

Report to Western Isles Health Board on the 2004/2005 Audit

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Executive Summary

Introduction

As part of our responsibilities as external auditors for Western Isles Health Board we are required to submit to you, at the conclusion of each year's audit, an annual report on the key findings from our audit. This report summarises our conclusions and is set out in four sections covering:

- **Risk Assessment**—risks highlighted in our audit planning framework and how these have progressed in the year.
- **Financial Statements** — the findings of our financial statements audit including performance against targets and our opinion on the statement of internal control.
- **Performance Management** —our assessment of the way in which Western Isles Health Board secures value for money in distinct areas.
- **Governance** —our assessment of the Board's clinical, staff and corporate governance arrangements.

Risk Assessment

We identified the following significant risks in our Audit Planning Framework document. Our view on the current position is stated below:

Governance:

- We reported previously that governance arrangements were in need of significant development. During the year you agreed and implemented a revised governance framework including agreement on roles, remits and outcomes for each of the Board's committees. However the effectiveness of board committees has been limited partly due to difficulties in recruiting non-executive directors.
- There have been a number of changes in leadership during the year including the appointment of new finance and human resources directors. Both of these posts were vacant during the year which impacted on governance arrangements.
- A clinical governance framework was not in place during 2004/2005. The committee met on only 3 occasions during the year. The clinical governance strategy and clinical audit and effectiveness strategy were drafted but not finalised or costed during 2004/2005. The absence of costed and approved strategies puts the Board and its patients at risk.
- Staff governance arrangements improved during the year with action plans now in place to address areas of improvement. Our view is that this is still a high-risk area, but you are taking steps to manage the risks.

Workforce Planning:

- Adequate workforce management information systems, necessary for strategic management and service planning are missing. A system is not in place to capture and report on workforce activity. Risks remain over your ability to retain and recruit staff, particularly in a remote and rural environment.

Service Sustainability:

- You face the challenge of developing sustainable services within limited resources in an environment of changing clinical demands, shifting demographics and rural geographical location. Service redesign working groups are in place but during the year there has been a lack of clinical governance co-ordination and strategic direction. Difficulties in recruiting senior medical staff and allied health professionals have impacted on the Board's ability to provide services. There has been increased usage of locum staff to provide services resulting in additional costs which has contributed to the deficit. In this period of major change, service sustainability remains a significant risk for the Board.

Performance Management:

- A local framework for measuring and reporting performance activity has not been developed. The Board do not therefore have information to assess current activity or measure the success of change. Risks remain over your ability to measure performance.

Finance:

- Systemic weaknesses in financial controls during 2004/2005 impacted on the deterioration of the financial position at 31 March 2005. The Board had forecast an in year surplus against the revenue resource limit (RRL), however the financial position deteriorated during the audit process with an end of year deficit amounting to £444k. The Director of Finance has received Board approval to restructure the finance department to increase both staffing numbers and skills. This should help remedy the control weaknesses, but as already mentioned, recruitment is a high risk area for the Board, and restructuring will take time.

Risk Assessment (contd)

Information Management and Technology:

- Sickness levels impacted on the delivery of IT services across the organisation. A draft IM&T strategy has now been circulated for consultation to drive IT service provision forward. IM&T is still a high risk area for the Board.

Joint Future:

- A community health partnership scheme of establishment submitted by the Board did not receive Ministerial approval. The Board are now required to resubmit a revised scheme of establishment by 31 October 2005. There is a risk that the population of Western Isles will not benefit from the development of community health services.

Financial Statements

- We have given an unqualified opinion on the financial statements and statement on internal control of Western Isles Health Board for 2004/2005. However, our opinion on the regularity of income and expenditure is qualified as a result of IT expenditure amounting to £400,000, which did not comply with the Scottish Public Finance Manual and Regulations. We draw attention to the extensive number of control weaknesses highlighted in the statement on internal control. We have also provided an explanatory paragraph in relation to the Board's performance against its RRL. The financial statements record that the Board's net resource outturn exceeds its RRL by £738,000.
- At the end of March, the Board had forecast an in year surplus of £140,000. However, due to late adjustments the RRL was exceeded by £444,000 in the final version of the accounts.
- A financial recovery plan has not yet been prepared to ensure financial balance is achieved in the coming year. We have received assurances from the Board that SEHD will ensure that the Board has access to cash throughout the future recovery period sufficient to allow it to meet its liabilities as and when they fall due.

Performance Management

- A performance management framework is not in place. Limited information such as waiting times is submitted to the Board on a monthly basis. It is therefore not possible to monitor service performance effectively.
- Corporate risk management arrangements have progressed during the year with a strategy and register in place and a head of risk monitoring and internal audit being appointed. Risk management processes have not however been embedded throughout the whole organisation.

Governance

- **Clinical:** The clinical governance committee did not operate effectively during 2004/2005; only three meetings took place during the year. The clinical governance strategy and the clinical audit and effectiveness strategy remain in draft at 31 March 2005. In addition, the Board experienced difficulties in recruiting non executive directors to support the clinical governance committee during the year.
- **Staff:** Staff governance arrangements have developed during 2004/2005. An action plan is now in place to drive forward further improvements. The Board successfully completed the self assessment audit tool and we concluded that a robust process had been followed.
- **Corporate:** The organisation is not yet supported by an adequate internal control environment. As a matter of urgency, the Board needs to strengthen its arrangements for:
 - financial management, control and reporting;
 - risk management;
 - performance management; and
 - workforce planning.

Looking Forward

The 2004/2005 audit of Western Isles Health Board has identified a number of issues that will continue to impact on the operations of the organisation in future years. The main challenges identified are:

- The need to resource and maintain sustainable healthcare services through service redesign and efficiency savings;
- Developing both a budget and financial recovery plan for the current year;
- Development of governance arrangements. Emphasis should be placed on strengthening the financial control environment and enhancing clinical governance arrangements;
- Putting in place effective arrangements for performance management and workforce planning;
- Embedding risk management throughout the organisation; and
- Addressing the challenges in the Kerr report and developing new community based models of care through means such as CHPs.

These areas and the controls put in place by management to address these issues will be subject to ongoing review in 2005/2006.

1. Introduction

- 1.1 This report summarises the outcomes from our 2004/2005 audit of Western Isles Health Board. The scope of the audit was set out in our Audit Planning Framework, which was approved by the Audit Committee on 17 March 2005. The plan set out our views on the key business risks facing the Board and described the work we planned to carry out on:
- financial statements;
 - performance; and
 - governance.
- 1.2 This report completes our audit by providing an overview of the work we carried out and, more importantly, our key findings. We have structured the main body of the report to cover the three topics listed above as well as our view on the risks identified. Inevitably there is some overlap between these topics. We have drawn out common themes and issues throughout the report.
- 1.3 We have issued a range of reports this year covering our governance, performance and financial statements responsibilities in terms of Audit Scotland's Code of Audit Practice. Managers have committed to carry out the recommendations, which are directed at higher areas of risk. Appendix A sets out the key areas highlighted in this report and action planned by the Board to manage these risks. Other higher risk areas and planned management actions have previously been reported to the Board in other reports we have issued.
- 1.4 This is the fourth year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Board during the course of our audit work.

2. Risk Assessment

Introduction

- 2.1 In our audit plan, we identified eight areas of risk for Western Isles Health Board. We also described longer term planning issues which will impact on the Board and our audit in the future. In this section, we describe the risks and our views on their current status. We also comment on the longer term planning issues.

Governance

Corporate

- 2.2 We noted that a review of all aspects of governance was considered by the Board to be the main priority for 2004/2005. During the year the Board have implemented a revised governance framework with roles and remits of Board committees being revised and implemented. However these committees have not been fully effective during the year as the Board have experienced difficulties in recruiting non executive directors. Non executive director posts still remain vacant.
- 2.3 During the year, major corporate policies such as the standing orders were updated. There is still some work to do to complete the full suite of corporate documents, for example, a whistleblowing policy is not in place.
- 2.4 At the start of the year, risk management was relatively undeveloped in NHS Western Isles. During the year, significant progress was made but risk management is still not fully embedded throughout the organisation. We are aware that you intend to strengthen this area during 2005/2006.

Clinical:

- 2.5 The clinical governance strategy and clinical audit and effectiveness strategy have been further developed but have not yet been finalised. These documents are crucial for the delivery of safe and effective services. Their absence puts the Board and its patients at risk. The strategies have not been linked to financial plans. This raises a further risk that they may not be affordable. The clinical governance committee's role is in need of update to provide the Board with greater assurance. **(Risk Area 1)**

Staff:

- 2.6 Staff governance arrangements have improved in the last year with a detailed action plan now in place to take forward areas requiring improvement. The action plan is lengthy however, management intend to address the action points in 2005/2006.

Workforce Planning

- 2.7 Changes in clinical practice resulting in more specialisation, a shortage of doctors nationally, shared services development, Agenda for Change and progress in developing regional planning, are all major factors which increase the complexity and risks in workforce planning. A risk was identified during the planning stage of our audit concerning the Board's ability to develop linkages between workforce developments and service developments.

- 2.8 During the course of our audit we reported that workforce information systems were not sufficiently developed to support workforce management and development, and that a workforce development strategy was not yet in place. We found that quality and performance management processes were undeveloped and were not integrated with workforce plans. The Board faces significant risks over its ability to retain and recruit sufficient staff to meet longer term service demands. **(Risk Area 2)**

Sustainable Health Care Services

- 2.9 The risks of service sustainability relate to the ability of health boards to provide appropriate, safe, sustainable services in an environment of changing clinical demands. Factors impacting on this risk exposure include: the implementation of new service models such as out-of-hours; local demographic trends predicting major increases in older people over the next 10 years, compared to an overall drop in population; and a projected increase in the working age population in the same period. As a result, there may be more patients with chronic diseases and less staff to meet increased service demands.
- 2.10 The main areas of risk identified in relation to service sustainability during our audit derived from workforce issues and the availability of suitably qualified staff, particularly given the increasing average age of GPs and difficulties in recruiting other senior medical staff and allied health professionals. A number of local service redesign groups have been established during the year however a Board wide redesign group should be established to monitor the overall impact of redesigning services across the Board area. There has been a lack of co-ordination and strategic direction has been noted in clinical governance during the year, which has a direct impact on service redesign. Until services can be modernised there remain increased risks surrounding the Board's ability to deliver appropriate, safe, sustainable services in an environment of changing clinical demands.

Performance Management

- 2.11 A local framework for the measurement and reporting of performance has not been developed. This is essential to support the decision making process, to measure achievement of local and national objectives and to measure service improvements arising from funding increases. It also provides a basis for effective workforce development, as noted in our comments on Workforce Planning. **(Risk Area 3)**

Finance

- 2.12 There are increasing requirements on boards to demonstrate that funding is resulting in improved outcomes for patients and is cost effective. Factors impacting on Western Isles NHS Board's ability to deliver efficiencies or savings to meet increasing demands included significant cost pressures from increasing locum costs and increasing cost of mainland treatments. In addition, provision had been made for Agenda for Change costs, however, the full impact of this has yet to be quantified.
- 2.13 In our audit plan, we noted that the financial management processes currently in place were not sufficiently developed to forecast service improvements resulting from additional funding, or to monitor efficiency savings being achieved.
- 2.14 Despite the foregoing, the Board was projecting a close to break even financial outturn for 2004/2005. Integral to that outcome was the receipt of non-recurring monies and slippage on ring fenced expenditure.

2.15 Your latest 5-Year Financial Plan 2005/2006 —2009/10, presented to the Board on 31 March 2005, forecasts in-year underspends rising from £163k to £2.494m. These figures were based on the outturn for 2004/2005 being a cumulative overspend of £221k. That position has changed. The 2004/2005 accounts show a cumulative overspend of £738,000. The plan is now forecasting an overspend in 2005/2006 of £289k. Most significantly, the plan identified a funding gap of £1.225m for 2005/2006 which has been offset by specific savings schemes and by efficiency savings totalling £1.589m. A financial recovery plan requires to be developed to ensure financial targets are achieved. Given the deficit position and funding gap for future years the monitoring of savings performance will be crucial. **(Risk Area 4)**

Information Management and Technology (IM&T)

2.16 There are increasing pressures on NHS boards to invest more in IM&T as a result of a number of national developments. These include support for the National e-Health strategy, additional workload arising from the new GMS contract and procedures for compliance with the Data Protection Act 1998 and Freedom of Information (Scotland) Act 2002.

2.17 A significant number of local risks to IM&T systems were highlighted in our Computer Services Review for 2003/2004, and these were followed up in full as part of our 2004/2005 computer audit work. We will report on our findings by 31 August 2005.

Longer Term Planning Issues

2.18 In our plan, we highlighted two longer term planning issues that would have an impact on the Board in future years:

- shared support services; and
- Professor David Kerr's national review of healthcare services.

2.19 We have been monitoring developments in these areas during the 2004/2005 audit. In the following paragraphs, we comment on the changes that have taken place since our plan was finalised.

Shared Support Services

2.20 NHS Scotland plans to create £10 million recurring savings annually through the introduction of national shared support services. Services will include the transactional elements of finance, procurement, internal audit, payroll services and practitioner services payments.

2.21 The shared services project will significantly reduce the number of finance staff across Scotland. It is likely that Western Isles will form a "spoke" within the shared services structure to retain employment on the island. That said, there are a number of local risks arising from the implementation of the project including:

- the need to assess whether management accounting arrangements will be sufficient to provide support to local managers who are accountable for local budgets; and
- the need to ensure that savings generated from single system working locally are not double counted in the national savings target of £10 million.

2.22 Over the coming year we will maintain a watching brief to see how national developments impact locally.

The Kerr Review

2.23 The Kerr report '*Building a better health service fit for the future*' outlines proposals for the future shape of NHSScotland over the next twenty years. The report recommends that all NHS Boards establish a systematic approach to caring for the most vulnerable people with long-term conditions, especially older people. The report foresees a new healthcare model being adopted with a move away from acute hospital based services to community based health provision. This will be achieved through local hospitals, health centres and Community Health Partnerships. It is essential that the Board responds to the contents of the Kerr report as it progresses the implementation of the revised clinical strategy.

3. Financial Statements

Introduction

3.1 This section sets out our responsibilities for the financial statements under the Code of Audit Practice and identifies relevant matters which we wish to bring to your attention.

Our Responsibilities

3.2 We audit the financial statements and give an opinion on:

- whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question;
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
- the regularity of the expenditure and receipts.

3.3 We also review the statement on internal control by:

- considering the adequacy of the processes put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and
- assessing whether disclosures in the statement are consistent with our knowledge of the Board.

The Financial Statements

3.4 Our comments on the financial statements of Western Isles Health Board for 2004/2005 cover four key areas. These are:

- the independent auditor's report on the financial statements;
- the Board's financial position;
- the issues arising from the audit; and
- Statement on Internal Control.

The Independent Auditor's Report on the Financial Statements

3.5 We have given an unqualified opinion on the financial statements of Western Isles NHS Board for 2004/2005. The regularity opinion is qualified because of a breach of relevant regulations. This related to a project for a GP Information Technology Upgrade (amounting to £400,000 within a total of work for a particular supplier of £651,000). This work was not subject to competition as required by the Scottish Public Finance Manual and regulations implementing European Union Procurement Directives. We have also provided an explanatory paragraph to our opinion on the Board's financial position expressing our concern that the Board is not forecasting in-year financial balance until 2007/2008. The Board has not yet set a budget to recover the financial position due to its late emergence. A recovery plan has not yet been developed to address the excess. The Scottish Executive Health Department has provided assurances to the Board that it will have access to cash throughout the period 2005 to 2008, sufficient to allow it to meet its liabilities as and when they fall due.

As highlighted in the previous section, your financial position is a major risk to the future viability of the Board. We will continue to monitor the situation and assess the Board's ability to continue as a going concern.

The Board's Financial Position

- 3.6 In common with other health boards in Scotland, you are set financial targets by the SEHD. Your performance against these three financial targets in 2004/2005 is shown in Table 3.1 below:

Table 3.1
2004/2005 Financial Targets Performance £ million

Financial Target	Target	Actual	Variance
Revenue Resource Limit	54.041	54.779	(0.738)
Capital Resource Limit	1.466	1.466	-
Cash Requirement	51.452	51.452	-

- 3.7 The use of the RRL has weaknesses as an absolute measure of your performance on financial management as it is not fixed for the financial year. In 2004/2005 there were a number of changes to Western Isles NHS Board's RRL as notified by the SEHD. These required senior officers to adjust financial plans and outturn projections. The final 2004/2005 RRL and CRL targets were not confirmed until February 2005.
- 3.8 The Board has used ring-fenced funding to support the revenue position in 2004/2005. In 2004/2005 the Board had a deficit of £444,000, excluding the 2003/2004 brought forward deficit. This deficit, coupled with an in year capital to revenue transfer of £705,000 gives an underlying deficit of some £1.149 million. This underlying deficit is expected to rise in 2005/2006 as shown in table 3.2, and will be partly funded by non recurring income. The Board does not currently have a financial plan to achieve a balanced budget in 2005/2006.

Table 3.2
Underlying Funding Gap 2005/2006

Description	£ Million	£ Million
Recurring income	54.384	
Recurring expenditure	(56.284)	
Underlying recurring deficit		(1.9)
Non-recurring income	1.811	
Non-recurring expenditure	(1.077)	
Balance of non-recurring income and expenditure		0.734
Estimated underlying funding gap		(1.166)

The Issues Arising from the Audit

3.9 We reported 5 main issues to the Audit Committee on 2 August 2005:

- *Material Weaknesses in Accounting and Internal Control Systems* - During the course of the audit we identified a number of material weaknesses in the accounting and internal control systems. There were weaknesses within the Balance Sheet reconciliation processes: a number of areas were not reconciled at the commencement of the audit resulting in amendments to the financial statements. In addition, expenditure relating to 2004/2005 had not been correctly accrued in the financial statements.

Controls around the compilation of the financial statements were also found to be weak. The March Board papers showed that a surplus of £140k for the year ended 31 March 2005. However, not all of the expenditure included in the financial ledger was being picked up in the Board Report resulting in further expenditure of £168k, most of which related to nursery costs. Adjustments to the accounts have resulted in both delays and additional work in the audit process.

The annual internal audit summary states that “the overall management control environment was subject to a number of inherent weaknesses during the year”. Internal audit also “do not consider that there was a rigorous and effective financial management review and control framework in place for the full year”. Lack of assurances from Internal Audit has resulted in additional testing being carried out by ourselves.

- *Accounting Practices and Financial Reporting* - As the audit progressed a number of amendments needed to be made to the financial statements. At the commencement of the audit on 6 June 2005, the RRL expenditure exceeded the limit by £37,000. However, due to audit adjustments the RRL was exceeded by £444,000 in the final version of the accounts.

Detailed working papers were not readily available to support all entries within the financial statements at the commencement of the audit. During the audit further analysis was carried out to support the financial statements again resulting in further amendments to the financial statements. Frequently working papers consisted of prints directly extracted from the financial ledger without explanations to support the entries.

We were commissioned by the Director of Finance to investigate the reasons for the adjustments to financial reports after the year end. Our investigation has revealed that there are systemic weaknesses in the Finance Department. These weaknesses include a failure to observe proper accounting practice. We have reported separately on this subject.

- *Changes in finance personnel* - The audit process has been difficult due to the weaknesses in control and reporting mentioned previously. Due to the number of changes in management within the Finance Department during the year it has been difficult to obtain detailed explanations for entries in the financial statements.
- *Completion of financial statements* - Financial statements were provided late and incomplete throughout the audit process. This has led to delays in signing the accounts and to additional audit costs.
- *Prior year recommendations progress* - We note that progress in completing prior year audit recommendations has been poor. Only 20 out of 67 recommendations have been completed and this is indicative of the systemic weaknesses in financial controls.

3.10 This has been a difficult audit assignment due to systemic weakness in accounting practices and reporting. Clearly the financial deficit affects more than the Finance Department. Now that the extent of the deficit has been identified through the auditing process, the Board faces the challenge of implementing a recovery plan.

Statement on Internal Control

3.11 The statement on internal control provided by the Accountable Officer reflected the main findings from both external and internal audit work. The statement refers to areas of internal control that need to be strengthened, including:

- embedding risk management processes throughout the organisation;
- updating financial procedures to establish a sound internal financial control infrastructure;
- improvements in staff governance arrangements in line with the action plan; and
- developing appropriate clinical governance processes to include risk management, clinical incidents, training, registration and communication.

3.12 We will monitor progress on these issues during 2005/2006 to ensure that NHS Western Isles maintains and develops its internal control framework.

4. Performance Management

Introduction

- 4.1 This section covers our assessment of the way in which Western Isles NHS Board secures value for money in the use of its resources. This year we focussed on financial management. We also set out the findings of our follow up work on previous performance audit reports.

The Board's approach to delivering Best Value

- 4.2 Accountable officers have a duty to ensure that arrangements are in place to secure Best Value. Draft guidance issued in August 2003 provided accountable officers with a framework to develop Best Value, although it allowed them discretion to adopt an alternative approach. Initial discussions with officers suggest that the draft guidance has not been implemented by the Board and an alternative framework has not been developed. We intend to focus on this area as part of our audit in 2005/2006. **(Risk Area 5)**

Financial Management

- 4.3 A review of financial management was carried out and will be reported on by 31 August 2005.

National Studies

- 4.4 In 2004/2005 there were four national study topics. Some of the studies were reported locally by either our own staff or by colleagues in Audit Scotland's Performance Audit Group (PAG), while others were commissioned from PAG by the Auditor General for Scotland and reported nationally:
- Staff Governance (local report produced by Audit Services);
 - Using Medicines in Hospitals (national report produced by Audit Scotland's PAG — WIHB not included);
 - A review of bowel cancer services (nationally commissioned report); and
 - An overview of delayed discharges in Scotland (nationally commissioned report).

A review of bowel cancer services

- 4.5 This national study reviewed how health bodies are implementing the 'Cancer in Scotland' strategy and examined how bowel cancer services in Scotland are performing against clinical standards and national waiting times targets.
- 4.6 The key message from the national report is that 'High quality bowel cancer care needs good partnership working between GPs and specialist services, effective communication and co-ordination, and efficient use of diagnostic resources.'

An overview of delayed discharges in Scotland

- 4.7 The national report highlighted that Western Isles Health Board did not meet their national target reduction in delayed discharges set by the SEHD for the year to April 2004. The SEHD left the target unchanged for 2005.

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- 4.8 The report detailed that Western Isles NHS Board had the highest percentage of beds occupied by patients ready for discharge in Scotland. The report does note that these figures are calculated without taking into account local circumstances such as care home capacity.

5. Governance

Introduction

5.1 This section sets out our main findings arising from our review of your governance arrangements as they relate to:

- clinical governance;
- staff governance; and
- corporate governance.

5.2 Our findings are set out below along with a summary of findings from our follow-up work on previous audit recommendations.

Clinical governance

5.3 The single largest risk factor to the Board is the sustainability of safe, effective and appropriate clinical services at the same time as addressing the serious financial position.

5.4 Clinical governance arrangements require significant development and improvement. It is intended that the clinical governance strategy and clinical audit and effectiveness strategy will be finalised during 2005/2006. In addition an organisation wide clinical audit plan is due to be developed in 2005/2006 with the results of clinical audit being reported to the clinical governance committee.

5.5 NHS Quality Improvement Scotland (QIS) undertook a report of Clinical Governance and Risk Management Arrangements in NHS Scotland during the 2004/2005 financial year. A local interim report for Western Isles Health Board was published in June 2005 in which NHS QIS concluded that *“strategic development and operational delegation of clinical governance is in line with the principles of single system working but is only partly reflected in current organisational frameworks and arrangements for implementation and feedback”*.

Compliance with the NHSScotland Staff Governance Standard

5.6 The NHSScotland Staff Governance Standard introduced the third component of governance, combining with financial and clinical governance to complete the governance framework within which the Board is required to operate. The aim of this standard is to improve the way staff are treated in NHSScotland and to improve accountability for making this happen.

5.7 Although many of the actions identified last year were only partly complete or had still to be initiated, NHS Western Isles has made significant progress towards achieving objectives set out in the 2003/2004 action plan, given the range of areas identified for improvement, and other external pressures on HR staff. Progress in each area has been updated and reported periodically, and is supported by relevant evidence.

5.8 Actions completed are still to be fully embedded in the organisation's activities so the next survey of staff will provide indications of their effectiveness.

Corporate governance

- 5.9 Our work on corporate governance focused on our Code of Audit Practice responsibilities as they relate to systems of internal control; prevention and detection of fraud and irregularity; standards of conduct and your financial position. We have made comment on your financial position in Section 3.

Systems of internal control

- 5.10 Our ability to place assurance on the systems of internal control was assessed during interim control testing pre-year end. To supplement our control assessment we also significantly relied on the work of internal audit.
- 5.11 Internal Audit's annual assurance report to the Audit Committee stated that on the basis of Internal Audit work carried out during the year ended 31 March 2005, *"we do not consider that there was a rigorous and effective financial management review and control framework in place for the full year"*. Due to the level of weaknesses highlighted by internal audit work we carried out additional testing to gain the appropriate assurances.

The General Medical Services (GMS) Contract

- 5.12 An appraisal system for GPs was established and implemented during 2004. All GP staff have undertaken a formal appraisal process in the year. We recommend that the Board should formally monitor the impact of the new contract arrangements on changes to the service and the impact on the skill mix at practice level.

The new Consultant Contract

- 5.13 The new Consultant contract was implemented on 1 April 2004. The NHS Scotland Pay modernisation team issued guidance in October 2004 in PMT 16 requiring that all boards undertake an audit programme to check the actual implementation against the contract terms and conditions.
- 5.14 Internal audit completed this audit programme as part of their work for 2004/2005. Given the scope of this programme we have relied on this work to provide us with the assurances we require on the implementation of the new contract. The audit concluded that control gaps were identified which should be addressed however there were no critical or material issues.

Community Health Partnerships

- 5.15 Western Isles Health Board received an extension on the deadline for receiving ministerial approval for a CHP scheme of establishment. The Board is now required to submit a scheme of establishment by 31 October 2005.

6. Looking Forward

- 6.1 This report represents the conclusion of the Board's 2004/2005 audit. A number of issues and factors have been identified throughout this audit that will impact on the Board's future operations. In this concluding section we detail some of the factors that we believe will be prominent in 2005/2006.
- 6.2 The key challenge facing the Board will be sustaining clinical service redesign during a period of significant financial pressures. It is essential that service change and development is linked and matched to the financial resources available. Achieving financial balance will be particularly challenging during 2005/2006.
- 6.3 We have drawn attention to the internal control environment and concluded that the Board's existing performance management and risk management arrangements are insufficient. It is essential that members are able to track performance and have confidence that risks are being identified, evaluated and managed properly. This will allow you to exercise proper scrutiny and demonstrate good governance.
- 6.4 We commented on the need for high quality workforce information to improve strategic management and service planning. The Board may face increased difficulties in retaining and recruiting staff during 2005/2006. Workforce planning information will be necessary to enable the Board to manage and prioritise staff resources effectively. Adequate information will enable the Board to meet the requirements of the NHSScotland Staff Governance Standard.
- 6.5 The development of new community-based models of care will also be required of the Board in 2005/2006. Although ministerial approval for the CHP scheme of establishment has been delayed until October 2005, the Board will need to progress discussions with its local authority partner to ensure that the CHP is established.
- 6.6 The Board should also continue developing partnerships with other Boards through regional working to access specialist services and ensure that provision of healthcare meets patient needs.
- 6.7 While many aspects of Best Value are reflected in the Board's planning, performance and scrutiny framework, there has been limited development of an overarching Best Value framework. We intend to focus on this area as part of our audit in 2005/2006.

Key Risk Areas & Planned Management Action

Risk Area	Refer Para. No	Risk Exposure	Planned Action	Responsible Officer	Target Date
1	2.5	The lack of a costed and approved clinical strategy and clinical audit and effectiveness strategy puts the Board at risk of being unable to deliver safe and effective services.	The clinical strategy is being developed by front line clinical staff through the Service Redesign process. This is due to come to a conclusion in mid September with a seminar with the clinical community. Thereafter the agreed clinical strategy will be able to be articulated. The DPH and Finance Director are working with the Service Redesign team to cost the options to be considered at the seminar with clinical staff. Thereafter, the aim is for the Board to agree the direction of the clinical strategy in outline at its September meeting with the full clinical strategy agreed by December.	Medical Director	December 2005
2	2.8	Workforce planning is not sufficiently developed to address recruitment and retention risks and support service sustainability.	A baseline workforce analysis has been developed and agreed and is being taken forward by the North of Scotland Regional Planning Group. A number of interim local strategies are in place for various sections of the workforce and are producing results in that key posts are able to be recruited to. There are high rates of retention of staff rather than low rates. A strategic risk assessment has been carried out on this issue and it has been identified	OD Director	December 2005

Risk Area	Refer Para. No	Risk Exposure	Planned Action	Responsible Officer	Target Date
			as one of the top ten risks facing the NHS Board. Service redesign will impact on this issue and taking that into account, and on the basis of the risk assessment, the Board will be reviewing its strategy later in this year.		
3	2.11	There is no overall framework to support regular monitoring and reporting of performance indicators. The Board is unable to effectively manage performance across services and key targets.	A framework was approved by the Board in Autumn 2004 and is partially implemented. The Board decided to concentrate on key areas of national targets and has a programme of detailed reviews of progress against targets for all the national priorities, as well as a number of local priorities. The Board has agreed a forward corporate plan of key targets and key performance indicators have been developed for the two main operating divisions. The KPIs will be operational by end September and quarterly performance review meetings with divisions are already scheduled along with regular quarterly performance reports to the Board.	Chief Executive	30 September 2005
4	2.15	The lack of a financial recovery plan means that the Board may be unable to achieve financial balance in 2005/2006 and puts services at risk.	An outline recovery plan is being discussed today (18 th August) by the Exec Team and will be presented to the Board next week. This will be followed by more detailed work which will be taken to the September and subsequent Boards.	Director of Finance	25 August and ongoing

Risk Area	Refer Para. No	Risk Exposure	Planned Action	Responsible Officer	Target Date
			Financial recovery will become a regular agenda item. Executives will all be involved in the identification and delivery of specific cost saving schemes. Monitoring will be undertaken via Executive Team Meetings, Audit Committee and possibly a Finance Committee which is currently being considered		
5	4.2	Draft guidance on Best Value has not been implemented and there has been no development of a local framework. The Board may therefore be unable to demonstrate that it has secured Best Value.	The draft guidance will be examined with a view to drawing up a local framework by 30 th November which will be fully implemented by the end of the financial year.	Director of Finance	30 November 2005

Audit Scotland, on behalf of the Auditor General for Scotland, is responsible for:

- *providing independent reports to the Auditor General and the wider public on how public money is spent, what it achieves and what improvements can be made*
- *providing independent reports to public sector bodies on their finances, their corporate governance and how they manage their performance and secure value for money*
- *providing an independent opinion on whether the annual financial statements of public sector bodies have been prepared in accordance with statutory requirements*