure that the agreed timetable for presenting the unaudited annual report and accounts for audit is met, and that working papers are available and provided as required.</p>	<p>Complete.</p>
<p>5. Holiday pay accrual 2019/20 AAR</p>	<p>We recommend that a process is put in place to assist management in determining this estimate, which would make it less susceptible to bias.</p>	<p>In progress – superseded by Recommendation 1.</p>
<p>6. Savings for 2020/21 still need to be identified 2019/20 AAR</p>	<p>NHS Fife should ensure that detailed savings plans are developed identifying how the remaining £4.3 million of savings in 2019/20 will be made on a recurring basis.</p>	<p>In progress – refer to our 2020/21 Management Report. We found that NHS Fife continues to rely on non-recurring savings to deliver against their financial targets. This is linked to Recommendation 7.</p>
<p>7. Medium term financial plans 2019/20 AAR</p>	<p>The new medium-term financial plan will need to consider the impact of COVID-19, which as well as affecting services, has had a significant impact on finances in 2019/20 and into 2020/21.</p>	<p>In progress – refer to our 2020/21 Management Report. We found that work is progressing on developing a Strategic Planning and Resource Allocation process which includes a medium-term financial plan but this is currently in its early stages.</p> <p>Conclusion - We recommended that NHS Fife should prioritise development of its medium-term financial plan to ensure savings are</p>

Issue/risk	Recommendation	Agreed management action/timing
		identified, and a balanced budget is achievable on a recurring basis over the three-year planning and performance cycle.

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 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 financial statements and those relating to our wider responsibility under the Code of Audit Practice 2016.

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to management override of controls.</p>	<p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments including the holiday pay accrual.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Data analytics risk assessment of ledger transactions (including journals) and testing of these.</p> <p>Testing of transactions at the year end.</p>	<p>Results: We performed detailed testing of journal entries, accruals (including the holiday pay accrual) and transactions.</p> <p>Conclusion: We did not find any incidents of management override of controls.</p> <p>We found that the methodology for calculating the holiday pay accrual has improved, however we recommend that NHS Fife should continue to develop the process used to calculate the accrual to ensure the medical and dental estimate is based on returns from a variety of services, reducing the risk that the estimate is subject to significant uncertainty. In accordance with ISA 540 we have assessed that the provisions are reasonable but optimistic.</p>
<p>2. Risk of material misstatement caused by estimations and judgements</p>	<p>Review of reports from the District Valuer to confirm asset valuations.</p> <p>Walk through and review of the valuation process</p>	<p>Results: We discussed the valuation process with the District Valuer, reviewed the reports and confirmed these to asset valuations in the</p>

Audit risk	Assurance procedure	Results and conclusions
<p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, provisions, and the holiday pay accrual. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>including engagement with the District Valuer.</p> <p>Sample testing of indexation calculations.</p> <p>Sample testing of CNORIS claims and associated reimbursements.</p> <p>Verification of the CNORIS process.</p> <p>Detailed review of holiday pay accrual.</p>	<p>accounts with no issues identified.</p> <p>We gained assurance over the CLO processes and tested CNORIS provisions.</p> <p>We performed detailed testing of the holiday pay accrual.</p> <p>Conclusion: No issues were found relating to the valuation of assets.</p> <p>NHS Fife has correctly applied discount factors to calculate the provisions for ongoing medical negligence payments. These estimates are subject to considerable uncertainty. The period over which they will be paid depends on individual life expectancy. However, we consider that the tables used to discount are flawed and in accordance with ISA 540 we have assessed that the provisions are reasonable but optimistic.</p> <p>See above for our work and conclusion on holiday pay accruals.</p>

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

Audit risk	Assurance procedure	Results and conclusions
<p>3. Financial sustainability</p> <p>Medium term financial plans</p> <p>Throughout 2020/21, NHS Fife has continued to rely on non-recurring savings to balance its budget.</p> <p>In January 2021 NHS Fife reported unmet savings totalling £20million and that</p>	<p>We will monitor implementation of the new Strategic Planning and Resource Allocation Process, providing comment in our Annual Audit Report.</p>	<p>Results: Refer to our 2020/21 Management Report. We found that work is progressing on developing a Strategic Planning and Resource Allocation process which includes a medium-term financial plan but this is currently in its early stages.</p> <p>We also found that NHS Fife had been planning to meet</p>

Audit risk	Assurance procedure	Results and conclusions
<p>NHS Fife were anticipating this figure would reduce to £9million by the end of the financial year. In February 2021 Scottish Government confirmed that all unachieved savings would be centrally funded for the current year. However, there has been no commitment from Scottish Government to fund unachieved savings in future years.</p> <p>NHS Fife has been planning to meet its efficiency savings targets through delivery of its transformation programme, but this programme has been paused for the last year as priorities have been redefined by the Scottish Government in responding to the pandemic.</p> <p>Our 2019/20 Annual Audit Report commented that NHS Fife does not currently have a medium-term financial plan and the development of a new Strategic Planning and Resource Allocation process is in its early stages.</p> <p>There is a risk that financial plans are not in place to ensure financial, balance over the medium term.</p>		<p>90% of its efficiency savings targets for 2020/21 through delivery of its transformation programme, but this programme has been paused for the last year as priorities have been redefined by the Scottish Government in responding to the pandemic.</p> <p>Conclusion:</p> <p>We recommended that NHS Fife should prioritise development of its medium-term financial plan to ensure savings are identified, and a balanced budget is achievable on a recurring basis over the three-year planning and performance cycle.</p> <p>We also recommended that NHS Fife should recommence work on its transformation programme as soon as it is feasible to do so.</p>
<p>4. Financial management</p> <p>In addition to the challenges in delivering efficiency savings, the impact of Covid-19 on financial performance has been a key issue during 2020/21. NHS Fife is facing uncertainties surrounding the availability of Covid-19 funding to match net additional costs and costs associated with remobilisation plans.</p>	<p>Monitor the development of the budget projection for the remainder of the financial year.</p> <p>Assess the accounting treatment and reporting of costs, funding and balances associated with Covid-19.</p> <p>Review and agree IJB risk share arrangement.</p>	<p>Results: We found that NHS Fife received an additional £53.3 million funding to respond to the pandemic.</p> <p>This included £10.1 million funding for unachieved savings due to Covid-19.</p> <p>The IJB risk share agreement has not yet been formally agreed between NHS Fife and Fife Council however this is expected to be concluded in September 2021.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>The impact of Covid-19 has created additional uncertainty in the current years financial position.</p> <p>NHS Fife and Fife Council are also to agree the IJB risk share agreement for 2020/21.</p>		<p>Conclusion: As a result of additional funding provided by Scottish Government in response to the impact of Copvid-19, NHS Fife operated within its revenue resource limit in 2020/21.</p>
<p>5. Financial Services – capacity and capability</p> <p>Our 2019/20 Annual Audit Report commented that financial capacity issues led to a delay in the submission of the unaudited accounts.</p> <p>NHS Fife is continuing to have capacity and capability issues within Financial Services.</p> <p>There is ongoing restructuring of and recruitment within the Finance Directorate, but it is not yet operating at full capacity.</p> <p>There is a risk that the financial statements audit timetable may be delayed in 2021 and overall financial governance of NHS Fife affected.</p>	<p>Agreement of a financial statements timetable setting out clear expectations and deadlines.</p> <p>Preparation of a working papers checklist to facilitate the audit process.</p> <p>Regular liaison with the client to discuss the agreed timetable for submission of the unaudited accounts.</p>	<p>Results: NHS Fife delivered the draft annual report and accounts in line with the agreed timetable.</p> <p>However, we found that NHS Fife has been experiencing difficulties in recruiting payroll staff for a considerable period of time. If recruitment issues are not resolved, NHS Fife could experience increasing capacity issues going forward, as current officers are due to retire.</p> <p>Conclusion: Recruitment issues in payroll services need to be addressed to prevent wider risks to service provision.</p> <p>(refer Appendix 1, action plan)</p>

Appendix 3. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

NHS Fife

2020/21 Annual Audit Report

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