

# Western Isles Health Board

**Report on the 2005/6 Audit**

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# Summary

## Introduction

In 2005/6 we looked at the key organisational risks facing NHS Western Isles. These included delivering sustainable services, achieving financial balance, managing the workforce, governance and arrangements for the achievement of Best Value and the Scottish Executive's Efficient Government initiative. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our key findings.

## Delivering Sustainable Services

One of the most significant risk factors for NHS Western Isles is the ability of the Board to provide appropriate, safe sustainable services within an Island economy and in an environment of changing clinical demands. The Board faces very specific challenges and risks in providing the full range of health care for its population when it is often difficult to recruit appropriately qualified staff and where its geography makes some aspects of delivery particularly problematic. This has been further impacted by the Board's requirement to effect a planned recovery from its cumulative financial deficit.

The Board is addressing these areas through its Service Redesign process overseen by a Service Redesign Committee, and this process has recently moved from its design to its implementation stage. In addressing these, and related areas, the Board has encountered a wide range of difficulties linked to the response of the public and stakeholders to both its position and its approach. The Board needs to deal proactively with the risks which can result from any failure to carry public and stakeholder support.

## Achieving Financial Balance

There are very significant risks facing the Board in terms of its financial position. The Board began the year with a cumulative deficit of £738k carried forward from 2004/5. At the half year point for 2005/6 the prediction was for an in year operating deficit of £1.3m to be added to the deficit brought forward. The actual outturn for 2005/6 is an in year deficit of £1.746m resulting in a cumulative deficit of £2.484m.

A Financial Recovery Plan (FRP) was agreed with the Scottish Executive Health Department (SEHD) in March 2006 subject to completion and approval of detailed supporting action plans. Underlying projections show cumulative deficits at £2.5m for 2005/06 (achieved), reducing to £1.6m at 2007/08 and returning to a surplus position by 2008/09. Achievement of these forecast outturns are however dependent on the Board achieving significant levels of savings, making significant reductions in GP Out of Hours Costs and reducing Locum Costs.



## Financial Position

We have given an unqualified opinion on the financial statements of Western Isles NHS Board for 2005/6. We have also provided an explanatory paragraph in relation to the Board's performance against its Revenue Resource Limit.

The Board's financial performance in 2005/6 was as follows:

**Table 1 - 2005/2006 Financial Targets Performance £000s**

<b>Financial Target</b>	<b>Limit as set by SEHD</b>	<b>Actual Out-turn</b>	<b>Variance (Over)/Under</b>
Revenue Resource Limit	57,331	59,815	(2,484)
Capital Resource Limit	2,472	2,344	128
Cash Requirement	59,778	59,527	251

*Source – Annual Accounts 2005/6*

Western Isles NHS's actual outturn for 2005/6 was an in year deficit of £1.746m resulting in a cumulative deficit at 31 March 2006 of £2.484m.

## Managing the Workforce

In our 2004/5 annual audit report we commented on the need for NHS Western Isles to have access to accurate, reliable and timely workforce information to inform workforce planning and development. The Board is progressing with this area and has submitted its workforce plan to the SEHD. The main areas of risk exposure here will be around the Board's delivery of its workforce plan in the context of the staff recruitment and retention issues it experiences, and in resourcing required developments such as Knowledge and Skills Framework, given the financial difficulties it is currently facing.

NHS Western Isles has been the subject of extensive recent press and public comment on certain of its staffing issues. We do not comment here on the merits or otherwise of any specific circumstance. However, as noted above, these issues of external comment and perception present a clear risk to the Board which it needs to address moving forward.

## Performance Management

There is no statutory duty of Best Value in the wider public sector outwith local government. Instead, the SEHD issued draft secondary guidance in August 2003, on the duty of accountable officers to ensure arrangements are in place to secure Best Value. As part our 2005/6 work we carried out a baseline review of Best Value arrangements within NHS Western Isles. NHS Western Isles is currently at the planning and development stage of its approach to Best Value and continuous improvement.



The Efficient Government initiative is a five year programme with the aim of attacking 'waste, bureaucracy and duplication in Scotland's public sector' (*Building a Better Scotland*, Scottish Executive, 2004). NHS Western Isles anticipates deriving its main savings over the next three years from service redesign, changes in procurement and asset management. The Board is participating in the national efficiency programmes including National Shared Services, and the Procurement and Logistics programmes.

## Governance

Effective business continuity planning helps to reduce an organisation's business risk arising from unexpected disruptions of critical functions. NHS Western Isles have developed a risk management strategy and a corporate risk register and a risk management action plan has been drawn up. The process is currently under review to update the strategy and the corporate risk register and to ensure that key processes are fully embedded for 2006/7. There has been some progress in these areas although the Board will wish to monitor developments as they are embedded within the organisation's management processes. The Board has also recruited additional non-executives to support its governance processes.

NHS Western Isles' efforts to establish a Community Health Partnership (CHP) have been problematic. Discussions with the Board's key partner Comhairle nan Eilean Siar (the Council) have not yet resulted in agreement to the establishment of this structure. Despite assistance provided by the SEHD's Joint Improvement Team, the Board was unable to prepare a Scheme of Establishment by the revised due date of 31 March 2006. This has been re-drafted and is now being considered by the Council for agreement by the end of June 2006. If this matter is not satisfactorily resolved, there are clearly risks to effective joint working with NHS Western Isles' main service partner. The operation of CHPs is an essential element of the *Delivering for Health* framework and strategy (Scottish Executive, November 2005) which seeks to shift the balance of care towards a more local focus, and NHS Western Isles faces the risk of being unable to deliver on that objective. The Board will wish to monitor developments to ensure that the full benefits of partnership working can be delivered.

We also reviewed the progress made by NHS Western Isles in delivering on the actions agreed in the Staff Governance Action Plan. We concluded that NHS Western Isles had made good progress in achieving actions agreed last year as 81% of the agreed actions had been completed and 14% were partly completed. Only 2 actions (5%) were outstanding.



# Introduction

1. This report summarises the findings from our 2005/6 audit of NHS Western Isles. The scope of the audit was set out in our Audit Planning Framework, which was submitted to the Audit Committee on 15 December 2005. This 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.
2. We have issued a range of reports this year, and we briefly touch on some of the issues we raised in this report. Each report set out our findings and recommendations and the Board's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. This is the final year of our current audit appointment and we have been reappointed for a further five years covering the period 2006/7 to 2010/11. 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. A copy of this report will be submitted to the Auditor General and will be available on our website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



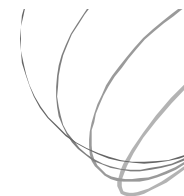
# Organisational Risks

## Introduction

4. In our audit plan, we identified seven main areas of risk for NHS Western Isles. 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.

## Delivering Sustainable Services

5. In our audit plan, we identified that a significant risk factor for NHS Western Isles was the ability of the Board to provide appropriate, safe sustainable services in an Island economy and in an environment of changing clinical demands.
6. The Board faces very specific challenges and risks in providing the full range of health care for its population when it is often difficult to recruit appropriately qualified staff and where its geography makes some aspects of delivery particularly problematic. This has been further impacted by the Board's requirement to effect a planned recovery from its cumulative financial deficit (see paragraph 9 below). The Board has addressed these issues through a formal Service Redesign Programme. This has been a two-phase activity with Stage 1 (review) being completed in 2005/6 with Stage 2 (implementation) now underway. The activity is led by a series of implementation groups covering discrete clinical areas and is overseen by a Service Redesign Committee. For example, the Community Health Services implementation group considers arrangements in this area including consultant outpatient clinics, opportunities for chronic disease management delivery within the community and how staff skills are being used. The programme of redesign activities is scheduled to continue through 2006/7, to be completed later in 2007. The process appears to be largely on course, although the Board acknowledges that more could be done to engage staff and partner organisations in the process. We will continue to monitor developments in this crucial area of activity.
7. One area of service re-design which has attracted wide, and critical interest has been the rationalisation of ward use at Western Isles Hospital. This has reduced the number of wards in use from eight to seven. We note that occupancy rates have continued to be at manageable levels since this operational change. However the Board will need to continue monitor this area and in particular to ensure that it clearly sets out the benefits of all re-design activities for a wider audience.



8. The Board has prepared and submitted its Local Delivery Plan to the SEHD and are now in the delivery phase of that plan. We have noted that the areas specified in the plan are generally recorded as being in line with agreed improvement trajectories. However, we would re-iterate that there remain a number of risks to this process from the Board's financial position, the need to strengthen partnership working, the difficulties in sustaining critical levels of staff resources and from any potential failure to carry the support of key stakeholders.

***Risk Area 1***

## **Achieving Financial Balance**

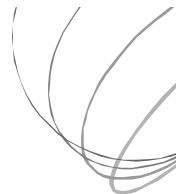
9. We commented in our 2004/5 report on the risks facing the Board in terms of its financial position, with a cumulative deficit of £738k carried forward to 2005/6. At the half year point for 2005/6, the prediction was for an in year operating deficit of £1.3m to be added to the deficit brought forward. Actual outturn for 2005/6 has been an in year deficit of £1.746m resulting in a cumulative deficit of £2.484m. The initial prediction was based on broad estimates derived from expenditure history and known variances. More reliable draft budgets were only available by the end of September 2005, when it became apparent that the projected outturn would be considerably less favourable than forecast. More details on the outturn for 2005/6 are provided in the Financial Statements section of this report.
10. A Financial Recovery Plan was agreed with the Scottish Executive Health Department (SEHD) in March 2006 subject to completion and approval of detailed supporting action plans. Underlying projections show cumulative deficits at £2.5m for 2005/6, no change in 2006/07, reducing to £1.6m at 2007/8 and returning to a surplus position by 2008/09. Achievement of these forecast outturns is dependent on the Board achieving significant levels of savings, making material reductions in GP Out of Hours Costs and reducing Locum Costs. Each recovery plan savings scheme will have a lead executive, with a detailed action plan for each scheme so that progress can be clearly demonstrated. To ensure deviations from plan are detected and resolved early, detailed progress reports will be produced monthly for Finance Committee.
11. We will continue to monitor the implementation of the financial recovery plan during 2006/7 to ensure that Western Isles NHS remains on track to achieve in year financial balance as forecast in the FRP. But continuing financial deficits remain a major corporate risk for the Board.

***Risk Area 2***

## **Managing the Workforce**

12. In our 2004/5 annual audit report we commented on the need for NHS Western Isles to have access to accurate, reliable and timely workforce information to inform workforce planning and development. The new national SWISS system is designed to provide this information. In our Audit Risk Analysis and Plan document we highlighted the risk of any delays in implementing the SWISS system. We are informed that this process is progressing in line with plan. The main areas of risk exposure here will be around the Board's delivery of its workforce plan in the context of the staff recruitment and





retention issues it experiences, and in resourcing required developments such as Knowledge and Skills Framework, given the financial difficulties it is currently facing.

13. The SEHD have set a revised deadline for all NHS staff to be assimilated onto the new Agenda for Change (AfC) pay scales and for all arrears of pay to be paid by 31 December 2006. This process is progressing well at NHS Western Isles and all staff are expected to move onto their amended pay scales by October 2006.
14. NHS Western Isles has submitted a Workforce Plan and Pay Modernisation Benefits Delivery Plan to the SEHD. We will continue to monitor developments in this area as part of our ongoing work on workforce planning.

***Risk Area 3***

15. NHS Western Isles has been the subject of extensive recent press and public comment on certain of its staffing issues. The various issues and disputes which underlie this situation are varied and are particular to each case. We do not comment here on the merits or otherwise of any specific circumstance. However, these issues of stakeholder perception present a clear risk to the Board which it needs to address moving forward, whether that be through its resolution of the matters in dispute or through addressing wider perceptions of its response to these matters.

***Risk Area 4***

## **Best Value and Efficient Government**

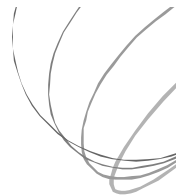
16. In our audit plan, we identified that Accountable Officers have a duty to ensure that arrangements are in place to secure Best Value. There is no statutory duty of Best Value in the wider public sector outwith local government. Instead, the Scottish Executive issued draft secondary guidance in August 2003, on the duty of accountable officers to ensure arrangements are in place to secure Best Value. The key finding from our review is that NHS Western Isles can demonstrate a degree of commitment to Best Value and continuous improvement. Further details of the work carried out on Best Value arrangements are contained in the performance management section of this report.

***Risk Area 5***

17. We carried out an overview of NHS Western Isles's management arrangements in relation to the requirements of the Scottish Executive's Efficient Government initiative. This initiative aims to reduce 'waste, bureaucracy and duplication in Scotland's public sector'. Our initial findings, as summarised at paragraphs 41 to 42, have yet to be formally reported although a significant area for improvement is the development of accurate and reliable sickness absence statistics.

## **Information Management and Technology (IM&T)**

18. We noted in our audit plan that the increased use of information technology presents NHS Western Isles with new risks. If business continuity plans are not in place NHS Western Isles would risk a serious failure of service delivery. The draft findings from our local follow up review of a recent



computer services review have been reported to management as outlined in the Governance Section of this report at paragraph 51. We noted a number of areas where previous concerns had been addressed, however we found that there were still no formal service continuity or ICT disaster recovery plans in place. Their continued absence increases the risk that, in the event of an incident, services will not be restored in a timely fashion.

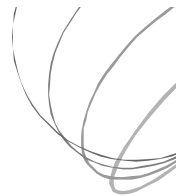
#### **Risk Area 6**

## **Performance Management**

19. In our audit plan we indicated that it was important that Health Boards have in place performance management systems which provide the information required to effectively manage and monitor the local health system, and which capture and record information against key measures and performance indicators. Significant improvements have recently been made in the reporting of performance in Western Isles NHS including the development and reporting of divisional key performance indicators. However, the range and format of performance information available to management, and being reported to the Board, is still under development and may not prove adequate for management needs.

## **Governance**

20. We highlighted in our audit plan that NHS Boards need to demonstrate that they have established and maintain effective procedures for identifying, evaluating and managing business risks. A strong risk management framework is even more important in a culture of continuous improvement and in an environment of rapid and major change.
21. NHS Western Isles have developed a risk management strategy and a corporate risk register and a risk management action plan has been drawn up. This process is overseen by the Senior Risk Management Group. Divisional risk registers are also in place. The process is currently under review to update strategy and the corporate risk register and to ensure that key processes are fully embedded for 2006/7. There has been some progress in this area although the Board will wish to monitor developments as they are embedded within the organisation's management processes.
22. The future model of health care envisaged in the Kerr report and endorsed by *'Delivering for Health'* focuses on integrated, continuous, community-based services rather than hospital-based, episodic care which is geared towards acute conditions. This approach relies heavily on joint working arrangements as a means of delivering services in local communities with Community Health Partnerships (CHPs) taking the lead.
23. NHS Western Isles has experienced difficulties in establishing its single CHP, despite assistance provided by the SEHD's Joint Improvement Team. The difficulties have centred on achieving agreement on the way forward with the Board's key partner Comhairle nan Eilean Siar (the Council). The Board was therefore unable to prepare a Scheme of Establishment for its CHP by the revised due



date of 31 March 2006. This has been re-drafted and is now being considered by the Council for agreement by the end of June 2006. The operation of CHPs is an essential element of the *Delivering for Health* framework and strategy (Scottish Executive, November 2005) which seeks to shift the balance of care towards a more local focus, and NHS Western Isles faces the risk of being unable to deliver on that objective. The Board will wish to monitor developments to ensure that the full benefits of partnership working can be delivered.

#### ***Risk Area 7***

24. In our 2004/5 report we commented that the Board had implemented a revised governance framework with roles and remits of Board committees being revised and implemented. But we also observed that the key committees had not been fully effective during the year as the Board have experienced difficulties in recruiting non executive directors. There has been improvement in this position in 2005/6 with a number of new non-executive members taking up post and with committees meeting on a more regular basis. We note also that the Audit Committee has one member with specific and current financial expertise. We will wish to monitor how this renewed governance framework assists in addressing the range of risks facing NHS Western Isles in 2006/7 and beyond.



# Financial Statements

## Our Responsibilities

25. 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.
26. We also review the Statement on Internal Control by:
- considering the adequacy of the process 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.

## Overall Conclusion

27. We have given an unqualified opinion on the financial statements of Western Isles Health Board for 2005/6. We have also provided an explanatory paragraph to our opinion on the Board's financial position, commenting on the excess against the RRL. A Financial Recovery Plan has been agreed with the SEHD, subject to completion and approval of detailed supporting action plans. In addition, the Accountable Officer has provided assurance that the 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.

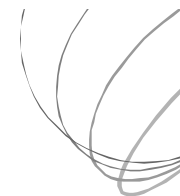
## The Board's Financial Position

28. The Board is required to work within the resource limits and cash requirement set by the Scottish Executive Health Department. Western Isles Health Board's performance against these targets is shown below.

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**Table 2 – 2005/6 Financial Targets Performance £ 000s**

<b>Financial Target</b>	<b>Limit as set by SEHD</b>	<b>Actual Out-turn</b>	<b>Variance (Over)/Under</b>
Revenue Resource Limit	57,331	59,815	(2,484)
Capital Resource Limit	2,472	2,344	128
Cash Requirement	59,778	59,527	251



Source – Annual Accounts 2005/06

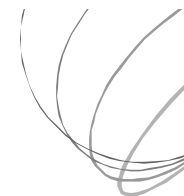
29. At the beginning of the financial year 2005/6, Western Isles NHS had a cumulative deficit of £738k. This was due to a brought forward cumulative deficit of £294k and an in year deficit of £444k in 2004/5. Financial plans forecast that this deficit would increase by £1.3m to c £2m by the end of 2005/6.
30. Western Isles NHS’s actual outturn for 2005/6 was an in year deficit of £1.746m resulting in a cumulative deficit 2005/6 of £2.484m. The underestimation of the deficit for the year is unsurprising given the lack of reliable budgetary information identified at 2004/5. The revenue position for 2005/6 benefited from the inclusion of non-recurring income, such as Capital to Revenue Transfers and the proceeds of asset sales. By stripping out non-recurring funding we can show that the Board had an underlying recurring gap for 2005/6 of more than £2.3m as illustrated:

**Table 4 – Underlying Recurring Gap 2005/06**

<b>Description</b>	<b>2005/6 £ Million</b>
In year deficit	(1.746)
Less: Non-Recurring Income	(0.577)
Less: Other Income Sources	-
<b>Underlying Recurring Gap</b>	<b>(2.323)</b>

Source – PAG Returns 2005/06

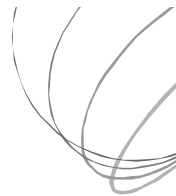
31. The latest 5-year Financial Plan projected the cumulative deficit at 2005/6 as £2.5m (achieved), no change in 2006/7, reducing to £1.6m 2007/8, and reversing to surplus position 2008/9. However, significant risks remain to the achievement of the recovery plan. The following areas are particularly noteworthy in this regard:
- The programme of cost savings is challenging and the Board faces the risk that these are not achieved;
  - GP Out of Hours costs are particularly high in the Western Isles and this could impact on financial recovery;
  - Locum costs are also high because of recruitment difficulties and this requires to be addressed, giving further challenge to financial recovery;
  - Final costs of Agenda for Change may exceed the current budgeted provision;
  - Services provided by other boards may continue to rise; and
  - Financial impact of national tariffs for cross boundary flows may be greater than predicted (currently estimated at £117k for 2006/07).



32. A Financial Recovery Plan has been produced and agreed by SEHD, on the condition that the Board produce detailed action plans on the areas of cost improvement which have been identified, and provide evidence of their implementation and delivery. Financial savings forecast in the recovery plan for 2006/07 are £2.501m of recurring savings and £430k non-recurring. The Board must ensure that there is strong financial management to support the achievement of the recovery plan and to take action when there are fluctuations from the assumptions underlying its achievement.
33. The Board is therefore exposed to significant risks particularly in achieving financial balance in the face of significant additional recurring cost pressures, and reliance on non recurring funding streams. These increase the risk that the Board will not achieve financial balance by 2008/9.

## The Issues Arising from the Audit

34. A number of presentational and accounting issues were identified during the audit but these were mostly resolved in discussion with senior financial officials. In our report on audit matters to those charged with governance, submitted to the Audit Committee we highlighted:
- **Fixed Assets Additions:** During the year the Board purchased Bayhead Dental Practice in Stornoway at a total cost of £258,405. The full amount has been included in the financial statements as Buildings, whereas the purchase price comprised of three elements ie Buildings £117,230, Equipment £119,050 and Stock £22,125. Correction would involve adjustments to asset categories, stock, depreciation, capital charges and General Dental Services, however, the net impact on the accounts would not be material.  
*Resolution:* Will be corrected and appropriate adjustments made in 2006/7.
  - **Indexation of Fixed Assets:** The indexation adjustment on buildings at 31 March 2006, derived from the Britannia Asset Register, is £280k, however, based on our test calculations, this figure should be approximately £70k. The effect on the 2005/6 accounts is restricted to a £210k overstatement of both assets and the revaluation reserve, however, the carry forward of overstated asset values will impact on future depreciation and capital charges. The apparent error has had no effect on the financial outturn against financial targets.  
*Resolution:* Finance department staff to investigate reason for apparent error and rectify in 2006/7.
  - **Revaluation Reserve:** Each year the realised element of revaluation reserves should be transferred to General Fund in the financial statements. The realised element is the excess of actual depreciation charged on revalued assets over the notional depreciation charge based on historical cost, plus the balance of revaluation reserve in respect of assets disposed of during the year. In the year to 31 March 2006 the transfer amounts should be £135k and £33k respectively.  
*Resolution:* Appropriate transfers to be made in 2005/6 financial statements.
  - **Stocks: (1)** Although clear stocktaking instructions have been issued to senior managers, stock at a number of locations were not counted at 31 March, or were counted but not valued. In the



absence of updated stock figures, these areas have been included at prior year amounts totalling £43k. We have received management assurance that stock values concerned are unlikely to vary significantly year on year. **(2)** Stocks held in Theatres, on Wards and in Community Stores were counted for inclusion for the first time in the financial statements in 2005/6, however, these were not valued and therefore have not been included in the balance sheet at 31 March 2006. Management consider that significant stock levels are held in these locations, however, it is not proposed to include any value in the 2005/06 accounts. The value of stock omitted is not considered to be material in the context of the financial statements.

**Resolution:** Appropriate disclosure in Letter of Representation, and management to make suitable arrangements for appropriate stock balances to be included in 2006/7.

- **Agenda for change accrual:** We draw specific attention to the accrual of costs for the Agenda for Change programme for the period October 2004 to March 2006. Such an accrual is necessary to reflect the costs attributable to the eighteen month period from October 2004 to 31 March 2006, but as yet not fully determined by the Board. A national methodology was developed to provide a basis for calculating this accrual and this has been applied in 2005/6 by all Boards yielding a figure of c £1.0m for NHS Western Isles. We have asked the Board for formal assurances, in a letter of representation, that this methodology, in their judgement, best reflects anticipated costs.

**Resolution:** Appropriate disclosure in Letter of Representation.

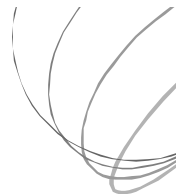
- **Equal Pay claims** —following recent successful equal pay claims from staff at local authorities, there is a possibility that similar claims will be raised by Health sector staff which could represent a contingent liability to Western Isles NHS. We were informed by management that the likelihood of Western Isles NHS facing significant challenge was remote, and unquantifiable at this stage. A contingent liability has, therefore, not been included in the accounts for 2005/6. We have asked the board to confirm this view in the Letter of Representation.

**Resolution:** Appropriate disclosure in Letter of Representation.

- **Information Technology Expenditure.** In 2004/5 our audit report made reference to the fact that the Board had undertaken work during the year on information technology equipment and related services without complying with the Scottish Public Finance Manual or European Union procurement requirements. Purchases during 2004/5 had amounted to £400,000. This activity had continued into the early period of 2005/6. However the expenditure in that year amounted only to some £56,000 before the arrangement was terminated. In this context we have taken the view that a continued reference in the audit report is not required.

**Resolution:** No audit report reference requires to be included in 2005/6.

- **Annual Report and Statement on Internal Control:** A considerable amount of additional information has been required to be added to these sections of the statutory accounts package,



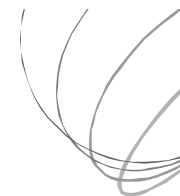
and the format of disclosures has required to be revised, in order to comply more fully with related guidance.

**Resolution:** Additional disclosures to be included in Annual Report and Statement on Internal Control, and formats revised, in order to comply with guidance on disclosures.

## Statement on Internal Control

35. The Statement on Internal Control provided by the Accountable Officer reflected the main findings from both external and internal audit work. It is important to note that the review by the Board's internal Auditors concluded that NHS Western Isles did not have a satisfactory set of internal controls in place for the year 2005/6 and made a range of recommendations to improve this position. The Board are currently addressing these issues. The Board has considerably strengthened its financial and accounting controls over the past year and the Statement also refers to areas of internal control that need to be strengthened, including further development and embedding of risk management arrangements. There remains a continuing need for the Board to maintain its focus on these key areas of control.





# Performance Management

## Introduction

36. This section covers our assessment of the way in which NHS Western Isles secures value for money in the use of its resources. This year we focussed on two main areas:

- Best Value; and
- Efficient Government.

## Best Value

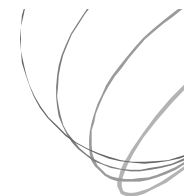
37. There is no statutory duty of Best Value in the wider public sector outwith local government. Instead, the SEHD issued draft secondary guidance in August 2003, on the duty of accountable officers to ensure arrangements are in place to secure Best Value. In May 2005, Ministers decided that they would not bring forward legislation which extends Best Value in the wider public sector. However, Ministers do wish to encourage and embed the principles of Best Value across the wider public sector, the Best Value and Performance Team within the Scottish Executive were tasked with taking this forward. Revised guidance was issued in April 2006 and included in the Scottish Public Finance Manual.

38. As part of our 2005/6 work we carried out a baseline review of Best Value arrangements within NHS Western Isles. The primary aim of the baseline review was to establish the arrangements put in place by management for taking forward the Best Value agenda and demonstrating continuous improvement. In carrying out our review we made use of a number of sources of evidence, primarily:

- the Best Value self-assessment prepared by management;
- information collated for our Priorities and Risks Framework document; and
- information gathered from our review of Committee and Board minutes.

39. Overall, NHS Western Isles can demonstrate some commitment to Best Value and continuous improvement. We found the Board's Best Value arrangements to be at the planning stage or under development rather than well developed as summarised below.

Best Value Characteristics	Planned	Under Development	Well Developed
Commitment and Leadership	√		
Sound Governance at a Strategic & Operational Level		√	
Accountability	√		



Sound Management of Resources & Contractual Arrangements		√	
Responsiveness and Consultation	√		
Use of Review and Options Appraisal	√		
Contribution to Sustainable Development	√		
Equal Opportunities Arrangements	√		
Joint Working	√		

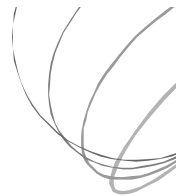
40. A separate audit report will be issued in due course, which will include an action plan for improvements, and a baseline report on the results of our best value assessments throughout the NHS will be submitted to the Scottish Executive later in 2006.

## Efficient Government Initiative

41. The Efficient Government initiative is a five year programme with the aim of attacking 'waste, bureaucracy and duplication in Scotland's public sector' (*Building a better Scotland*, Scottish Executive, 2004). The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money. The Efficient Government Plan sets targets to achieve £745 million (rising to £900 million) of cash-releasing savings and £300 million (rising to £600 million) of time-releasing savings, by 2007-08. The NHS in Scotland is expected to contribute £166 million of cash releasing savings and £173 million of time releasing savings per year.
42. NHS Western Isles anticipates deriving its main savings over the next three years from service redesign (£1.3m), changes in procurement (£700k) and asset management (£100k). The Board is participating in the national efficiency programmes including National Shared Services, and the Procurement and Logistics programmes. However, managing absence was not yet well developed. A detailed position statement of all public sector organisations in Scotland is being produced by Audit Scotland and will be issued shortly.

## National Studies

43. In 2005/6, Audit Scotland carried out three national studies:
- Review of previous year's Staff Governance action plan. Our findings are reported in paragraphs 56 to 58 in the governance section of the report;
  - Tackling Waiting Times in the NHS in Scotland (reported to the Scottish Parliament in February 2006); and



- Implementing the NHS Consultant Contract in Scotland (reported to the Scottish Parliament in March 2006).

## **Tackling Waiting Times in the NHS in Scotland**

44. This national study reviewed the performance of the NHS in Scotland against current waiting times targets for elective healthcare. It evaluated whether the current approach produces value for money and assessed whether current strategies are likely to achieve sustained reductions in waiting times.
45. The report concluded that significant progress had been made towards meeting waiting times targets, but that the total number of people waiting for inpatient and day case treatment has changed little in the last two years. Per the SEHD Annual Review 2005, Western Isles achieved improvements during 2005 in waiting times for inpatient and day case treatment, but had not performed well in relation to outpatients.
46. It recommended that more efficient use be made of the Golden Jubilee National Hospital. NHS Western Isles has responded during the year by increasing the number of cases it has referred to Golden Jubilee National Hospital.

## **Implementing the NHS Consultant Contract in Scotland**

47. This report concluded that there were no clear benefits from the £235 million cost arising from the implementation of the consultant contract. It also highlighted that the new contract offers an opportunity to focus the work of consultants on priority areas, and improve patient care. However, it is not yet being used to its full potential and there is limited evidence of benefits to date. The report also noted that the consultant contract had contributed to cost pressures for boards as the national costing model used by the SEHD contained inaccuracies and it underestimated the financial cost by £171 million, on a national basis, for the first three years.



# Governance

## Introduction

48. This section sets out our main findings arising from our review of the Board's corporate governance as it relates to:

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

## Clinical Governance

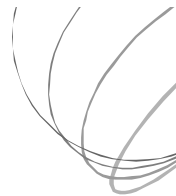
49. In our audit plan we noted that clinical governance arrangements needed to be developed to take account of care being provided in a more community based setting. During 2005/6 NHS Western Isles re-established its Clinical Governance Committee with a remit to ensure that clinical governance mechanisms are in place and are effective throughout the Health Board area. During the year the Board's Clinical Governance Strategy was approved and a Clinical Governance Work Programme has been instigated to address any identified gaps in service quality and information systems. A Safe and Effective Care Committee has also now been established. These developments are at an early stage and Board will wish to take a close interest in the operation of this re-formed element of its governance framework moving forward.

## Corporate Governance

50. We concluded that we were able to place reliance on the work of Internal Audit to give us assurance in relation to other governance responsibilities particularly those relating to systems of internal control. In particular:

- Core Financial Processes;
- Payroll Process;
- Tendering and Procurement- BPI/PECOS;
- Senior Managers' Pay Procedures;
- Locum Costs;
- New Consultant Contract; and
- IT Management and Organisation.

51. Additionally we considered a range of internal control areas as part of our own audit procedures. Separate reports have been prepared for management highlighting particular areas for attention,



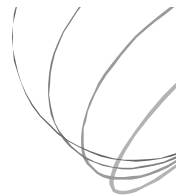
including the need to update arrangements to ensure business continuity and to continue to update the risk management strategy.

## Overview of Community Health Partnership Developments

52. In October 2004, the National Health Service Reform (Scotland) Act 2004 required every Health Board to establish Community Health Partnerships (CHPS). CHPs are seen as the key building blocks in the modernisation of the NHS in Scotland through the development of community-based healthcare services and facilities.
53. In November 2005, the Scottish Executive Health Department issued its long-term, strategic programme for healthcare —*Delivering for Health*—which was informed by the report of Professor David Kerr. The strategy is based on an integrated model of health care where CHPs are at the forefront in developing community-based services rather than hospital-based services.
54. We carried out a high-level overview of the progress made on the development of CHPs within the Western Isles. The main aim was to collate baseline information for future performance assessment and to inform the annual overview of the performance of the NHS in Scotland.
55. NHS Western Isles was unable to comply with the original target dates for establishing CHPs during 2005. Subsequently the Board had intended to establish a Community Health and Social Care Partnership by 31 March 2006. However, discussions with the Board's key partner Comhairle nan Eilean Siar (the Council) did not result in agreement to the establishment of this structure. Despite assistance provided by the SEHD's Joint Improvement Team, the Board was unable to prepare a Scheme of Establishment by the due date. This has been re-drafted as a standard CHP, with coterminous boundaries to the Local Authority, and this is now being considered by the Council for agreement by the end of June 2006. If this matter is not satisfactorily resolved, there are clearly risks to the implementation of elements of the *Delivering for Health* programme and to effective joint working with the NHS Western Isles' main service partner, and the Board will wish to monitor developments to ensure that the full benefits of partnership working can be delivered.

## Staff Governance

56. 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. Every Board is required to use a Self Assessment Audit Tool (SAAT) and information gained from staff surveys, to develop an action plan to achieve the Standard.



57. This year we identified and assessed the risks associated with Staff Governance as part of the audit planning process and we reviewed the evidence that the previous year's action plan is being delivered.
  
58. We concluded that NHS Western Isles had made good progress in achieving actions agreed last year. We found that 81% of the agreed actions had been completed and 14% were partly completed. Only 2 actions (5%) were outstanding. These included the development of an action plan to support implementation of the communications strategy.

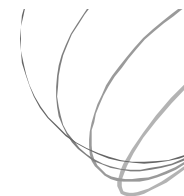


# Looking Forward

59. NHS Western Isles faces significant challenges in 2006/7 which include:

- the achievement of financial balance by the planned date will be a major task for the Board. In doing this, it will require to meet challenging savings targets. This will be made even more difficult by increases in cost pressures due to initiatives such as Agenda for Change, the impact of national tariffs and Modernising Medical Careers;
- the Board has demanding targets and plans in relation to service re-design. It has set up a good structure for addressing these areas but their achievement, in the context of Island based provision and difficulties in recruiting key staff, carries significant challenge;
- the Board has made a good start in improving its internal control environment, and the improvement in financial and accounting controls is noticeable. But the Board will need to ensure that all key control and risk management activities are quickly embedded in its ongoing processes;
- it is crucial for the Board to have sound joint working arrangements with its key partners and the timely establishment of a Community Health Partnership will be central to this;
- the Board needs to address the many issues of public and stakeholder comment and impression which appear to dominate the wider view taken of the organisation;
- Efficient Government is a challenging agenda. In addition, national initiatives, such as shared support services, could also have a significant impact on NHS Western Isles;
- the Best Value agenda will play an increasingly important role throughout public services in Scotland. NHS Western Isles have made some progress thus far, but recognise that much is still to be done to develop the arrangements which will demonstrate commitment to Best Value and continuous improvement.

60. The Board recognises these challenges and will be taking steps through its planning processes to address them. We will be keeping a watching brief to ensure that the Board is making progress on these important matters.

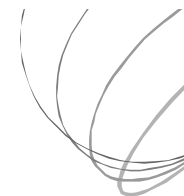


# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	8	The Board does not realise the benefits of service redesign in the challenging context of Island health provision.	The service redesign implementation is being overseen by the service redesign project board, which will be seeking to maximise the benefits which can be accrued in the context of service quality and affordability. Once the Board's clinical strategy, which is being developed in partnership with staff, is complete, the project board will need to ensure that the service redesign implementation meets the needs and aspirations of that strategy and therefore realises the benefits of service redesign.	John Smith, Medical Director	March 2007
2	11	NHS Western Isles does not achieve financial balance in the longer-term due to continuing financial pressures.	A sustained approach to cost saving and efficiency managed via personal objectives, supported by an effective and inclusive communications strategy. Progress to be monitored by Executive Team, Finance Committee and the Board internally, and by audit and SEHD externally.	Dick Manson, Chief Executive	March 2007
3	14	NHS Western Isles does not have access to reliable information to inform its workforce planning processes.	A complete review of the Human Resources function is to be undertaken by a newly seconded Director of HR and an appropriate action plan will be drawn up to address any deficiencies.	Linda Davidson, HR Director	To be reviewed September 2006





Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
4	15	There is continuing reputational damage to the Board from a failure to address issues of external comment and perception.	The Board has commissioned and received a communications review and has just engaged the temporary services of a new Communications Officer to address and stem the reputational damage. The Board will now be taking a much more pro-active approach to media management.	Dick Manson, Chief Executive	September 2006
5	16	Best Value principles may not become embedded within NHS Western Isles.	We believe that the energy and effort being invested in the Board's financial recovery will guarantee a significant focus on best value, which indeed is already the case and evidenced through the early successes of the work on procurement undertaken by Tom Blackhall.	Marion Fordham, Director of Finance	March 2007
6	18	There are no formal service continuity or ICT disaster recovery plans in place. Their continued absence presents a risk that, in the event of an incident, services will not be restored in a timely fashion.	Business continuity plans will be given a high priority within the IT agenda.	Michael Cook, General Manager, Community	To be reviewed in September 2006
7	23	The Board does not fully achieve the benefits of partnership working by failing to establish a CHP structure which is fully integrated with local Social Services.	The Board has established a satisfactory CHP structure. However the original ambition to create a combined CHP and Social Services structure was not achieved, but the Board continues to make its best endeavours to reach agreement with Comhairle nan Eilean Siar. CnES have not agreed so far because of a reluctance to delegate power to the CHP. The Board cannot enforce this.	Michael Cook, General Manager — Community Health Division	CHP structure established in June 2006 and discussions are ongoing with CnES re joint management of services