

# NHS Lothian

Internal Audit 2023/24

Safe Haven Financial Governance Review

August 2023

## Final Report

### Emily Mayne

Head of Internal Audit  
T 0121 232 5309  
E [emily.j.mayne@uk.gt.com](mailto:emily.j.mayne@uk.gt.com)

### Jamie Fraser

Internal Audit Assistant Manager  
T 0141 223 0886  
E [jamie.a.fraser@uk.gt.com](mailto:jamie.a.fraser@uk.gt.com)

### Matt Lee

Assistant Manager  
T 0121 232 8784  
E [matt.d.lee@uk.gt.com](mailto:matt.d.lee@uk.gt.com)

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It is the responsibility solely of Lothian NHS Board management and directors to ensure there are adequate arrangements in place in relation to risk management, governance, control and value for money.



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• Director of Public Health and Health Policy	
<b>For action:</b>	
• Safe Haven Manager	
• Director of Public Health and Health Policy	
<b>For Information:</b>	
• Director of Finance	
• Deputy Director of Finance	
• Service Manager	
• Audit and Risk Committee	

# Executive summary



## Background

The use of specialist services can be a cost-effective solution that produces the best patient outcomes where the required activity is not routinely provided by an NHS Board. Due to the financial commitment associated with using a specialist service provider, there is a need for both clinical and financial assessments to be made to ensure arrangements remain the best value for money. Balancing patient needs with financial costs requires robust financial controls to ensure appropriate scrutiny and authorisation has been applied and confirm the costs of the commitment are understood and accepted.



## Objectives

The objective of this review is to provide an independent assessment of the design and operational effectiveness of the Board's financial governance arrangements for out of area referrals by the Safe Haven Office. Our review focused on these financial governance controls, specifically the referral process, appropriate authorisation of agreements, timely and relevant budget reporting, and accurate payments.

Our review focussed on the following key risks:

- Financial budgets are unworkable and are not based on activity information that supports the allocation.
- There is insufficient financial scrutiny and / or appropriate authorisation of the use of out of area specialists.
- Inadequate management reporting could result in an end of year deficit, which affects the Board's overall financial position.
- Upward variances for agreed out of area services are not appropriately reviewed and authorised, resulting in unexpected costs.



## Limitations in scope

Please note that our conclusion is limited by scope. It is limited to the risks outlined above. Other risks exist in this process which our review and therefore our conclusion has not considered. Where sample testing has been undertaken, our findings and conclusions are limited to the items selected for testing.

Clinical decisions were outside the scope of the review.

This report does not constitute an assurance engagement as set out under ISAE 3000.



## Acknowledgement

We would like to take this opportunity to thank your staff for their co-operation during this internal audit.

# Headline messages



## Conclusion

### Moderate Assurance

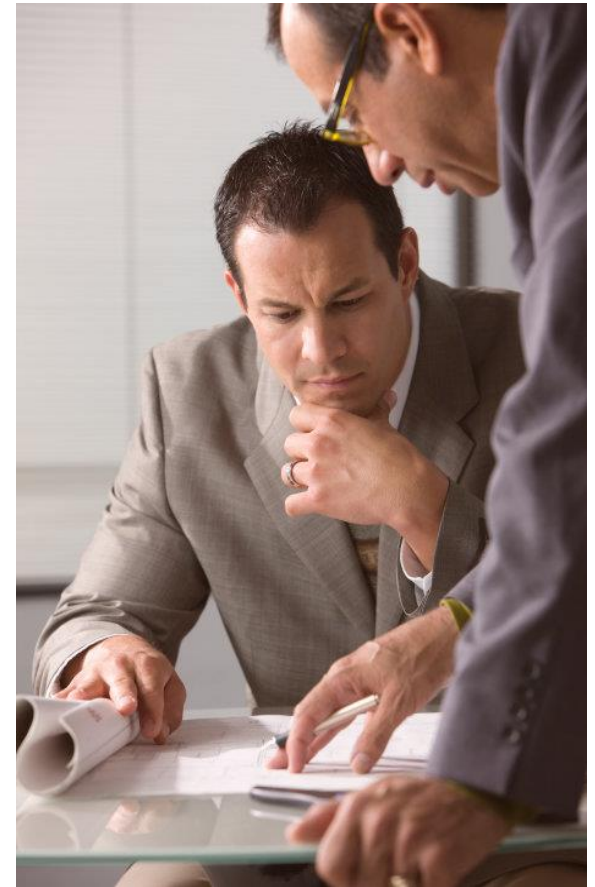
We have reviewed the processes and controls around Safe Haven Financial Governance and have concluded that the processes have provided a **MODERATE ASSURANCE**. This was confirmed through testing in specific areas of the organisation and through discussions with management.

Whilst we have identified operational weaknesses in the financial governance of Safe Haven costs, it is crucial to view these in the context of the broader financial environment and to understand the materiality of these weaknesses. The costs associated with Safe Haven are not material, with UNPACs (UNPlanned ACtivities) costs for 2022/23 standing at £530k and elective NHS England treatments at £172k. The total outturn for NHS Lothian in 2022/23 was c£2 billion, of which Safe Haven costs constituted 0.035%. In a holistic financial analysis, these costs do not significantly strain the overarching financial infrastructure and weaknesses identified would not impact the overall control environment for NHS Lothian.

The objectives reviewed are set out on the following page with the assurance rating we have assessed for each one and the number of recommendations raised. We have reported by exception against the areas where we consider that Management and the Audit and Risk Committee should focus their attention. While we have identified medium operational risks our overall assurance rating reflects the financial materiality of the operational weaknesses in the wider financial framework. Our Internal Audit review highlights two medium risk operational weaknesses in the financial governance for Safe Haven referrals.

- There is a lack of budgeting processes for Safe Haven referrals, including UNPACs and NHS England invoices. Budgets had been established for UNPACs, however, there were notable overspends across multiple cost centres resulting in substantial overspending, with a total variance of £193,000 (57%) on a £337,000 budget. For NHS England referrals, NHS Lothian Finance does not currently allocate a specific budget due to the materiality of these pre-scheduled treatments, deeming them of low material significance within the broader financial framework.
- The current approval process for out-of-area treatment referrals lacks consideration for financial cost forecasting, focusing solely on clinical factors. To enhance financial control and ensure effective cost management, we recommend implementing a treatment referral approval process that includes both an assessment of clinical and financial considerations.

We will review progress made as part of our recommendation tracking during the remainder of 2023/24.



# Headline messages



## Conclusion

We have raised five recommendations. The grading of these recommendations based on risk, is summarised in the table below.

Risks	Assurance rating	Number of recommendations			
		High	Medium	Low	Imp
Financial budgets are unworkable and are not based on activity information that supports the allocation.	Moderate Assurance	-	1	-	1
There is insufficient financial scrutiny and / or appropriate authorisation of the use of out of area specialists.	Moderate Assurance	-	1	-	-
Inadequate management reporting could result in an end of year deficit, which affects the Board's overall financial position.	Significant Assurance	-	-	1	-
Upward variances for agreed out of area services are not appropriately reviewed and authorised, resulting in unexpected costs.	Significant Assurance	-	-	1	-

# Summary of findings



## Examples of where recommended practices are being applied

- The Safe Haven team maintains an activity log and effectively retains supporting information, which provides transparency regarding the rationale for expenses. The Safe Haven manual serves as a valuable resource for the team by offering reference information that supports the rationale behind treatment agreements. Acting as a guide, it ensures consistency and helps NHS Lothian make necessary payments only.
- Testing confirmed that the Safe Haven team robustly reviews requests for planned out-of-area treatments to ensure they align with agreed methodologies and, whenever possible, directs them correctly through the application process to National Services Scotland, thereby preventing any costs for NHS Lothian.
- Testing also confirmed that the Safe Haven team diligently scrutinises and denies funding for out-of-area treatments that are not aligned with national guidance. For instance, when a patient relocates to the Lothian area but wishes to continue treatment in an English NHS Trust.
- The Safe Haven team has implemented and effectively applied processes to ensure the appropriate approval of planned out-of-area treatments.
- The Safe Haven team raise purchase order invoices for approved out-of-area treatments delivered by private providers which ensures proper documentation and tracking of financial transactions, contributes to accurate record-keeping and accountability and facilitates streamlined payment processes, reducing the risk of delayed or overlooked payments.
- Meetings have been established between the Safe Haven Manager and finance colleagues in Non-Contract Activity and Financial Income. This collaborative effort allows for the identification of any significant upcoming expenses.
- For private providers, the Safe Haven team makes efforts to obtain cost information to enable them to notify the finance department of any significant expenses before the invoices are received.
- Invoices are checked by finance to ensure that they relate to approved treatments and exclusively relate to patients from the Lothian region.

# Summary of findings



## Areas requiring improvement

- Lack of comprehensive budgeting procedures for Safe Haven referrals, encompassing both UNPACs and NHS England invoices has resulted in significant variances in financial budgets.
- Inadequate budget allocation and monitoring across multiple cost centres within the UNPACS financial report, has resulted in proportionately significant overspends and a total variance of £193,000 (57%) on a £337,000 budget. This highlights weaknesses in the budget setting and monitoring processes, specifically in the BPAS services, NHS Miscellaneous, Private Misc, Specialist Cerebral Palsy, and Travel / accommodation patient and escort cost centres. We recognise that in the context of the total NHS Lothian budget, this does not drive a reduction in the overall assurance provided.
- The UNPACs financial report identifies redundant cost centres (European Healthcare and Family Fund) and an invoice coding error in the Transgender cost centre, indicating deficiencies in cost centre management and coding accuracy. This increases the risk of misallocated resources, inaccurate reporting, budget discrepancies, and errors in financial forecasting. Proper closure procedures and corrective actions are necessary to address these control weaknesses.
- NHS Lothian lacks a cost estimation process for planned referrals, hindering monitoring of financial variances. Referrals are made solely on clinical grounds, neglecting the financial aspect. Without cost estimates, variances cannot be checked, impeding investigations and approval procedures for discrepancies.
- There is a control weakness in the approval process for out-of-area treatment referrals, as it lacks consideration for financial cost forecasting. The current approach focuses solely on clinical considerations, neglecting to assess and forecast financial factors. Implementing a system that incorporates the Scottish National Tariff (SNT) and Payment by Results (PbR) frameworks to estimate costs upfront would promote transparency, consistency, and better financial control, ensuring effective cost management within the Health Board.
- A control weakness was identified from the absence of specific committees or groups responsible for reviewing and overseeing the financial activity related to Safe Haven out-of-area treatments. This absence of dedicated oversight raises concerns about the adequacy of financial governance.

# Detailed findings & action plan

1.1

Moderate Assurance

Financial budgets are unworkable and are not based on activity information that supports the allocation.

Finding and implication	Audit recommendation	Management response, including actions
<p><u>Weak budgeting processes challenge NHS Lothian's financial management and risk mitigation.</u></p> <p>The Safe Haven team plays a crucial role in gatekeeping out-of-area referrals, ensuring documentation and proper financial routing. Out-of-area payments follow three distinct financial routes.</p> <ul style="list-style-type: none"> <li>• Scottish Health Boards mitigate risk by contributing to National Services Scotland (NSS), which covers pre-approved out-of-area treatment costs. NSS maintains a funded services list, preventing financial burdens on NHS Lothian through applications.</li> <li>• UNPACS (Unplanned Activities) is applied when a patient lacks NHS Scotland service agreement coverage and excludes NHS England referrals. These are managed by the NHS Lothian Income Team.</li> <li>• The NHS Lothian Non-Contract Activity Team process NHS England invoices, including elective treatments that have been administered through Safe Haven.</li> </ul> <p>We identified potential weaknesses in the financial budgeting for elective procedures channelled through Safe Haven. The UNPACS financial report for 2022/23, substantiated that budgets had been established for UNPACS, however, there were notable overspends amounting to a 57% variance on a £337,000 budget.</p> <p>Regarding elective treatments directed towards NHS England, NHS Lothian Finance does not currently allocate a specific budget. Their rationale is based on the perceived minimal impact of these pre-approved treatments, deeming them of low material significance within the broader financial framework. For 2022/23 total elective NHS England invoices totalled £171,805.32. The audit risk is that while the current cost might seem minimal in the broader context, there could be an increasing trend that might be overlooked.</p>	<p>Recommendation 1:</p> <p>Develop a budgeting plan for Safe Haven activities, encompassing UNPACS and NHS England invoices, and monitor it regularly to identify and address any overspends or variances.</p>	<p><b>Actions:</b> Safe Haven and the two finance teams will work together to define a budget process.</p> <p><b>Responsible Officer:</b> Safe Haven Manager</p> <p><b>Executive Lead:</b> Director of Public Health and Health Policy</p> <p><b>Due Date:</b> 31/10/2023</p>



# Detailed findings & action plan

1.2

Moderate Assurance

Financial budgets are unworkable and are not based on activity information that supports the allocation.

Finding and implication	Audit recommendation	Management response, including actions
<p><u>Redundant cost centres and coding errors in the UNPACs report risk resource misallocation.</u></p> <p>Analysis of the June 2023 UNPACs Financial Summary identified redundant cost centres.</p> <ul style="list-style-type: none"> <li>The European Healthcare cost centre (S40092) has recently become irrelevant as the reimbursement of treatment costs in EU countries has ceased.</li> <li>The Family Fund (S40080) operates on grants of 5K per annum. Safe Haven has requested that the £5k accrual be assigned into the cost centre. Having this allocation in place would enable the tracking of usage against the budget, providing a more accurate picture of the fund's financial status.</li> </ul>	<p>Recommendation 2:</p> <p>Close the redundant European Healthcare cost centre (S40092).</p> <p>Assign the £5k grant payment to the Family fund.</p>	<p><b>Actions:</b> Safe Haven will liaise with Finance and NHSGGC to ensure the coding issues are resolved.</p> <p><b>Responsible Officer:</b> Safe Haven Manager</p> <p><b>Executive Lead:</b> Director of Public Health and Health Policy</p> <p><b>Due Date:</b> 31/10/2023</p>

# Detailed findings & action plan

2.1

Moderate Assurance

There is insufficient financial scrutiny and / or appropriate authorisation of the use of out of area specialists.

Finding and implication	Audit recommendation	Management response, including actions
<p><u>Absence of financial assessments in the approval process for out-of-area treatments risking budget overruns.</u></p> <p>Financial costs are not part of the approval process for planned out-of-area treatment referrals that go through the Safe Haven process. The existing process relies on clinical approval. While clinical need should be the primary factor, financial considerations are also crucial for several reasons:</p> <ol style="list-style-type: none"> <li><b>1. Resource Allocation:</b> Healthcare resources are limited, and there is a need to allocate them efficiently to meet the healthcare needs of the entire population. Considering the financial implications helps ensure that resources are utilised effectively.</li> <li><b>2. Cost-Effectiveness:</b> Upfront cost assessment determines cost-effectiveness and justifies expenditure for treatment alternatives, especially when other options are available.</li> <li><b>3. Budgetary Constraints:</b> Healthcare organisations, operate within budgetary constraints. Considering the financial implications helps ensure that the organisation stays within its allocated budget and avoids overspending, which could have repercussions on other essential healthcare services.</li> <li><b>4. Equity and Fairness:</b> Financial evaluation of out-of-area referrals maintains fairness, equity, and equitable access to necessary treatments.</li> </ol> <p>Utilising the Scottish National Tariff (SNT) and Payment by Results (PbR) frameworks to estimate costs upfront at the decision-making level would promote transparency, consistency, and apply better financial control.</p>	<p>Recommendation 3:</p> <p>The Safe Haven referral approval process should be revised to include an assessment of both clinical and financial considerations. This could involve incorporating financial cost forecasting and analysis into the referral approval process, leveraging existing systems such as the Scottish National Tariff (SNT) or Payment by Results (PbR) in England.</p>	<p><b>Actions:</b> NHS Lothian out of area treatments that incur a cost to the organisation will be costed before authorisation.</p> <p><b>Responsible Officer:</b> Safe Haven Manager</p> <p><b>Executive Lead:</b> Director of Public Health and Health Policy</p> <p><b>Due Date:</b> 31/10/2023</p>

# Detailed findings & action plan

3.1

## Significant Assurance

Inadequate management reporting could result in an end of year deficit, which affects the Board's overall financial position.

Finding and implication	Audit recommendation	Management response, including actions
<p><u>Inadequate financial oversight and absence of dedicated committees for costs associated with Safe Haven out-of-area treatments.</u></p> <p>During the internal audit fieldwork, it was identified that there are no specific committees or groups responsible for reviewing and overseeing the financial activity from Safe Haven out of area treatments.</p> <p>The absence of dedicated committees or groups specifically overseeing financial decisions and Safe Haven referrals suggests a potential area for strengthening financial oversight.</p>	<p>Recommendation 4:</p> <p>Management should take action to assign appropriate committees or groups in overseeing the financial operations of the Safe Haven referrals. This will enhance transparency, accountability, and strengthen the Safe Haven financial governance framework.</p>	<p><b>Actions:</b> Director of Public Health and Health Policy and Deputy Director of Finance to agree a plan for Safe Haven routine oversight.</p> <p><b>Responsible Officer:</b> Director of Public Health and Health Policy</p> <p><b>Executive Lead:</b> Director of Public Health and Health Policy</p> <p><b>Due Date:</b> 31/10/2023</p>

# Detailed findings & action plan

4.1

## Significant Assurance

Upward variances for agreed out of area services are not appropriately reviewed and authorised, resulting in unexpected costs.

Finding and implication	Audit recommendation	Management response, including actions
<p><u>Insufficient financial control for estimating and managing costs of planned referral treatments.</u></p> <p>Good financial governance includes processes for the identification and management of variances between expected and actual costs. Controls should be in place to prevent or manage unexpected costs and maintain cost control.</p> <p>NHS Lothian currently lacks a systematic process for estimating the costs associated with planned referral treatments directed for internal funding by the Safe Haven Team (see recommendation 4).</p> <p>Currently, the decision to refer a patient to an out-of-area provider is based solely on clinical factors.</p> <p>While costs are not identified before authorisation for private providers the Safe Haven team makes efforts to obtain cost information to enable them to notify the finance department of any significant expenses before the invoices are received. Purchase orders are raised for some treatments where the cost is known.</p> <p>For NHS invoices, the finance team checks the activity code on the invoice from the provider against national or local tariffs to ensure alignment between treatment and cost.</p> <p>We acknowledge that there are some checks in place to identify unexpected costs. However, financial control could be improved by implementing a systematic cost estimation process (recommendation 4) and the implementation of a formal procedure that assigns a purchase order number to each provider referral to facilitate financial authorisation over variances from expected cost.</p>	<p><b>Recommendation 5:</b></p> <p>Assign purchase order numbers to all pre-authorised elective out of area referrals for improved financial control over unexpected variances.</p> <p>This action will require the implementation of recommendation 4 (establishing a cost estimation process).</p>	<p><b>Actions:</b> Where applicable Safe Haven to ensure purchase orders are created for authorised out of area referral treatments.</p> <p><b>Responsible Officer:</b> Safe Haven Manager</p> <p><b>Executive Lead:</b> Director of Public Health and Health Policy</p> <p><b>Due Date:</b> 31/10/2023</p>

# Appendices

# Appendix 1: Staff involved and documents reviewed



## Staff involved

- Safe Haven Manager
- Safe Haven Coordinator
- Assistant Finance Manager
- Financial Accountant



## Documents reviewed

- NSS referral documentation
- Supporting documents for Safe Haven referrals
- Finance Briefing – UNPACS cost centres June 2023 report
- Safe Haven instruction manual
- NSD Cross Border Policy



# Appendix 2:

## Our assurance levels

The table below shows the levels of assurance we provide and guidelines for how these are arrived at. We always exercise professional judgement in determining assignment assurance levels, reflective of the circumstances of each individual assignment.

Rating*	Description
<b>Significant Assurance</b>	<p>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.</p> <p>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)</p>
<b>Moderate Assurance</b>	<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. 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>
<b>Limited Assurance</b>	<p>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> <p>This may be used when:</p> <ul style="list-style-type: none"> <li>• There are known material weaknesses in key control areas.</li> <li>• 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.</li> </ul> <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>
<b>No assurance</b>	<p>The Board cannot take any assurance from the audit findings. There remains a significant amount of residual risk.</p> <p>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 a number of HIGH rated recommendations)</p>

# Appendix 2:

## Our recommendation ratings

The table below describes how we grade our audit recommendations based on risks:

Rating	Description	Possible features
<b>High</b>	Findings that are fundamental to the management of risk in the business area, representing a weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> <li>• Key activity or control not designed or operating effectively</li> <li>• Potential for fraud identified</li> <li>• Non-compliance with key procedures/standards</li> <li>• Non-compliance with regulation</li> </ul>
<b>Medium</b>	Findings that are important to the management of risk in the business area, representing a moderate weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> <li>• Important activity or control not designed or operating effectively</li> <li>• Impact is contained within the department and compensating controls would detect errors</li> <li>• Possibility for fraud exists</li> <li>• Control failures identified but not in key controls</li> <li>• Non-compliance with procedures/standards (but not resulting in key control failure)</li> </ul>
<b>Low</b>	Findings that identify non-compliance with established procedures, or which identify changes that could improve the efficiency and/or effectiveness of the activity or control but which are not vital to the management of risk in the business area.	<ul style="list-style-type: none"> <li>• Minor control design or operational weakness</li> <li>• Minor non-compliance with procedures/standards</li> </ul>
<b>Improvement</b>	Items requiring no action but which may be of interest to management or which represent best practice advice	<ul style="list-style-type: none"> <li>• Information for management</li> <li>• Control operating but not necessarily in accordance with best practice</li> </ul>



