

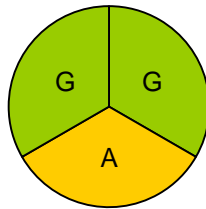
# Internal Audit



## Budget Management & Financial Recovery Plan Monitoring

June 2017

### Report Assessment



This report has been prepared solely for internal use as part of NHS Lothian's internal audit service. No part of this report should be made available, quoted or copied to any external party without Internal Audit's prior consent.

## **Contents**

Introduction .....	1
Executive Summary .....	2
Management Action Plan .....	5
Appendix 1 - Definition of Ratings.....	12

## **Introduction**

In common with other NHS Boards in Scotland, NHS Lothian faces a significant financial challenge to continue to deliver high quality services within budget, and to achieve the Board's financial targets. At the 2016-17 quarter one financial review, the Board's Finance and Resources Committee expressed concerns about how financial breakeven will be achieved, given the level of savings necessary in the financial plan.

A key element of NHS Lothian's Financial Plan is the recovery actions agreed by budget holders across Directorates to deliver savings. Services have identified a range of potential savings – classified as low, medium or high risk of being achieved.

During 2016-17, NHS Lothian changed the approach to the management of its Local Reinvestment Plans. Budget holders are expected to manage the £12.8m legacy LRP gap where savings have not been recognised on a recurring basis.

In March 2016 Internal Audit reported on the process for financial planning across NHS Lothian. In particular how NHS Lothian agrees detailed savings plans for current and future financial years.

## **Scope**

The audit reviewed the processes in place to monitor and report on recovery actions identified by budget holders including monitoring progress against budget and further action taken to address over / under spends.

## **Acknowledgements**

We would like to thank all staff consulted during this review, for their assistance and cooperation.

## Executive Summary

### Conclusion

With the introduction of the Tableau financial performance dashboards, Financial Management have established an effective control framework around the monitoring and reporting of spend in a number of areas. Utilising an electronic system of review has also allowed management to monitor access and use of the dashboards. Appropriate controls are in place for the high-level reporting and review of financial recovery plan performance.

Further work is required to review and update financial operating procedures, including the review of the monitoring process for the large value and high risk financial recovery plans. Key Budget Holders should be reminded of the requirement to return formal agreement via email of their allocated budgets.

### Summary of Findings

The table below summarises our assessment of the adequacy and effectiveness of the controls in place to meet each of the objectives agreed for this audit. Definitions of the ratings applied to each action are set out in Appendix 1.

No.	Control Objective	Control objective assessment	Number of actions by action rating			
			Critical	Significant	Important	Minor
1	Budget holders understand the financial plan and their role in delivering current recovery action, and tackling the legacy LRP savings gap.	Green	-	-	2	-
2	Budget holders and the management accounting team has developed and implemented a process for monitoring progress against savings and escalating variations/risks	Amber	-	1	-	1
3	Reporting on efficiency / recovery actions is complete and timely.	Green	-	-	-	-

## Control Objective Ratings

Action Ratings	Definition
<b>Red</b>	Fundamental absence or failure of controls requiring immediate attention (60 points and above)
<b>Amber</b>	Control objective not achieved - controls in place are inadequate or ineffective (21 – 59 points)
<b>Green</b>	Control objective achieved – no major weaknesses in controls but may be scope for improvement (20 points or less)

## Main findings

The internal audit review of financial planning carried out in early 2016 and reported in March of that year noted that key budget holders are notified of the financial planning process in sufficient time for the start of the planning cycle. Budget holders at all levels within the services have been involved in the identification of cost pressures and in identifying potential service development for the coming year. Any service developments are analysed into local/organisational priorities and categorised as either 'must do' or optional developments. Budget holders are involved in identifying areas where savings could be made and/or efficiencies created.

Managers have been encouraged during 16/17 to realign their budgets to reduce the historic £12.8m negative budget, which represents the balance of the unmet efficiency target carried forward from 15/16. Despite this the cumulative financial position at December 2016 showed an NHS Lothian overspend of £4.8m. This included an £8.9m overspend against budget for University Hospitals Support Services and £2m attributed to East Lothian and Edinburgh Partnerships. Additional reserves of £9.8 million have contributed significantly to the overall position. The current breakeven forecast for 2016/17 is reliant on the delivery of a number of recovery actions from operational and corporate schemes.

A new method of budget reporting has been rolled out during 2016/17 and will replace the current budget reporting methodology from 17 April 2017. Up until now and as part of the financial performance support provided by the Finance Directorate of NHS Lothian, all managers with budgetary responsibility have received routine monthly performance reports.

As part of the ongoing improvement strategy, monthly finance performance information will now be shared with managers online via Tableau dashboards. Tableau dashboards are already used in NHS Lothian to provide performance information and are an interactive application that allows users to explore data rather than just viewing it. In preparation for the official launch in April the Finance Directorate implemented a training strategy which comprised meeting with budget holders to demonstrate use of the Tableau dashboards. Where staff were unable to engage personally with budget holders, written instruction has been emailed.

Finance performance teams meet with managers, either collectively or individually on a regular basis to discuss any issues that may affect the year end forecast. The frequency and format of these meetings vary depending on area.

Financial Recovery Plans established each year across all business units are recorded in a detailed spreadsheet to facilitate review of each plan's performance by Finance Business Partners. Recovery plans are recorded, along with brief monitoring methodology, financial risk, anticipated savings and savings achieved to date. The spreadsheet is updated each month by Business Partners and Assistant Finance Managers, who liaise with business units in identifying savings.

Performance against the Financial Recovery Plans is reported monthly by the Director of Finance to the Board and Finance & Resources Committee as part of the monthly financial report.

We identified one significant and two important issue during this review:

- Measurement and monitoring arrangements are not explicit around how efficiencies are identified, recorded and reported.
- Budget holders are not all signing-off their budget in line with procedures and the Board's Standing Financial Instructions.
- Financial Operating Procedures for Budgetary Control have passed their review date and require updating.

Further details of these points and one minor issue are set out in the Management Action Plan.

## Management Action Plan

<b>Control Objective 1: Budget holders understand the Financial Plan and their role in delivering current recovery actions, and tackling the legacy LRP savings gap.</b>	
<b>1.1 Financial Operating Procedures for Budgetary Control have passed their review date and require updating</b>	<b>Important</b>
<p><b>Observation and Risk:</b></p> <p>In February 2010 the Director of Finance approved for publication the Financial Operating Procedures for Budgetary Control. The Procedures include the processes for:</p> <ul style="list-style-type: none"> <li>• Budget setting and approval, and</li> <li>• Budgetary control and reporting.</li> </ul> <p>However, the Procedures have passed their review date of February 2013 with no review carried out or yet scheduled. While the procedures remain valid for the most part, Finance has this year implemented new budget reporting and monitoring procedures which have made section 4.3 of the Procedures no longer valid.</p> <p>As part of the ongoing improvement strategy, monthly finance performance information will now be shared with managers online via Tableau dashboards. Tableau dashboards are already used in NHS Lothian to provide performance information and are an interactive application that allows users to explore data rather than just viewing it</p> <p>Without up-to-date procedures, there may be a risk that staff may be unclear about the process for setting and approving budgets. Also, current procedures will require to be updated with the new budget monitoring arrangements using Tableau dashboards.</p> <p>To ensure that they remain relevant across all aspects of budget setting and monitoring the current procedures will require to be updated with the new budget monitoring arrangements using Tableau dashboards.</p>	
<p><b>Recommendation:</b></p> <p>Financial management should review and update the Financial Operating Procedure for Budgetary Control, including information where necessary on the use of the Tableau financial dashboards.</p>	
<p><b>Management Response:</b></p> <p>Agreed. However the update of the procedure will wait for a period of review on the Tableau dashboards in the first quarter.</p> <p><b>Management Action:</b></p> <p>The Financial Operating procedure will be reviewed and updated following the establishment of tableau dashboards for monthly reporting, following a review at Q1.</p>	
<b>Responsibility:</b> Head of Management Accounting	<b>Target date:</b> October 2017

<p><b>1.2 Budget holders are not signing-off their budget in line with procedures and the Board’s Standing Financial Instructions</b></p>	<p><b>Important</b></p>
<p><b>Observation and Risk:</b></p> <p>In line with the Financial Operating Procedures the Finance Department formally distribute proposed budget statements to each senior officer based on the outcome of the Financial Planning Process. Senior officers are required to sign-off their annual budget for the forthcoming year by 31 March. This sign-off represents the Budget Holders commitment to provide agreed service levels within the overall budget.</p> <p>Also, the Board’s Standing Financial Instructions records that the Director of Finance shall administer a process to obtain evidence of the acceptance of the opening budgets from budget holders. Processes in place should ensure that the budget holder confirms his or her acceptance of the budget.</p> <p>On 26 June 2016, budgets were sent out to a number of budget holders almost three months after the 31 March deadline for approval and sign-off by 30 June 2016. This was due to a delay in finalising the 2016/17 NHS Lothian Financial Plan, which could not be done until the Scottish Government had signed off on the overall budget for NHS Boards. Of the 22 budget holders requested to formally sign-off their budgets, five budgets had not been formally signed-off:</p> <p>Also, agreement of the budgets had been received from budget holders on average 21 days after receipt, with three responses received more than 60 days later and eight by the 30 June deadline. While agreement of the budget is recorded by Management Accounting, there is no formal process in place to follow-up delayed responses.</p> <p>Without timely issue of the budgets and prompt receipt of formal sign-off, management cannot demonstrate that the Financial Operating Procedures and Standing Financial Instructions are being followed. Also, insufficient time may be available to address any concerns with the budgets prior to the start of the financial year.</p>	
<p><b>Recommendation:</b></p> <p>Where possible, Management Accounting should endeavour to issue budgets for agreement each year as soon as possible following approval of the Board’s Financial Plan. To ensure prompt response from key budget holders, controls should be set up to chase agreement after a number of days and, where necessary, escalate instances where significant delays have occurred.</p>	
<p><b>Management Response:</b></p> <p>NHS Lothian can only issue forms for budget sign off once the Financial Plan has been approved by the Board. Thereafter we will always aim to issue the budget sign off forms as early as practicable. Of the 5 forms that were not returned in 2016, 3 of these achieved breakeven against budget at the year end.</p>	



**Management Action:**

We will continue to respond to the requirement to issue budget sign off sheets as early as possible. For 2017, a deadline of 26 of May was set and a reminder email were sent out on the 31 May. As at the 12 June, 8 responses are still outstanding and continue to be actively followed up.

**Responsibility:** Head of Management Accounting

**Target date:** Ongoing

**Control Objective 2: Budget holders and the management accounts team have developed and implemented a process for monitoring progress against savings and escalating variations/risks**

**2.1 Measurement and monitoring arrangements are not explicit around how efficiencies are identified, recorded and reported**

**Significant**

**Observation and Risk:**

For the period April to December 2017 local Financial Recovery Plans had delivered savings of £15.9m, with a year end forecast of £27.4m. However, recovery plans for 2016/17 financial year anticipated efficiency savings of £33.3m.

Following the Internal Audit Review of Financial Planning in March 2016 the Head of Management Accounting, along with Business Partners, had agreed to develop clear measurement and monitoring arrangements for large value recovery plans by May 2016. Review and update of the monitoring process is included within the Management Accounting improvement workplan. The workplan also includes the review and update of the Financial Planning and Budget Setting procedure.

Within the consolidated Financial Plan spreadsheet, which is used record all recovery plans, a column has been added by Finance which summarises how each Financial Recovery Plan will be monitored. However this has not be developed where necessary into a more detailed monitoring methodology within the business units. Also, some plans do not have any summary monitoring information recorded within the consolidated Financial Plan.

The development and update of the procedure for measuring and monitoring Financial Recovery Plans remains outstanding and therefore a consistent approach to the measurement and monitoring arrangements for recovery plans across all business units is not yet documented. Subsequently there is no control framework in place to determine whether schemes are functioning as planned, or whether the forecasting is accurate compared to anticipated delivery. Currently, Business Partners and Assistant Finance Managers have agreed independently with business units on the monitoring methodology.

Considering the risks associated with the success of some Financial Recovery Plans, an effective means of monitoring, reporting and, if necessary, escalating recovery plans should be in place and followed by Business Partners and Business Unit key budget holders.

**Recommendation:**

The methodology for measuring savings achieved by each financial plan should be reviewed to ensure that actual efficiency savings are being identified, recorded and reported for each financial recovery plan taken forward for the 2017/18 financial year.

**Management Response:**

A methodology and process is already in place for measuring savings, with documentation. Actual efficiency savings are identified, recorded and reported for each plan taken forward on a monthly basis, and outputs on delivery reported through the appropriate monthly

governance committee.

**Management Action:**

A review of the existing methodology introduced last year will be undertaken to establish opportunities for improvement and areas where good practice can be shared. Any updates will be documented to ensure consistency of understanding.

**Responsibility:** Head of Management Accounting

**Target date:** December 2017

<p><b>2.2 Comments and suggestions on the use of Tableau financial dashboard are not acted upon promptly</b></p>	<p><b>Minor</b></p>
<p><b>Observation and Risk:</b></p> <p>Through the Finance Online intranet site budget holders are able to provide comment and suggestions on the use of the Tableau dashboards. Staff are required to complete a form and email this to a finance dashboards email address.</p> <p>Receipt of each form is recorded into a spreadsheet, along with date received, sender and the comment/suggestion. A separate column is used by finance staff to record whether it has been actioned and the date of any email replies sent.</p> <p>Of the eight comments received between 12/09/16 and 25/11/16 and requiring response, replies were sent on average 101 days after receipt of the form. Also, comments and suggestions received since 21/12/16 are not recorded as actioned or replied to. Currently, there are no controls to establish a required response time and monitor activity against this. However, comments and suggestions likely to become more important following the April 2017 launch of Tableau</p> <p>Unless comments and suggestions are acted upon promptly, there is a risk that budget holders are unable to utilise their Tableau dashboards effectively in the monitoring of their budgeted expenditure.</p>	
<p><b>Recommendation:</b></p> <p>Finance staff should ensure that all comments and suggestions received in relation to the use of the Tableau financial Performance dashboards are dealt with within 14 days and response issued thereafter.</p>	
<p><b>Management Response:</b></p> <p>The finance function had previously agreed that no changes would be made to Tableau dashboards in the short term to allow a period of stability in the presentation of data and allow users to familiarise themselves with the new suite of information. A Finance Dashboard User group (sub-group of the Improvement group) has responsibility for the roll out and update of the Tableau dashboards</p> <p><b>Management Action:</b></p> <p>The Finance Dashboard User Group will take responsibility for ensuring a process for suggested improvements to dashboards is in place and adhered to.</p>	
<p><b>Responsibility:</b> Chair, Finance Dashboard User Group</p>	<p><b>Target date:</b> October 2017</p>

**Control Objective 3: Reporting on efficiency/recovery actions is complete and timely**

We identified no significant weaknesses in relation to this control objective.

With the introduction of Tableau dashboards, budget holders now have access to a suite of financial information relevant to their role. Budget holders are granted access to the system according to their hierarchy level and cost centre and can view information on a number of areas, such as:

- Expenditure for the whole year to date;
- In month variances;
- Actual expenditure against budget;
- Pay and non-pay expenditure;
- Payroll staff list; and
- Expenditure on drugs and medicines.

Finance have introduced a number of key performance indicators to monitor the utilisation of the Tableau, which includes:

- Number for views per dashboard (by finance staff/service staff);
- Number of views per business unit; and
- Number of service users accessing the performance dashboards.

Finance staff can also extract data on individual members of staff should any analysis on their use of the dashboards be required.

Finance have developed a Financial Recovery Plan summary spreadsheet to record progress against the various Financial Recovery Plans in place for the financial year. The spreadsheet provides a summary of all financial recovery plans agreed between Business Partners and the various business units and specialities, and include for each plan the financial risk, monitoring methods and anticipated savings. Business Partners and Assistant Finance Managers liaise closely with the business units in updating this spreadsheet when recording the progress to date. The spreadsheet is updated monthly to record the actual savings achieved and any shortfall in financial delivery.

Business Partners meet quarterly with the Director and Deputy Director of Finance to update them on the financial performance of the Business Units, key budget holders are invited to attend where necessary.

The Director of Finance presents a financial performance report each month to the Board and Finance & Resources Committee. This includes an update on the savings realised to date, broken down by Business Unit.

## Appendix 1 - Definition of Ratings

### Management Action Ratings

Action Ratings	Definition
<b>Critical</b>	The issue has a material effect upon the wider organisation – 60 points
<b>Significant</b>	The issue is material for the subject under review – 20 points
<b>Important</b>	The issue is relevant for the subject under review – 10 points
<b>Minor</b>	This issue is a housekeeping point for the subject under review – 5 points

### Control Objective Ratings

Action Ratings	Definition
<b>Red</b>	Fundamental absence or failure of controls requiring immediate attention (60 points and above)
<b>Amber</b>	Control objective not achieved - controls in place are inadequate or ineffective (21 – 59 points)
<b>Green</b>	Control objective achieved – no major weaknesses in controls but may be scope for improvement (20 points or less)