

NHS Lothian

Internal Audit 2023/24

Financial Sustainability Review

April 2024

FINAL REPORT

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It is the responsibility solely of NHS Lothian 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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Report Distribution

Executive Lead:

- Craig Marriott, Director of Finance

For action:

- Claire Flanagan, Head of Finance

For Information:

- Calum Campbell - Chief Executive
- Andrew McCreadie, Deputy Director of Finance
- Claire Flanagan, Head of Finance
- Olga Notman, Head Of Financial Control
- Audit and Risk Committee

Executive summary



Background

All NHS bodies across Scotland are experiencing financial pressure and ensuring that resources are directed appropriately and efficiently to deliver in-year organisational objectives and meet the longer-term health needs of the local population is becoming more challenging. All NHS bodies are therefore having to identify and deliver ambitious saving targets to balance their budgets year on year and support medium to longer term financial sustainability.

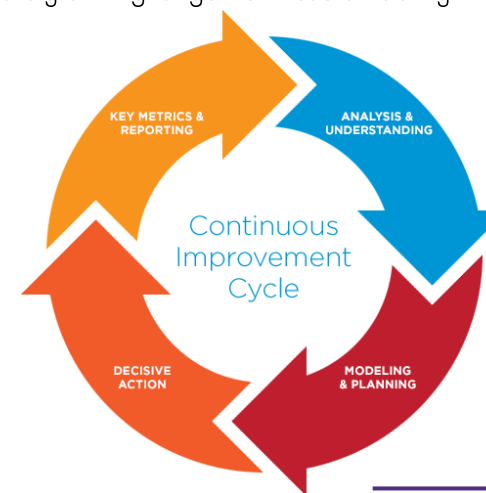
In February 2023, the Auditor General for Audit Scotland reported that “growing financial pressures present a real risk to the investment needed to recover and reform NHS services. The general trend of health spending in Scotland is one of growth. Despite this, the NHS in Scotland faces significant and growing financial pressures. These include inflation; recurring pay pressures; ongoing Covid-19 related costs; rising energy costs; a growing capital maintenance backlog; and the need to fund the proposed National Care Service. These pressures are making a financial position that was already difficult and has been exacerbated by the Covid-19 pandemic, even more challenging.”

Although the NHS is provided with annual funding and is expected to break even year on year, developing and refreshing medium term financial plans is key to demonstrating financial sustainability. These plans will draw together the wider strategies, reflecting the clinical ambitions, the workforce constraints and efficiencies required to deliver this within budget.

The success of delivering financial sustainability across NHS bodies varies and no single approach works for all organisations. However, several factors are common in organisations performing well in planning and delivering within budget and ultimately driving longer term sustainability. The measure of success is not only about the money.

The most successful organisations have developed long-term plans to transform clinical and non-clinical services that not only result in permanent cost savings and efficiencies, but also improve patient care, satisfaction and safety.

Delivering financial sustainability is a continual process which, when broken down, has specific stages, all of which must work effectively, or the pipeline is broken. Organisations also have to build and develop a culture where all employees take responsibility for their part in delivering this. Our review will focus on the development of plans ensuring they are aligned to the wider strategic objectives and whether efficiency opportunities have been identified.



Executive summary



Objectives

The objective of this review is to perform a review of the plans to improve financial sustainability with a particular focus on identifying areas with further opportunities for efficiencies.

This will therefore cover the following areas assessing whether:

- Financial plans are entirely consistent with all other plans and have been based on robust assumptions that have been thoroughly tested. All plans have been accepted by management as achievable and approved by the board.
- Efficiency opportunities are identified on a recurrent on-going basis and regarded as part of managing the business and are integral to the delivery of financial sustainability.

The findings and conclusions from this review will feed into our annual opinion to the Audit and Risk Committee on the adequacy of the overall internal control environment.



Limitations in scope

Our findings and conclusions will be limited to the risks identified above. The scope of this audit does not allow us to provide an independent assessment of all risks and controls linked to Financial Sustainability.

Where sample testing is undertaken, our findings and conclusions will be limited to the sample tested only. Please note that there is a risk that our findings and conclusions based on the sample may differ from the findings and conclusions we would reach if we tested the entire population from which the sample is taken.

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



Significant Assurance

We have reviewed the processes and controls around Financial Sustainability and have concluded that the processes have provided **Significant Assurance**. This was confirmed through testing in specific areas of the organisation and through discussions with management.

While this report provides significant assurance on the internal processes and controls examined relating to the consistency of financial plan development and the identification of efficiency opportunities within NHS Lothian supporting financial sustainability, it is important to highlight the overall financial position of the board. In February 2024, it was reported to the Finance and Resource Committee that the organisation has incurred a year-to-date overspend of £18.4m. To help off-set the deficit it has utilised £21.4m from corporate reserves. Despite this action, the forecast still indicates a significant year end overspend of £10.6 m. The use of corporate reserves to alleviate operational pressures signifies the seriousness of the financial challenges and raises concern regarding the board's ability to maintain financial sustainability going forward. This statement may appear misaligned to our audit opinion, however, an integral part of forming our audit opinion was understanding NHS Lothian's financial position in relation to other boards, which helped to discern whether the risk is primarily attributed to internal weaknesses or external pressures.

From the latest NHS Scotland 2023-24 Consolidated Financial Report for quarter two, it is evident that all 14 Territorial NHS Health Boards are forecasting overspends, culminating in a projected variance of £383m. This is a significant figure that reflects the wider financial pressures faced by the health sector in Scotland. The average variance across these boards stands at 2.7%, again emphasising the widespread fiscal challenge. NHS Lothian expects to exceed its budget by 0.99%, which is markedly lower than the average overspend and second only to NHS Shetland in terms of percentage deviation from budget. NHS Lothian's financial performance is therefore likely indicative of the broader external financial constraints impacting the healthcare system in Scotland rather than internal control failures. A comparison is presented in Appendix 1 of the report, providing a view of NHS Lothian's standing within the wider NHS Scotland financial landscape. Going forward, there is a significant risk to the financial sustainability of the board due to overarching financial challenges faced by all 14 Territorial NHS Health Boards. This risk is highlighted by a very high-risk rating, specifically noted as Risk 3600 in NHS Lothian's corporate risk register.

In terms of our assurance, we are moderately assured that internal processes are adequate, with some areas of weakness identified in governance practices. These weaknesses include the documentation of roles and responsibilities, the conduct of quality impact assessments for Invest to Save schemes, and the documentation of financial review meetings related to discussions around progress of financial recovery plans.



Headline messages



Conclusion

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

Objectives	Assurance rating	Number of recommendations			
		High	Medium	Low	Imp
Financial plans are entirely consistent with all other plans and have been based on robust assumptions that have been thoroughly tested. All plans have been accepted by management as achievable and approved by the board.	Significant Assurance	-	-	1	-
Efficiency opportunities are identified on a recurrent on-going basis and regarded as part of managing the business and are integral to the delivery of financial sustainability.	Significant Assurance	-	-	2	1

Summary of findings



Examples of where recommended practices are being applied

- The financial planning of NHS Lothian aligns with the Scottish Government Financial Plan Guidance for 2023-24, demonstrating compliance with national standards. This alignment is essential as it ensures that the financial strategy adheres to established guidelines, providing a structured basis for financial decision-making.
- NHS Lothian has a comprehensive set of financial assumptions that are based on reasonable considerations, these include detailed allocations. This level of detail is crucial in ensuring that the financial plan accounts for various financial scenarios, thus enhancing its reliability and thoroughness.
- NHS Lothian has implemented a quality assurance process to ensure the internal consistency of its financial planning.
- Financial plans within the organisation undergo a comprehensive process of challenge, review, and approval. This ensures that they are not only based on solid foundations but also subjected to rigorous quality assurance mechanisms, in alignment with best practices in financial governance.
- The business case process at NHS Lothian is supported by well-defined frameworks outlined in documents such as "Capital Governance Route", "CSG Terms of Reference (ToR)", and "LCIG ToR". These documents detail sequential steps for evaluation and approval, alongside documented roles and responsibilities, demonstrating a structured and multidisciplinary approach aligned with expected capital governance practices.
- NHS Lothian has decided that waste reduction plans and productivity improvements will not be included in the Financial Recovery Plan (FRP). This decision reflects the organisation's understanding that FRPs should lead to the removal of funds from the system.
- All Invest to Save scheme proposals were submitted via a proforma and assessed by the Financial Improvement Group (FIG). The FIG employed criteria of 'value' and 'feasibility of delivery' to provide rigorous scrutiny and requested additional information when necessary. This process improves the deliverability of projects and schemes within the planned timescale and budget.
- The NHS Lothian Board is aware of the difficult decisions made by executives, known as 'bridging actions'. These actions which may be sensitive or unpopular, provide the organisation with the necessary flexibility to effectively address potential gaps in achieving savings targets. This strategic approach enables NHS Lothian to respond appropriately where there is a need to narrow the financial gap due to savings not meeting the anticipated targets.

Summary of findings



Areas requiring improvement

- NHS Lothian's financial sustainability and business planning demonstrate integration, evidenced by structured documents, yet lack of a formalised timetable and explicit documentation for planners' roles and responsibilities poses risks to efficiency, transparency, and accountability, amid significant financial challenges.
- The Invest to Save (ITS) proposals aim to enhance efficiency and savings at NHS Lothian, managed by the Financial Improvement Group (FIG). However, a gap exists in evaluating their impact on quality of care, potentially misaligning with the Quality Strategy's emphasis on Quality Management.
- Quarterly financial review meetings at NHS Lothian lack formal documentation, hindering transparency and accountability. Documenting discussions and decisions would enhance transparency, accountability, and informed decision-making, supporting ongoing performance management and improvement efforts.

Detailed findings & action plan

1.1

Significant Assurance

Financial plans are entirely consistent with all other plans and have been based on robust assumptions that have been thoroughly tested. All plans have been accepted by management as achievable and approved by the board.

Finding and implication	Audit recommendation	Management response, including actions
<p><u>Absence of a formalised timetable and explicit documentation detailing planners' roles and responsibilities.</u></p> <p>NHS Lothian has demonstrated a reasonable level of integration in its financial sustainability and business planning processes, as evidenced by documents like "3.3 FRP Monitoring Schedule 2324 - M06" and the "2023 Financial Plan Paper for Board 5 April 23 - FINAL." There is also apparent compliance with governmental financial targets and directives in Board Papers dated 21 June 2023. However, a control gap exists, identified as the absence of a formalised timetable and explicit documentation detailing planners' roles and responsibilities.</p> <p>This gap is notable despite the clear guidelines in the '1.1 SG Financial Plan Guidance 2023-24,' which emphasise the importance of a structured team, a defined timeline for key milestones, and transparent and robust risk mitigation strategies.</p> <p>The absence of a formalised timetable and documented responsibilities reduces accountability and transparency and may increase the risk of disjointed planning efforts across different organisational areas, potentially causing inconsistencies, overlaps, or gaps in strategic initiatives. This control gap is more concerning given the financial challenges faced by NHS Lothian, such as year-to-date overspending and the reliance on reserves to mitigate the 2023/24 deficit.</p> <p>Addressing this control gap will enhance efficiency, transparency, and accountability in financial planning, crucial for navigating and overcoming the ongoing financial challenges.</p>	<p>Recommendation 1</p> <p>Develop and document a clear timetable for the financial planning process, along with detailed roles and responsibilities of the planners involved. This will enhance transparency, accountability, and co-ordination of the business planning process.</p>	<p>Actions: The Financial Plan will undergo a review before next year's cycle, and we will review roles and responsibilities at this time. We do issue regular timetables for completion, and these can be shared with Audit as part of next year's process.</p> <p>Responsible Officer: Claire Flanagan, Head of Finance</p> <p>Executive Lead: Craig Marriott, Director of Finance</p> <p>Due Date: 31 December 2024</p>

Detailed findings & action plan

2.1

Significant Assurance

Efficiency opportunities are identified on a recurrent on-going basis and regarded as part of managing the business and are integral to the delivery of financial sustainability.

Finding and implication	Audit recommendation	Management response, including actions
<p><u>New approaches to identify Financial Recovery Plans should be evaluated following the first cycle of use.</u></p> <p>For the fiscal year 2024/25, a new procedure aimed at identifying Financial Recovery Plans (FRPs) to fulfil the Scottish Government's mandate of achieving 3% recurring savings for that period was introduced via a letter from the Director of Finance to all services in December 2023. This process is outlined in detail in "Qualification: A Guidance Document."</p> <p>We acknowledge the need for the new processes to become integrated into practice. However, we'd like to draw the Board's attention to several key points:</p> <p>Variation in Terminology: Reviewing "Qualification: A Guidance Document" revealed inconsistency in how it's referred to; termed as a toolkit in some instances and locally known as an SOP (Standard Operating Procedure). This inconsistency may lead to confusion.</p> <p>Project Initiation Document (PID): A PID was developed to aid services in planning Financial Recovery Plan (FRP) projects. Our review of the template PID noted the option to use other versions. We recommend phasing out other versions to ensure consistent and standardised data collection for all FRPs.</p> <p>Invest to Share Initiative: This initiative allows services to seek funding for cash-releasing opportunities. Analysis of the January 2024 Finance Improvement Group (FIG) Panel meeting shows only four out of fifteen proposals were approved, totalling £421k of the £2m fund, with anticipated recurring savings of £2.67m. We recommend evaluating the proposal preparation approach to understand why most were unsuccessful, facilitating learning and improvement.</p>	<p>Recommendation 2</p> <p>To ensure the effectiveness of the new approaches in developing financial recovery plans, conduct a review focusing on the following:</p> <ol style="list-style-type: none"> 1. Review all Project Initiation Documents (PIDs) across the organization to consolidate into one template that meets all needs, gradually phasing out other variations. 2. Evaluate the approach used to complete proposals for the Invest to Save scheme, aiming to increase the approval rate and decrease rejections, while identifying key learnings. 3. Ensure consistent terminology is used for the guidance/toolkit/SOP. 	<p>This finding has attracted an 'Improvement Point' as opposed to a formal recommendation, and as such does not require a management response unless you wish to supply one</p>

Detailed findings & action plan

2.2

Significant Assurance

Efficiency opportunities are identified on a recurrent on-going basis and regarded as part of managing the business and are integral to the delivery of financial sustainability.

Finding and implication	Audit recommendation	Management response, including actions
<p><u>Quality Management of Invest to Save Schemes.</u></p> <p>The Invest to Save (ITS) proposals are integral to NHS Lothian's strategy for promoting efficiency and savings while maintaining or improving service delivery. These proposals aim to identify opportunities for cost reduction or optimisation within the organisation, thereby contributing to financial sustainability, though they may require some investment.</p> <p>Managed by the Financial Improvement Group (FIG), the ITS process involves rigorous evaluation and prioritisation of projects based on their potential return on investment and feasibility. However, despite the emphasis on financial considerations, there is a notable gap in the assessment process regarding the impact of these proposals on quality of care and overall performance.</p> <p>While some projects may necessitate a quality impact assessment (QIA), it is not consistently included in the evaluation process, potentially overlooking critical aspects of service change and patient outcomes. This lack of uniformity in assessing the broader implications of ITS proposals may create a misalignment with NHS Lothian's Quality Strategy 2018-27. The Quality Strategy, emphasises the need for a Quality Management System that addresses the 'perfect storm' of increasing demand and reduced resources. It positions Quality Management as a significant part of realising all strategies, operational, and risk reduction plans within NHS Lothian.</p> <p>Therefore, it is important that the ITS proposals be aligned with the Quality Strategy's focus on Quality Management, ensuring that financial and operational efficiencies do not compromise the quality of care and overall performance. This will help NHS Lothian achieve its goal of providing safe and effective healthcare to the population it serves, as well as assisting with financial sustainability.</p>	<p>Recommendation 3</p> <p>The Invest to Save proposal form should be updated to incorporate a Quality Impact Assessment (QIA).</p>	<p>Actions: Whilst the Invest to Save documentation does request non-financial benefits as supporting information, the Financial Plan will undergo a review before next year's cycle, and we will review the documentation at that time and update Financial Recovery Plans SOP and PIDs etc as necessary.</p> <p>We will review for consistency of terminology at that time also.</p> <p>Responsible Officer: Claire Flanagan, Head of Finance</p> <p>Executive Lead: Craig Marriott, Director of Finance</p> <p>Due Date: 31 December 2024</p>

Detailed findings & action plan

2.3

Significant Assurance

Efficiency opportunities are identified on a recurrent on-going basis and regarded as part of managing the business and are integral to the delivery of financial sustainability.

Finding and implication	Audit recommendation	Management response, including actions
<p><u>Records of quarterly financial review meetings are not formally maintained.</u></p> <p>The quarterly financial review meetings are aimed at discussing progress and issues related to financial recovery plans (FRPs) and other financial matters. However, there is a lack of formal documentation to capture the discussions and decisions made during these meetings.</p> <p>The meetings serve as a critical forum for reviewing the delivery of FRPs, addressing any challenges or delays in implementation, and providing accountability for financial performance. Given their significance in monitoring the delivery of savings and ensuring the financial sustainability of NHS Lothian, it is important that these meetings are documented.</p> <p>Documentation would facilitate transparency, accountability, and informed decision-making by providing a clear record of discussions, actions taken, and decisions made during these meetings. Additionally, it would enable continuity by ensuring that stakeholders have access to historical information and insights, thus supporting ongoing performance management and improvement efforts.</p>	<p>Recommendation 4</p> <p>To enhance governance of quarterly financial review meetings with Business Units, it is recommended to maintain a record of discussions and agreed-upon actions, such as meeting minutes, notes, or an action log.</p>	<p>Actions: This has already been put in place and actioned as part of Quarter 3 financial review meetings and discussions.</p> <p>Responsible Officer: Claire Flanagan, Head of Finance</p> <p>Executive Lead: Craig Marriott, Director of Finance</p> <p>Due Date: Complete</p>

Appendices

Appendix 1: NHS Board Forecast Outturn 2023/24

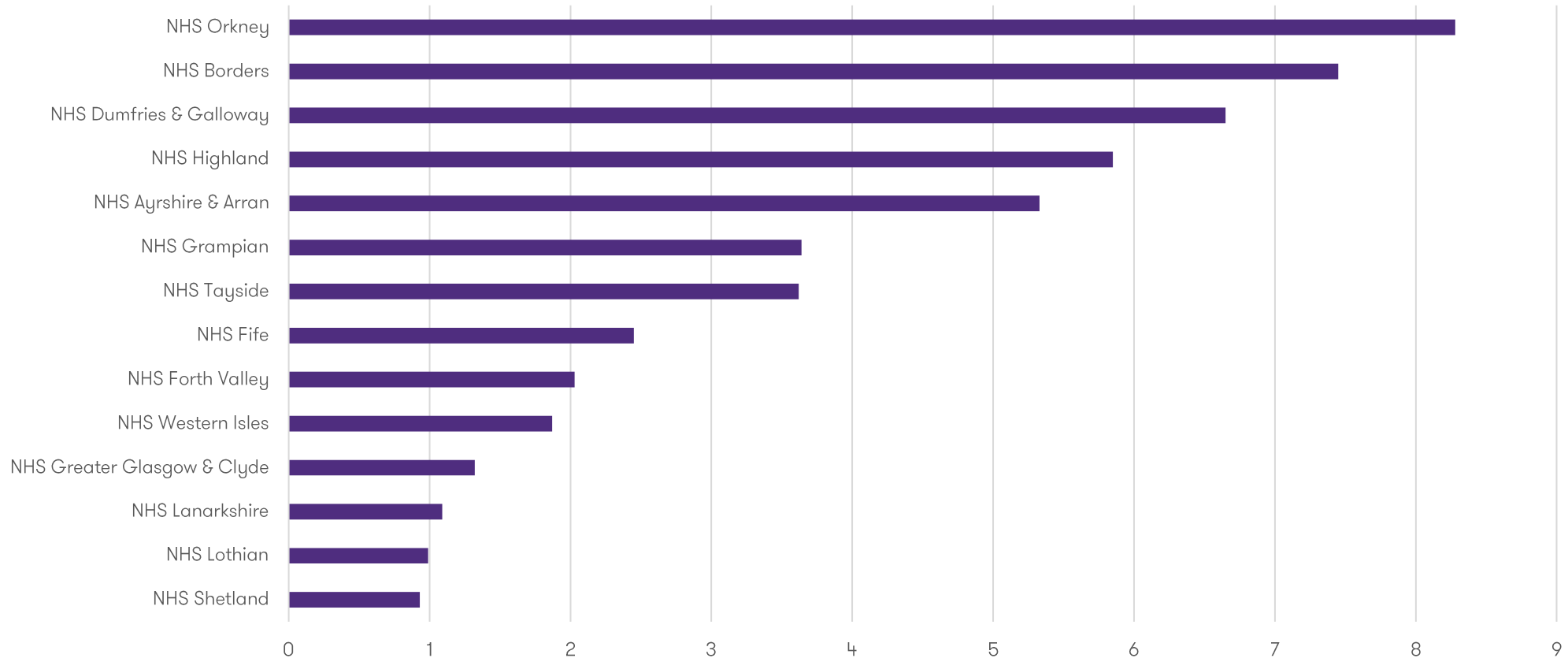
Source - NHS Scotland 2023-24 Consolidated Financial Reporting 30 September 2023 (Quarter 2)

NHS Board	Budget (£m)	Forecast Outturn (£m)	Overspend (£m)	Percentage Overspend (%)
NHS Ayrshire & Arran	1,032.1	1,087.1	55.0	5.33
NHS Borders	302.2	324.7	22.5	7.45
NHS Dumfries & Galloway	434.3	463.2	28.9	6.65
NHS Fife	947.8	971.0	23.2	2.45
NHS Forth Valley	773.7	789.4	15.7	2.03
NHS Grampian	1,370.7	1,420.6	49.9	3.64
NHS Greater Glasgow & Clyde	3,181.2	3,223.1	41.9	1.32
NHS Highland	957.2	1,013.2	56.0	5.85
NHS Lanarkshire	1,701.1	1,719.6	18.5	1.09
NHS Lothian	2,189.8	2,211.4	21.6	0.99
NHS Orkney	76.1	82.4	6.3	8.28
NHS Shetland	75.1	75.8	0.7	0.93
NHS Tayside	1,127.0	1,167.8	40.8	3.62
NHS Western Isles	107.0	109.0	2.0	1.87

Appendix 1: NHS Board Forecast Outturn 2023/24

Source - NHS Scotland 2023-24 Consolidated Financial Reporting 30 September 2023 (Quarter 2)

Forecast Percentage Overspend (%)



Appendix 2: Staff involved and documents reviewed



Staff involved

- Margaret Wolfenden, Senior Finance Manager
- Claire Flanagan, Head of Finance
- Lorna Seville, programme Lead, Sustainability and Value Team
- Claire Flanagan, Head of Finance
- Jill Gillies, Associate Director of Quality
- Immy Tricker, Finance Manager – Capital



Documents reviewed

- Board papers
- Finance and Resource Committee reports
- Financial assumptions
- Finance Recovery Plans reports and monitoring spreadsheets
- Ancillary Reference Materials



Appendix 3:

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
Significant Assurance	<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>
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. 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>
Limited Assurance	<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"> • 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>
No assurance	<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 3:

Our recommendation ratings

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

Rating	Description	Possible features
High	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"> • Key activity or control not designed or operating effectively • Potential for fraud identified • Non-compliance with key procedures/standards • Non-compliance with regulation
Medium	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"> • Important activity or control not designed or operating effectively • Impact is contained within the department and compensating controls would detect errors • Possibility for fraud exists • Control failures identified but not in key controls • Non-compliance with procedures/standards (but not resulting in key control failure)
Low	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"> • Minor control design or operational weakness • Minor non-compliance with procedures/standards
Improvement	Items requiring no action but which may be of interest to management or which represent best practice advice	<ul style="list-style-type: none"> • Information for management • Control operating but not necessarily in accordance with best practice

