Internal Audit

NHS Lothian

Sustainability and Value Group

June 2019

Internal Audit Assurance Assessment:

Objective One	Objective Two	Objective Three	Objective Four
Significant Assurance	**Moderate Assurance**	**Moderate Assurance**	**Limited Assurance**

<u>**Timetable**</u>

Date closing meeting held: 20th May 2019

Date draft report issued: 20th May 2019

Date management comments received: 31st May 2019

Date Final report issued: 3rd June 2019

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

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1. Introduction

Background

1.1 NHS Lothian's Quality Strategy 2018- 2023 recognises the need to link improved quality to financial sustainability and value, through ensuring work adds value and avoids waste. The Sustainability and Value Group (the Group) has been recently set up to oversee the delivery of Sustainability and Value projects across NHS Lothian. This is expected to provide greater resilience, sustainability, economies of scale, financial savings, increased pooling and sharing of knowledge. In turn, this is intended to result in a reduction of duplication and clearer decision-making, as well as more efficient use of fixed support resources across the programme at Board level, as opposed to managing S&V work through existing separate arrangements.

1.2 The Group, chaired by the Director of Finance, will work to assess financial benefits and value of improvement projects, whilst providing ongoing assurance and governance for resource intensive improvement activities in order to support quality whilst ensuring savings and efficiencies are delivered, contributing to NHS Lothian's Financial Strategy.

1.3 Improvement activities will be reviewed by the Group who will consider the value being added to NHS Lothian across a range of proposed benefits to the organisation and patients/communities, linking to resource and financial return on investment. The process hopes to contribute to wider assurance, rigour and oversight on projects, with progress being reported directly to the NHS Lothian Corporate Management Team, with their assessment and views will be fed up to the Finance and Resource committee of the Board. More recently, the Group have decided to review progress against financial recovery plans, in addition to improvement activities.

Scope

1.4 The objective of the audit was to consider the design effectiveness of the planned controls of the Sustainability and Value Group, recognising that the Group is in its infancy. We considered the planned operating framework of the Group including its remit and reporting lines and considered how the Group is resourced and if there is an appropriate skill mix for it to discharge its responsibilities. We considered the Group's planned approach to overseeing improvement projects and how it will monitor outcomes to ensure a consistent approach across all projects. We considered how the Group will distinguish between ongoing improvement work and projects with defined timelines and what their role is in relation to each of these. A complete list of documents reviewed and staff involved in the audit can be seen at Appendix 1.

Acknowledgements

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

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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 3.

No.	Control Objective	Control objective assessment	Number of actions by action rating			
			Critical	High	Medium	Low
1	An appropriate operating framework for the Group is defined and established	Significant Assurance			1	1
2	The Group's approach is aligned to the national financial strategy and will deliver on objectives in a timely manner	Moderate Assurance			1	
3	There is a consistent approach to reporting and monitoring of projects against key project stages and deliverables	Moderate Assurance			1	
4	There is a robust process in place to evaluate and identify projects which are not achieving their objectives	Limited Assurance			2	
	TOTAL		-	-	5	1

Conclusion

2.2 The review comprised of four control objectives, of which one received Significant Assurance, with two control objectives receiving Moderate Assurance and one receiving Limited Assurance.

2.3 The Group are in the process of embedding their governance route into the organisation, developing their role and remit, gathering information on projects being undertaken and establishing a prioritisation process for the allocation of change management i.e. project management resource.

2.4 Whilst recognising the Group is in its infancy, there is limited evidence of the Group scrutinising projects and taking action where lack of progress or insufficient data has been provided. It is also unclear how the Group are controlling change management resource within the organisation. This needs to be enhanced to ensure the Group hold project teams to account.

Main findings

2.5 Improvements could be made to the Group's operating framework, including establishing the Group's role in reviewing financial recovery plans, membership of the Group and ensuring projects have embedded the Group into their governance structure.

2.6 A process for monitoring progress of projects in between reporting to the Group should continue to be developed and there would be benefit in establishing a process for fast-tracking projects which show high potential return on investment (ROI) to ensure savings are made as quickly as possible.

2.7 Reports have previously been provided to the Group in a variety of formats, with sometimes limited detail on key performance indicators (KPIs) and expected or achieved ROI. Template reports have since been developed to improve consistency of information provided, however, how ROI has still not been defined. Additional support should continue to be provided to project teams to help establish methods for collecting this data.

2.8 There is a lack of evidence to show what scrutiny or action has been taken for projects which have not achieved against targets or where not enough information was provided to the Group. For example, the Modernisation Outpatients Programme where the Group had to request that further information be presented to inform them. There is also a lack of clarity over how the Group are controlling change management resource which it has decision making powers to provide or re-allocate, with a large number of project managers in the organisation at present and recruitment for new project managers being pursued, without the knowledge of the S&V Group.

3. Management Action Plan

Control objective 1: An appropriate operating framework for the Group is defined and established	
1.1: The Group's Terms of Reference should be updated to reflect various considerations	**Medium**

Background:

The governance structure of the Group has been established, as is shown in Appendix 2. The Project Management Network Office (PNO) has been set up to support the Group in providing oversight on all in-scope projects and programmes. The Group will report to the Finance & Resources (F&R) Committee on a bi-monthly basis to provide assurance to them that projects are making financial progress as well as to the Corporate Management Team. The Group has established that projects which are in scope are projects mirroring the national Sustainability and Value Programme and/or projects supported by investment in change resource.

Observation and Risk:

Through review of the Group's current terms of reference we noted the following:

- To date, no reports have been submitted to the F&R Committee, despite the Group agreeing they will report bi-monthly to provide assurances to them. Through discussion, it was noted that no updates were deemed to be required
- There is no timescale built into the Group's terms of reference to self-assess performance against their current scope and revise their terms of reference accordingly. There is a risk that the Group will not reflect on performance to date and establish activities for improvement.
- Since its introduction, the Group have incorporated financial recovery plans into scope, however, this is not reflected in the terms of reference. Additionally, it is not clear how this reporting requirement will be built into the governance of the financial recovery plans or what decisions the Group will make in relation to these plans. There is a risk that responsibilities and decision-making powers of financial recovery plans lack clarity and the Group will make inappropriate or inconsistent decisions in relation to these.
- There is an assumption that projects reporting to the Group will recognise this within their governance structure. On sampling 5 projects which have been identified by the Group as being in scope, there were 2 which did not yet recognise their commitment to the Group including the Outpatient Modernisation Programme and the South East Regional Medical & Nursing Bank and Rostering project. There is a risk that without these being built into governance structures, the projects will not be committed to the Group.

Recommendation:

The Group should consider the following and revise their terms of reference accordingly:

- The requirement to report to the F&R Committee should be discussed and a more realistic timescale for reporting built in, to ensure they are receiving assurances on an agreed timescale.
- Self-assessment and revision of the terms of reference should be built into the Group's

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ongoing activities

- Responsibilities of the Group in relation to financial recovery plans, how often they report and what decision-making powers the Group has.

The Group/PNO should contact all projects identified as being in-scope to ensure they have recognised reporting to the Group within their governance structures.

Management Response:

It is agreed that, following the recent set up of the Project Management Office/Network that the Terms of Reference for the S&V Group should be reviewed and updated and that this should include an update to each F&R Committee meeting.

Management Action:

Work is in progress to update the Project Scope and that projects are appropriately scheduled to report to S&V.

Governance arrangements will be clarified with in-scope projects and a review of the S&V terms of reference will be concluded.

Appropriate output/progress reports will be reported to F&R as necessary following review at S&V.

Responsibility: Deputy Director of Finance	**Target date:** September 2019

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Control objective 1: An appropriate operating framework for the Group is defined and established	
1.2: Membership of the group should be reconsidered, with quorum updated	**Low**

Background:

As identified within the Group's terms of reference, the Project Board membership is as shown below:

Designation	Person(s)	Role
Programme Lead	Director of Finance / Deputy Director of Finance	Chair & Deputy Chair
Business Units	Chief Officer for Acute Services /Partnership Heads of Health	Operation Lead(s)
Human Resources	On behalf of all Health Boards	HR Management Representative
Clinical representative	Medical Director	Clinical Lead
Quality representative	Chief Quality Officer	Quality Lead
Finance representative	Head of Management Accounting	Link to Financial Planning
Analytics representative	Head of Analytics	Link to Analytics resource
Programme Manager	On behalf of all functions	Programme Manager
PNO Manager	On behalf of all functions	Programme Support
Partnership Representative	Corporate Partnership Lead	Partnership Lead

Quorum of the group for decision making purposes is 50% of members plus one.

Observation and Risk:

On review of the membership we noted that the following members are there for information purposes and should not have decision making powers; Partnership Representative, PNO Manager, Programme Manager, Analytics Representative, Finance Representative.

On review of the four meetings held between November 2018 and April 2019, it was noted that attendance rates for the remaining 7 members resulted in quorum not being met in three instances, where 4 attended the November meeting, 4 in February 5 in March and 3 in April.

Additionally, it was noted that due to the nature of the group, the attendance of the Director or Deputy Director of Finance is crucial and without these members, decisions should not be made.

Recommendation:

It is recommended that the membership of the Board should be revised to consider if membership is appropriate or if roles could be deputised, in order to ensure the group is quorate. Additionally, members with decision making rights should be established and built into the Group's quorum going forwards.

Management Response: Agreed.

Management Action: These recommendations will be included in the review of the S&V group Terms of Reference and members will be advised to send deputies if they are unable to attend.

Responsibility: Deputy Director of Finance	**Target date:** September 2019

Control objective 2: The Group's approach is aligned to the national financial strategy and will deliver on objectives in a timely manner	
2.1: It is not clear how the Group's approach will allow for quick win financial savings	**Medium**

Background:

NHS Lothian's Financial Strategy recognises that sustainability and value is required to be embedded into their approach to Local Delivery Plans, with governance structures established to mirror the management of individual workstreams at a local and regional level. The Group was set up to help achieve this by reviewing progress on all programmes supporting financial sustainability and recovery, ensuring adequate ROI.

The Group have established, within their terms of reference, that the method for this will include considering and reviewing project start-up (investment) and progress through defined 'gateways' which can be used as checkpoints with potential exit routes built in if adequate ROI is not going to be achieved. For ongoing projects, scrutiny will be provided on an ongoing basis against achievement of planned delivery.

Observation and Risk:

Although there has been no project start-up approved by the Group to date, it is noted that there are 3 proposed checkpoints before a project is approved and starts delivery. In addition, the gateway documentation will be reviewed by the S&V Group prior to submission to the relevant operational decision-making body. There is a risk that having 3 checkpoints requiring Group approval will require 3 or more meetings which are not always in subsequent months and with further approval required by operational bodies, will result in a large lag time between projects being proposed and started for delivery. Depending on the value of the project, this will not allow for quick financial wins.

At present, ongoing projects are presenting to the Group on average at 6-month intervals. There is a plan to develop a dashboard to be presented at each Group meeting for interim updates, however, this is still being developed and requires project teams to have ROI and KPI information readily available, which as noted in Finding 3.1, they do not always have. There is a risk that lack of progress against targets will not be scrutinised early and changes implemented to address these delayed, resulting in savings not being made in the interim period.

Recommendation:

The Group should continue develop a dashboard for monitoring project progress, with this being implemented as soon as possible. In addition, a process for fast tracking project proposals of a high value should be developed to ensure delivery is started quickly from the date of proposal.

Management Response: Agreed.

Management Action: A dashboard to monitor project progress is being set up and the fast tracking of proposals will be included in the review of the Terms of Reference.

Responsibility: Deputy Director of Finance	**Target date:** September 2019

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Control objective 3: There is a consistent approach to reporting and monitoring of projects against key project stages and deliverables

3.1: Formats of reports vary, with no consistent approach to defining 'ROI' established, affecting the S&V group's ability to scrutinise projects	Medium

Background:

In November 2018, the Group agreed that ongoing projects would be expected to provide an update on the following information to help inform decisions:

- Project progress
- KPI Update
- Any changes to milestones, if so, further details
- Changes to benefits (financial/non-financial)
- ROI
- Any additional opportunities identified from the project.

Observation and Risk:

Recognising that projects have other reporting requirements; it was agreed initially to receive reports in the format teams are currently using to reduce their administrative burden. On review of reports presented to the Group it was noted, however, that they varied greatly in content, some providing large amounts of narrative with or without financial analysis and some providing only financial analysis. Through a review of Group minutes, it was noted that in multiple cases projects were asked to come back to present again with additional information to help inform the Group. The Group have since created templates for projects to use to improve consistency in reporting.

It was noted, however, through discussion with project leaders, that some are struggling to calculate their ROI as this is sometimes not easily determined and there is need for financial support to help assess this. A framework for establishing ROI is currently being developed by the Group. There is a risk that continued lack of clarity on ROI will result in the Group being unable to prioritise projects effectively.

Recommendation:

Reports going to Group meetings should be scrutinised in advance by the PNO to ensure the expected information is included and ensure the developed templates are being used. Additionally, ROI should be defined as a matter of urgency with continued support provided to project teams where required, to better enable the Group to make decisions about project progress.

Management Response: Agreed that consistency of approach is important, however, flexibility of reporting style will continue to be accepted as long as the key questions are answered, for example the Realistic Medicine report had a different format to the standard reports.

Management Action: It is planned that the project managers will have a ROI template and they will work with the relevant project teams to ensure that ROI will be included as part of the project scope and finish documents.

Responsibility: Deputy Director of Finance	**Target date:** September 2019

Control objective 4: There is a robust process in place to evaluate and identify projects which are not achieving their objectives	
4.1: Projects which are not clearly achieving objectives have not been fully scrutinised	**Medium**

Background:

The focus of the Group is to assess the anticipated financial ROI of proposed sub-programmes or projects as well as provide ongoing oversight of the delivery of ROI of existing projects. The Group will have authority to assess the progress of projects within the programme as well as having decision making authority in relation to the assignment/retrieval of investment in all projects in scope.

In order to do this, the Group are working to develop a prioritisation process for the investment of change resource e.g. project managers that will support the delivery of projects and ROI.

Observation and Risk:

Through a review of minutes, we identified that there was limited scrutiny over what projects had achieved to date, including the following two examples:

– The Theatres Improvement Programme (TIP) was presented in November 2018 to the Group and although recurring savings of £78,480 were reported as being generated with remaining opportunities of £3.1 million, there was minimal scrutiny as to why there had been a lack of achievement and no discussion around the retrieval of resources in relation to this.
It was noted that the TIP was due to present to the Group again in May 2019, however, due to scheduling issues this was delayed until July 2019. From reviewing the meeting minutes, there was no evidence of agreement with the TIP what progress against targets would be expected to have been achieved on return.

– The Modernisation Outpatients programme was presented in November 2018. Scrutiny over the information presented was evidenced with a request for financial analysis to sit alongside the work plan and a request that the programme comes back to the February 2019 meeting to present this. This demonstrated that the Group did not have enough information to inform their decisions and required more information from this project as a matter of urgency. However, on review of the Group's schedule, the programme is not planned to attend a Group meeting until June 2019, 8 months after the initial meeting.

Through discussion, we identified that no changes to allocated resources had been made since the Group's commencement in November 2018, and it is, therefore, difficult to assess what impact the Group has had to date.

There is a risk that without sufficient scrutiny from the Group over the achievements of projects, they are not acting as intended, not furthering savings within NHS Lothian and creating another layer of governance and reporting with no value added.

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Recommendation:

The Group need to ensure they are holding projects to account, agreeing key actions for further meetings i.e. achievement of KPIs/ROI prior to the next meeting.

Additionally, projects where gaps have been identified should be reporting on a more frequent basis as waiting 8 months, will not result in quick savings for the organisation and a potential lack of scrutiny for that period.

Management Response: Agreed.

Management Action: These recommendations will be included in future PMO workplans and reflected in future S&V Group agendas.

Responsibility: Deputy Director of Finance	**Target date:** September 2019

Control objective 4: There is a robust process in place to evaluate and identify projects which are not achieving their objectives	
4.2: There are change management resources within the organisation which are not being overseen by the S&V Group	Medium

Background:

As noted above, the Group's focus is to assess and prioritise change resources in line with assessment of anticipated resource/financial ROI. The group recognised that as at October 2018, there was not an exhaustive list of change resources across the Health Board, however, the Group are working to determine this.

Observation and Risk:

The change resource referred to has been confirmed by the Group to be project management resource. Given that the purpose of the Group is to be responsible for allocating/removing project management resource, it would be expected that they would have oversight of project managers in the organisation.

A search for 'Project Manager' or 'Senior Project Manager' on the NHS Lothian address book, listed 32 individuals with this title. There are also 'Quality Improvement Facilitators' and 'Quality Improvement Managers' within the Quality Improvement Support Team who are equivalent to project managers, totalling 11 staff members. It is likely that there is more project management resource within NHS Lothian out-with this conducted search. At present, not all project managers and their respective projects have been identified by the Group.

In addition, through an online search we identified that there are roles currently being advertised within NHS Lothian for project managers. Examples of which are:

- Job Reference 000590: Quality & Safety Improvement Manager, Mental Health. Where applicants must have project management experience
- Job Reference 000573: Quality & Safety Improvement Manager, Quality Directorate. Again, where applicants should have project management skill.

It was noted that these advertisements were not known to the Group, however, the budget for them will have been available in local budgets and that is how they were able to be advertised.

Despite this, there is a risk that given the financial pressures facing NHS Lothian, project management resource is being hired into the organisation unnecessarily where resource could have been reallocated from another project, as is the remit of the Group. Or, that the project being hired for, would provide a poor ROI or not be picked up for scrutiny by the Group.

Without having complete oversight of project managers, or the route of recruitment for them, it is hard to understand how the S&V group are controlling this resource and able to use their scrutiny to enforce change or better practices.

Recommendation:

In order to fulfil their scope, the Group should continue to work to identify all projects using change resource within the organisation. This should be supported by requests to hire new project management being governed in some capacity by the Group or PNO.

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Management Response: Agreed

Management Action: A schedule of all project management resource has already been set up by the PMO and will be considered by the S&V Committee. Any additional requests for resource will be managed via the committee.

Responsibility: Deputy Director of Finance	**Target date:** September 2019

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## 4 Appendix 1 – Staff Involved and documents reviewed

Staff Involved

- Director of Finance
- Deputy Director of Finance
- Senior Project Manager
- Business and Modernisation Manager
- Members of S&V Team

Documents Reviewed

- Scottish Government Medium Term Health and Social Care Financial Framework – October 2018
- NHS Lothian Financial Strategy – Future Approach – 15th November 2017
- Sustainability and Value Group Terms of Reference - 15th October 2018
- PNO Implementation – Project Brief
- Update on the PNO/ Enabling Work Paper -26th November 2018
- S&V Group Meeting Minutes – November 2018 – April 2019
- S&V Group Meeting Papers – November 2018 – April 2019
- PNO Implementation Plan with Timetable of agreed meetings
- Listing of in-scope projects with responsible managers
- Sample of projects terms of reference

5 Appendix 2 – Governance Structure of the Group
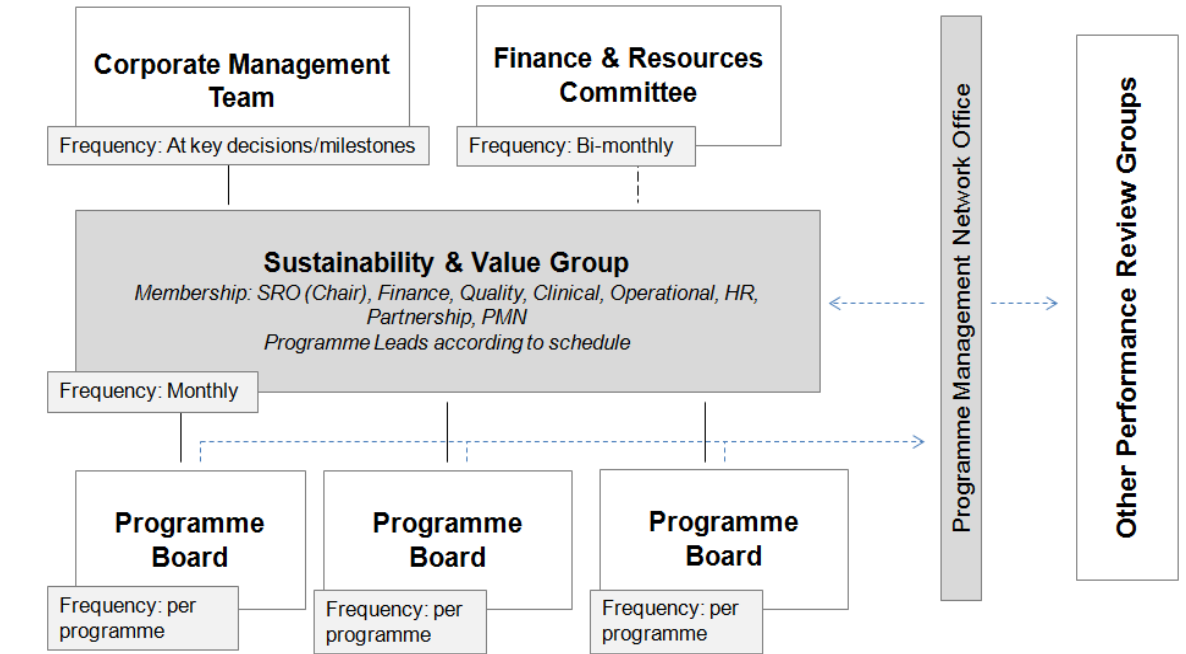
6 Appendix 3 - Definition of Ratings

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.	This may be used when: • 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. The controls are deficient in some respects and require management action (for instance one 'high' finding and a number of other lower rated findings)
Moderate assurance	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. There remains a moderate amount of residual risk.	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". 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)
Significant assurance	The Board can take reasonable assurance that the system(s) of control achieves or will achieve the control objective. There may be an insignificant amount of residual risk or none at all.	There is little evidence of system failure and the system appears to be robust and sustainable. 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)