NHS Audit Yorkshire

Client Briefing July 2016

Financial Management

Background

The media has reported on some high profile cases of financial misreporting at NHS organisations. In addition to this a number of NHS bodies have received external support to review their arrangements for managing their financial position. In these scenarios there has been either a formal investigation into the situation that has arisen or there have been internal reviews to understand the issues. These reports have often identified poor financial controls and/or what would appear like deliberate attempts to mislead the Board.

This briefing aims to draw out the key lessons learned from some of these investigations. This is both in the provider and commissioning sectors. The aim is consolidate the available information to support the

Summary of Key Themes

The following table summarises the key themes identified.

Key Themes

Inadequate challenge by the Board/Governing Body in terms of challenging under performance and the actions being taken to address the position.

Overly optimistic assumptions underpinning the financial plan and the forecast outturn. This aligned with insufficient disclosure of the assumptions and associated financial risks to the Board/Governing Body.

Inadequately informed forecasts, inadequate assessment and modelling of risks to the forecast position and incompleteness in terms of inclusion of the total risk in the forecast position.

Absence of fundamental controls for budget setting and management. This was particularly an issue in the provider setting.

Accuracy and validity of reporting to the Board/Governing Body and completeness of the reports in terms of key financial measures and indicators.

Inappropriate journals without sufficient justification and backing along with poor cut off procedures impacting on the completeness of the accounts for a given period.

Poor management of the CIP/QIPP programmes from setting, to monitoring and reporting on delivery and achievability.

<u>The following boxes highlight the key points detailed in the reports reviewed and are grouped by key themes.</u>

A number of governance issues were reflected in the reports reviewed. The predominant recurring theme was an absence of sufficient challenge by the Board/Governing Body and/or the nominated scrutiny committee. This was in relation to performance and the action being taken to address adverse performance.

GOVERNANCE

Insufficient challenge to adverse performance by the Board/Governing Body and the nominated scrutiny committee.

Business insufficiently aligned to strategic priorities.

Risks not aligned to strategic priorities and insufficient actions to address identified risks.

Insufficient evidence of 'we're in it together' at Board/Governing Body and Senior Management level.

Frequency of Board/Governing Body meetings insufficient given the challenges being faced.

Reluctance to escalate issues when it was felt an issue was not getting sufficient attention.

Insufficient definition of the roles and responsibilities of the finance team.

Finance risk register not in place to identify financial risks from the services upwards.

Accountability meetings with directorates did not sufficiently cover corporate directorates.

The key issues that were identified related to over ambitious assumptions to manage the financial situation and in the actions to mitigate deteriorating performance. There were also comments about a lack of transparency in the reporting of these assumptions and associated risks to the Board/Governing Body and of a short term focus on addressing the issues. The urgency in which the issues were addressed was also queried.

FINANCIAL MANAGEMENT

Overly optimistic assumptions about contract negotiations at the year end.

Inadequate disclosure of financial assumptions, risks and mitigations to the Board/Governing Body.

Over reliance on mitigations outside the control of the organisation.

Over optimistic assessment and accounting for recoverability of debts.

Over reliance on non-recurrent measures and savings.

In year focus to address issues as opposed to the longer term structural issues.

Too slow to respond to the deteriorating financial position.

Another recurring theme, aligned with the points above, was the robustness of the forecasting methodology utilised. Whilst there did not appear to be the same issues at each organisation the overriding impression is of inadequately informed forecasts, inadequate assessment and modelling of risks to the forecast position and incompleteness in terms of inclusion of the total risk in the forecast position.

FORECASTING

Inadequate use of financial, contract and performance data to forecast expenditure, accruals and commitments.

The full financial risk and how it was being mitigated was not identified and was not incorporated into the forecast outturn.

Financial risks not reviewed and modelled to understand impact on financial performance and to identify different scenarios.

Use of the best case scenario for forecasting.

Financial forecast was overridden to show only immaterial variances form the original budget.

Forecasts were not completed for all areas of the business.

These controls were particularly absent in the provider setting and probably reflects the size and complexity of provider organisations. Many of the absent controls identified are fundamental to an effective system of budgetary control and management.

BUDGET SETTING AND MANAGEMENT

Incremental approach used for budget setting as opposed to bottom up.

Overly optimistic assumptions built into the budgets.

Insufficient engagement with budget holders during the budget setting process in order to develop realistic budgets.

Insufficient challenge of budgets prior to sign off at all levels of the organisation.

Inadequate ownership of budgets, spending and commitments.

Budgets not signed off by budget holders at the start of the year. Where budgets had not been signed this was not escalated.

Reporting to budget holders was not timely leading to insufficient review prior to being sent to the Board/Governing Body.

Budget holders not sufficiently held to account for under performance.

No programme of financial training for budget holders with training only being provided on request.

Insufficient information provided to budget holders.

Inappropriate use of contingencies made in order to cover overspending on budgets.

Lack of visibility of up to date commitments. Lack of regular review of commitments and whether complete.

The validity, accuracy and completeness of reporting to the Board/Governing Body were other points identified. In addition to the completeness and accuracy of reporting on the financial position reference was also made to the absence of other indicators that would help to trigger questions and focus on financial performance.

FINANCIAL REPORTING

Financial information reported to the Board/Governing Body did not reconcile to the ledger. There was insufficient basis to justify the differences between the two.

Insufficient reporting to the Board/Governing Body on balance sheet, cash position, cash forecast, risks to the financial outturn and forecast.

Inaccurate and substantiated data reported to the Board/Governing Body on non-financial performance targets such as creditor payments and achievement of CIP/QIPP.

The issues raised related to the adequacy of cut off procedures at month and year end so as to ensure the accounts correctly reflect the true position for the period in question. Journals were also used to manipulate the financial position. These had insufficient backing and justification. NHS bodies do not always have access to supplier statements since the shift to shared services. NHS bodies should consider whether they are assured that statements are being regularly reconciled to control accounts by their service provider in order to flag any discrepancies in balances and to ensure the completeness of the accounts.

FINANCIAL ACCOUNTING

All costs incurred during the year not taken into account in the correct year resulting in the need to restate the accounts.

Inadequate cut off procedures at year end and as part of monthly accounting routines.

Insufficient accrual included in the accounts for year-end contract positions.

Inappropriate journal adjustments (notably at year end but not in all cases) leading to financial misreporting and a sudden deterioration of financial position once identified. The purpose of the journals had been to reduce expenditure and liabilities.

Insufficient backing and justification for journal entries.

Financial results accrued to budget rather than actual.

Control account reconciliations were not up to date.

Controls accounts were not reconciled to supplier statements to ensure completeness of accounts.

Insufficient controls applied to the management of reserves.

Inadequate cash flow forecasting and monitoring.

A recurring theme was the inadequate control arrangements for the development of CIP and QIPP plans and the ongoing monitoring and reporting processes. Insufficient scrutiny and challenge of delivery by the Board/Governing Body was also a theme in relation to CIP/QIPP as well as wider performance issues.

CIP/QIPP

CIP/QIPP not reflected in budgets.

Risks assessments not completed for all CIP/QIPP schemes in order to assess deliverability.

Budget holders insufficiently engaged to determine whether the assessment of schemes was realistic.

The process for setting CIP/QIPP and any service developments did not sufficiently consider the impact on other parts of the organisation.

Slow response to failings in delivery of CIP/QIPP and drive to identify new schemes.

Insufficient focus on financial savings and too much focus on quality.

Schemes did not accurately reflect financial impact and not linked to clear milestones.

Insufficient monitoring against milestones where set.

Schemes not RAG rated to show progress in delivery.

Lack of oversight/management of CIP/QIPP and inadequate PMO arrangements to provide sufficient focus on achieving the schemes.

Insufficient reporting, scrutiny and challenge of CIP/QIPP delivery at Board/Governing Body and Committee level.

Monitoring reports not designed to reflect needs of the different levels of scrutiny.

The final points related to controls for purchasing and in particular the processing and approval of invoices. The issues relate to an over reliance on manual process for processing and authorising invoices which can introduces delays into to the system and the risk of invoices going astray.

PURCHASING CONTROLS

Inadequate processes for invoice receipt, processing and approvals

Reliance on manual purchase ordering systems.

Invoices lost leading to delays in approval, late payment and risk of duplicates invoices being sent.

Over reliance on non-purchase order invoices.

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