

Internal Audit



NHS Lothian

Financial Sustainability Arrangements

June 2019

Internal Audit Assurance Assessment:

Objective One	Objective Two	Objective Three	Objective Four	Objective Five
Significant Assurance	Significant Assurance	Moderate Assurance	Significant Assurance	Moderate Assurance

Timetable

Date closing meeting held: 29th May 2019

Date draft report issued: 29th May 2019

Date management comments received: 4th June 2019

Date Final report issued: 4th June 2019

Date presented to Audit and Risk Committee: 17th June 2019

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1. Introduction

- 1.1 Long term financial sustainability is essential for NHS Lothian. All NHS Board's and the wider public sector in Scotland are facing increasing financial pressures including the need to identify and deliver recurring savings. NHS Lothian recognise demand and delivery led pressures, including assumed pay increases following the removal of the 1% public sector pay cap. In addition, there is a need for NHS Lothian to shift the balance of care through whole system change and working in partnership, principally with the four Integration Joint Boards.
- 1.2 From 19/20, NHS will operate within the medium-term financial framework (which is still being understood), alongside balancing the delivery of agreed priorities within the corporate plan and meeting standards, for example those related to treatment time guarantees. It is therefore essential that there are robust financial plans in place to use resources as efficiently and effectively as possible, which are aligned to NHS Lothian priorities.
- 1.3 There is a risk to NHS Lothian that they do not meet their budgeted commitments because of changing and competing priorities, bringing into questions their financial sustainability.

Scope

- 1.1 As part of the audit, we assessed the design and operation of the key controls for the delivery of savings, with a focus on the budget setting process to identify and set savings to support the achievement of a balanced budget. We considered the design and operation of NHS Lothian's controls around the identification, monitoring, ownership, accountability and delivery of financial savings including balancing short-term recurring savings alongside future medium-term plans. We looked at the underlying financial strategy including scenario planning, and the budgeting, monitoring and reporting process. Given that savings plans are planned to be monitored and reported through the Sustainability and Value (S&V) Group going forwards, some aspects of this scope are picked up through the S&V Group audit, reported in June 2019.

Acknowledgements

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

2. Executive Summary

Summary of Findings

2.1 The table below summarises our assessment of the risks and the adequacy and effectiveness of the controls in place to meet each of the risk areas 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	High	Medium	Low
1	Potential saving options are identified and evaluated including any potential impact on service delivery.	Significant Assurance				
2	Savings plans are aligned to NHS Lothian's strategic priorities and operational plans	Significant Assurance				
3	There is clear ownership and accountability around the delivery of savings plans	Moderate Assurance			1	
4	Financial plans include sufficient evaluation of areas of uncertainty around funding and expenditure to provide clear consideration of options	Significant Assurance				
5	Financial planning and delivery is transparent and has sufficient oversight	Moderate Assurance				
TOTAL			-	-	1	-

Conclusion

2.2 The review comprised of five control objectives, of which two received Moderate Assurance and three received Significant Assurance.

2.3 It should be noted that control objective 5 received Moderate Assurance, despite no recommendations being raised within this report. This is because findings in relation to the oversight and transparency of financial plans have been raised within the S&V Group audit report, presented in June 2019. This is discussed further at point 5 in the Management Action Plan.

- 2.4 Overall, there are good processes in place around budget setting. Additionally, there are plans in place to improve the scrutiny over the achievement of savings plans, however, documents to support budget holders in reporting against savings plans are still being developed.
- 2.5 This scrutiny and oversight of savings plans has recently been added to the S&V Group remit. However, the Group had not yet developed their responsibilities in relation to Financial Recovery Plans including how often and which financial recovery plans will report and what decision-making powers they will have.

Main findings

- 2.6 In previous years, there has been limited scrutiny over the achievement of savings plans, with limited evidence that budget holders who have not achieved targets are being held to account. It is recognised that scrutiny is planned to be provided by the S&V Group going forwards, however, documents to support budget holders in reporting the delivery of savings plans still need to be developed and this has yet to be done.

3. Management Action Plan

Control objective 1: Potential saving options are identified and evaluated, including any potential impact on service delivery.

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

At the start of each year, saving plans are discussed with budget holders and developed by Business Partners (Management Accountants) into Financial recovery plans and agreed. Where possible, savings are identified to either be on a recurring or non-recurring basis, with those recurring resulting in ongoing savings for future years. Analysis showed that total savings for 18/19 had a high level of recurring savings, with £18,560,950 (63%) expected to be recurring and £10,839,643 (37%) expected to be non-recurring. Recurring savings from previous years are then brought forward to baseline positions the following year to ensure these continue to be achieved in future years.

It was confirmed through discussions that savings plans consider patient care and any impact on service delivery to ensure these are not affected.

Control objective 2: Savings plans are aligned to NHS Lothian’s strategic priorities and operational plans

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

At present, budgets from prior years are rolled forward and based on historic baselines. Individual budgets are uplifted each year in line with uplifts to overall income received by Scottish Government, with specific additional funding being allocated to service areas in line with agreed plans, linked to strategic priorities. Budget assumptions are checked and applied at an overall level, and linked to operational plans, with these being discussed with business areas.

Control objective 3: There is clear ownership and accountability around the delivery of savings plans

3.1: Ownership and Accountability of savings plans requires improvement

Medium

Background:

Budget holders have access to up to date budget information, including spend against budget at a cost centre level. This data is provided to the budget holders through a tableau supported by the finance system and provides live information.

Throughout the year, Business Partners meet with budget holders around once a month to discuss performance against financial recovery plans. During this process budget holders will discuss progress against efficiency savings delivery and ongoing cost pressures. These issues will be considered and updates to the year-end forecast made, if required.

Observation and Risk:

On review of 2018/19 Financial Recovery Plans, there was a total of 65 (38%) plans which did not achieve their savings target. These totalled over £2 million, with the largest shortfall being £600,000 for one recovery plan. No evidence of how this slippage against target was monitored or how budget holders were held to account for this shortfall could be provided. It is noted that this may not have been necessary in past years, as a breakeven position has been achieved overall in NHS Lothian. However, given increasing financial pressures going forwards, monitoring and escalation of individual savings plans, especially high value ones, will be necessary. It is planned that in 2019/20 savings plans will be monitored by the S&V Group, discussed further at Control Objective 5.

The S&V Group is supported by the Project Management Network Office (PNO) which has an associated action plan to 'develop a suite of documents to support service colleagues in each stage of management of Savings Programmes' this will include, documents to identify KPIs, agree baseline and target performance, monitor changes, flash report templates for regular updates and standard template for reporting to the S&V Group. However, these have not yet been developed.

There is a risk that without holding budget holders to account for savings plans, savings will not be achieved, and financial targets will not be met.

Recommendation:

How savings plans will be held to account should be communicated with budget holders with these being report regularly to the S&V Group.

Recognising that their development is planned, the PNO should ensure the supporting documents are produced as soon as possible, taking into account what the S&V Group plan to scrutinise and report on the Financial Recovery Plans.

Management Response:

Efficiency savings are a core component to of Grip and Control and Improvement work, a feature of the overarching Sustainability and Value programme, Reporting progress on this through the S+V on a routine and exception basis would be sensible as part of a package of reporting measures to the S+V group.

Management Action: This recommendation will be included in the review of reporting to the S&V group, linked to the separate Audit report on this matter.

Responsibility: Head of Management Accounting

Target date: September 2019

Control objective 4: Financial plans include sufficient evaluation of areas of uncertainty around funding and expenditure to provide clear consideration of options

We identified no significant issues in relation to this control objective, which have not been highlighted through our other findings.

NHS Lothian have developed an approach to financial sustainability which has been reported and approved by the Finance and Resources (F&R) Committee which included a revised approach to financial recovery plans with increased focus on mechanisms for identification of opportunities, agreement of priorities, development of action plans and implementation of monitoring arrangements.

In addition, the annual financial plan adheres to Scotland's Public Finances Exhibit 3 and the elements that should be contained in a financial strategy including analysis of increased service levels demand and projected demand and analysis of risks or timescales for implementing savings. This also considers scenario planning and includes an analysis of savings based on optimistic, realistic and pessimistic scenarios.

Control objective 5: Financial planning and delivery is transparent and has sufficient oversight

We identified issues in relation to this control objective, however, these have been highlighted through the S&V Group audit findings. The recommendations have not been duplicated here for this reason.

Our review noted that in previous years, financial recovery plans were managed by Business Partners with no formal upwards reporting. Overall spend against budgets is reported to the Executive Team on a monthly basis, with information disaggregated as far as a departmental level. As a result, the S&V Group has been set up oversee the delivery of sustainability and value projects across NHS Lothian, including Financial Recovery Plans.

The S&V Group audit noted that the Group had not yet developed their responsibilities in relation to Financial Recovery Plans including how often and which financial recovery plans will report and what decision-making powers they will have. In 2018/19, there was a total of 173 different Financial Recovery Plans and in 2019/20 there is a total of 89. It is unlikely that the Group will be able to scrutinise and monitor each of these plans. The Group has yet to report upwards to the F&R Committee since its introduction in November 2018.

4 Appendix 1 - Definition of Ratings

Findings and management actions ratings

Finding Ratings	Definition
Critical	A fundamental failure or absence in the design or operating effectiveness of controls, which requires immediate attention
High	A key control failure has been identified which could be either due to a failure in the design or operating effectiveness. There are no compensating controls in place, and management should aim to implement controls within a calendar month of the review.
Medium	A control failure has been identified which could be either due to a failure in the design or operating effectiveness. Other controls in place partially mitigate the risk to the organisation, however management should look to implement controls to fully cover the risk identified.
Low	Minor non-compliance has been identified with the operating effectiveness of a control, however the design of the control is effective

Report ratings and overall assurance provided

Report Ratings	Definition	When Internal Audit will award this level
No assurance	The Board cannot take any assurance from the audit findings. There remains a significant amount of residual risk.	The controls are not adequately designed and / or operating effectively and immediate management action is required as there remains a significant amount of residual risk (for instance one Critical finding or a number of High findings)
Limited assurance	The Board can take some assurance from the systems of control in place to achieve the control objective, but there remains a significant amount of residual risk which requires action to be taken.	<p>This may be used when:</p> <ul style="list-style-type: none"> There are known material weaknesses in key control areas. It is known that there will have to be changes that are relevant to the control objective (e.g. due to a change in the law) and the impact has not been assessed and planned for. <p>The controls are deficient in some aspects and require management action (for instance one 'high' finding and a number of other lower rated findings)</p>
Moderate assurance	<p>The Board can take reasonable assurance that controls upon which the organisation relies to achieve the control objective are in the main suitably designed and effectively applied.</p> <p>There remains a moderate amount of residual risk.</p>	<p>In most respects the "purpose" is being achieved. There are some areas where further action is required, and the residual risk is greater than "insignificant".</p> <p>The controls are largely effective and in most respects achieve their purpose with a limited number of findings which require management action (for instance a mix of 'medium' findings and 'low' findings)</p>
Significant assurance	<p>The Board can take reasonable assurance that the system(s) of control achieves or will achieve the control objective.</p> <p>There may be an insignificant amount of residual risk or none at all.</p>	<p>There is little evidence of system failure and the system appears to be robust and sustainable.</p> <p>The controls adequately mitigate the risk, or weaknesses are only minor (for instance a low number of findings which are all rated as 'low' or no findings)</p>

5. Appendix 2 – Documents Reviewed and Staff Involved

Staff Involved

- Deputy Director of Finance
- Head of Management Accounts
- Business Partners
- Business & Modernisation Manager
- Senior Project Manager
- Assistant Finance Managers
- Data Analyst – Finance
- Accountants – Corporate Finance
- Assistant Finance Accountant – Corporate Finance

Documents Reviewed

- Finance & Resources Committee Financial Strategy papers 15 November 2017, 21 March 2018 and 25 July 2018
- Finance & Resources Committee Financial Outlook paper 23 January 2018
- Finance & Resources Committee Financial Outlook paper 20 March 2019
- Finance & Resources Committee Annual Operational Financial Plan paper 21 March 2018
- Finance & Resources Committee Month 11 Financial Performance paper 20 March 2019
- Sustainability & Value Group Financial Grip & Control Review – Programme Update 25 March 2019
- Scottish Government Medium Term Financial Framework
- Audit Scotland – Scotland’s Public Finances Follow-up Audit 2014
- Financial Recovery Plan Monitoring Schedule 2018/19 – Month 12
- Financial Recovery Plan Monitoring Schedule 2018/19 – Month 1
- 2019/20 Financial Plan
- PNO Action Plan 2019-05-30
- Scottish Government Health & Social Care Delivery Plan 2016
- Tableau Financial & Budget Management application – extracts from budget reporting