Western Isles Health Board

Report on the 2006/07 audit

AUDIT SCOTLAND

July 2007

Western Isles Health Board

Report on the 2006/7 Audit

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Executive Summary

Introduction

Based on our analysis of the risks facing NHS Western Isles, in 2006/7 our audit work included: a review of governance arrangements, including the adequacy of internal audit and a Computer Services Review; and a review of the Board's financial position and financial management arrangements. We also audited the financial statements, including a review of the Statement on Internal Control. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of Western Isles NHS Board for 2006/7. 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 2006/7 was as follows:

Table 1 - 2006/2007 Financial Targets Performance

Financial Target	Target	Actual	Variance
	£000	***£000***	***£000***
Revenue Resource Limit	58,223	61,587	(3,364)
Capital Resource Limit	3,795	2,650	1,145
Cash Requirement	62,018	61,627	391

Source – Annual Accounts 2005/6

NHS Western Isles' actual outturn for 2006/7 was an in year deficit of £0.880 million resulting in a cumulative deficit at 31 March 2007 of £3.364 million.

Performance management

Arrangements for performance management are developing at NHS Western Isles. Corporate objectives were not agreed during 2006/07 although we note that these were agreed in June 2007. Also, the organisation has not yet established a performance management framework to provide assurances to the Board on the delivery of objectives. This was underlined in the recent report by NHS Quality Improvement Scotland (QIS) who have also indicated that the Board had not demonstrated that its approach to performance management was being implemented or monitored across the whole Board area.

We do however note that, after a considerable delay, agreement was reached with the Comhairle Nan Eilean Siar and a Community Health and Social Care Partnership (CHaSCP) has recently been put in place. A Scheme of Establishment was approved by Scottish Ministers in April 2007, and the CHaSCP will act as a "health improvement" organisation with delegated resources, staff and services, focusing on improving the health of the population while reducing inequalities.

Governance

Clinical governance is a key activity of any health board. A Corporate Governance Committee is well established, but the recent report from QIS has identified some significant failings. These include a lack of clear strategic priorities and a lack of clear links between corporate objectives and risk management priorities. A Clinical Governance strategy has been drafted and is currently out for consultation. The Board has also drawn up an action plan to address the issues raised by QIS who are to carry out a follow-up review during 2007/8.

During the year we carried out a review of the Board's Financial Position and Financial Management arrangements. This review was carried out across all NHS bodies audited directly by Audit Scotland, but was of particular relevance to NHS Western Isles, given its cumulative deficit and its need to successfully implement a financial recovery plan. Our main findings were:

- we are concerned that the current Recovery Plan, approved by the Board in early 2007 appears unrealistic and the planned savings are unlikely to be achieved. A surplus of £0.8 million was planned for 2007/8; latest estimates suggest that the Board is heading towards a deficit of £0.3 million; and

- there are concerns that a general lack of financial management expertise and financial focus at Board level, and weaknesses in the monitoring reports provided to members, may result in an insufficient level of scrutiny and monitoring of progress towards financial recovery.

Some progress has been made in strengthening the Board's corporate governance arrangements. A wide range of key documents, such as its Standing Orders or Code of Conduct, have been updated. Internal audit continue to provide a service in line with expected NHS standards.

However, there are still significant concerns. Internal Audit have raised 28 'Priority 1' recommendations during 2006/7 and have concluded that there has not been an adequate or effective system of internal controls in place during the year. Particularly noticeable was the lapse in budgetary controls which saw an overstatement of the budget by £1.6 million. Significant progress also still needs to be made in fully embedding risk management within the organisation.

Audit Scotland

July 2007

Introduction

1. This report summarises the findings from our 2006/7 audit of NHS Western Isles. The scope of the audit was set out in our Audit Risk Analysis & Plan, which was presented to the Audit Committee on 25 January 2007. 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 the key issues raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response. Appendix A sets out the key risks highlighted in this report and the action planned by management to address them.

3. 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. This report will be submitted to the Auditor General for Scotland and will be published on our website, 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 would impact on the Board and our audit in the future. In this section, we describe the risks and our views on their current status.

Financial Management

5. In our audit plan, we commented that NHS Western Isles faced considerable financial challenges during 2006/7. For three consecutive years, the Board had failed to achieve a balanced budget and, by the end of 2005/6, it had a cumulative deficit of £2.484 million.

6. A Financial Recovery Plan was developed by the Board and approved by the Scottish Executive Health Department (SEHD). This aimed to achieve an in-year financial balance in 2006/7 and to eradicate the cumulative deficit by 2008/9.

7. However, at the time of developing our audit plan in November 2006, it was becoming clear that these financial targets were unlikely to be achieved. Additional cost pressures of £0.835 million, which were not known at the start of the financial year, had been identified by the Board. In addition, the problems were exacerbated by a serious lapse in budgetary control arrangements, with budget information in the ledger system being overstated by £1.631 million for the first six months of the financial year.

8. By the end of 2006/7, the Board did not achieve the planned in-year financial balance. Instead, it recorded a deficit of £0.880 million. In some ways, this does provide signs of progress, given that the deficit for 2005/6 was £1.7 million. However, the Board's cumulative deficit has now risen to £3.4 million.

9. In early 2007, the Board recognised that it was unable to meet its financial recovery targets and approved a revised Financial Recovery Plan. This aims to achieve annual in-year surpluses of around £0.800 million from 2007/8, until the cumulative deficit is eradicated by the end of the 2010/11 financial year. Already, however, it has become clear that the necessary savings are unlikely to be achieved. Our review of this revised Recovery Plan found that it was based on optimistic assumptions and took little account of the risks associated with individual savings projects. There also appears to have been poor progress in developing robust and timely action plans to deliver savings, although further work has been done in 2007/08. Latest estimates now suggest that, instead of achieving a surplus of £0.8 million, the Board is more likely to record a further deficit of £0.3 million for 2007/8. Further details of our review are provided at paragraphs 50 to 58, and 64 to 68.

10. The Board has been asked by SEHD to provide a further financial plan, showing how it will achieve an in-year revenue balance for 2007/8 and thereafter reduce the cumulative deficit. This will continue to be a significant focus for our audit over the coming year.

Action Point 1

Service sustainability

11. In our audit plan, we commented on the risks relating to the Board's ability to provide appropriate, safe, sustainable services in an environment of changing clinical demands, and we highlighted several factors impacting on the risks. These risks included:

    - management capacity may be insufficient to support measures and initiatives identified as necessary to sustain services;
    - costings for service redesign options may not be reliable, and given the over-riding requirement to make financial savings it may not be possible for optimal clinical decisions to be taken with regard to service redesign; and
    - the Board is unable to comply with working time directives without incurring unacceptable levels of Locum/Agency costs.

12. The Board faces very specific challenges in providing the full range of health care for the population. It is often difficult to recruit appropriately qualified staff, and the geography of the Western Isles make some aspects of delivery particularly problematic. This situation is made more difficult by a challenging financial recovery programme designed to return the Board to financial balance, as only then will it be able to consider any further significant service developments.

13. Some progress has been made during 2006/7, but much remains to be completed. A Clinical strategy scoping document was produced in December 2006, setting out the main options and forming the basis of a range of consultation exercises with staff, the public, and key partners. A series of service redesign groups has also developed proposals for areas such as renal services and paediatrics.

14. A draft Clinical Strategy has now been completed and an implementation plan has been drawn up. This sets out a range of options, and costings will be prepared later in the current year. It is proposed to establish a dedicated Clinical Strategy Team, headed by the Chief Executive, charged with the central task of coordinating a Clinical strategy with the Financial Recovery Plan and the Workforce Plan.

Action Point 2

People management

15. In our audit plan we highlighted the risk that NHS Western Isles does not have sufficient management capacity to effectively progress current national initiatives such as Workforce Planning and Development, and that there may not be sufficient funds available to deliver workforce plans effectively.

16. We highlighted the need for workforce plans which maximise the efficiency and effectiveness of the workforce, and underpin strategic service plans for achieving the requirements of *Delivering for Health.* The *National Workforce Planning Framework 2005* issued by the Scottish Executive provided NHS boards with a framework to aid future workforce planning, and outlined the responsibilities of the boards, looking ahead to the workforce required until 2015.

17. Progress has been made in this area, with a Workforce Plan being approved by the Board in May 2007. This seeks to assess the impact on health services and staffing requirements of factors such as an aging population, the need for a more proactive model of healthcare, and an increasing emphasis on joint working with the creation of a Community Health and Social Care Partnership (CHaSCP).

18. While the Workforce Plan does contain specific proposals on staffing levels, it is clear that it will need to be kept under review as the Board considers other issues. For example, the Board is currently developing a clinical strategy and assessing its impact on service delivery. Similarly, the Board continues to face significant financial pressures.

Equal pay claims

19. There have been significant recent developments in the area of equal pay claims. Article 141 of the Treaty of Rome requires member states to ensure and maintain "the application of the principle that men and women should receive equal pay for equal work". This was expanded on in the Equal Pay Directive which made it clear that all such discrimination should be eliminated from all aspects of remuneration. The National Health Service in Scotland has received a number of claims for backdated pay increases, arising from this requirement. The NHS Central Legal Office, co-ordinates the national NHS approach to this issue.

20. As at 31 March 2007 NHS bodies had received some 10,000 claims and these had been referred for attention to the Central Legal Office. Even taking account of the work which has been undertaken in relation to Agenda for Change, it is still possible that these claims represent a current liability for NHS boards generally and for NHS Western Isles in particular.

21. We have not been able to obtain any estimate of the potential liability for these claims. For 2006/07 we have accepted this position because of its stage of development and as a result of NHS Western Isles including within its annual accounts, a contingent liability note setting out relevant details on the matter. Nevertheless, we would have expected further details to have been available to management beyond those currently received from the Central Legal Office, including a reasonable estimate of the Board's liabilities determined in accordance with financial reporting standards. We would strongly encourage NHS Boards, working with the Scottish Executive Health Department, to resolve this matter in advance of compilation of next year's financial statements.

Action Point 3

Information management

22. In our audit plan we identified that NHS Western Isles had not yet developed an e-Health strategy to enable implementation of the recommendations in the Kerr Report, and highlighted the following areas of concern.

- the lack of formal service continuity or disaster recovery plans could result in serious failure of service delivery;
- the continuing absence of an e-health strategy presents the risk that the NHS Scotland eHealth Strategy may not be delivered in the Western Isles;
- the Board may not be fully aware of all Information Management and Technology risks because such risks are not captured in the risk register; and
- the lack of a formal IT Security policy increases the risk that security incidents and data protection queries are not identified or monitored, and that corrective actions are not implemented.

23. During 2006/7 we undertook a Computer Services Review to assess the risks identified and examine what progress had been made towards alleviating them. We are still awaiting a formal response from the Board on some of the issues identified, but have identified some progress.

24. The Board has established an IT Service Delivery Group, and this group acts as the eHealth Programme Board, steering the local implementation of the national eHealth strategy within NHS Western Isles. The IT Service Delivery Group includes representatives from a wide variety of disciplines within the organisation, facilitating the steering of IT Services responsive to front line service delivery requirements.

25. However, the lack of a local strategy to implement the national objectives contained in *Delivering for Health* and the National eHealth Strategy still leaves the Board at risk that the IT Service Delivery Group has no means to effectively steer and monitor implementation of the stated objectives. Without a clearly defined direction and detailed plans it is difficult to establish the appropriate level of resources required for local implementation of the national objectives.

26. Without formal IT disaster recovery plans, the Board continues to be at risk of service disruption from what otherwise could be minor incidents. In two recent incidents the Board has lost servers, resulting not only in the loss of work and data but also requiring significant effort to restore services. The Board has since taken certain measures to reduce the likelihood of future data loss by improving backup procedures, however the revised practices have not yet been tested.

Action Point 4

Partnership working

27. Effective partnership working is important in allowing NHS Western Isles to sustain a full range of healthcare service, particularly given the small local population and the difficulty in attracting and retaining specialist medical staff.

28. Steps have been taken to establish an improved working relationship between NHS Western Isles and Comhairle Nan Eilean Siar (the Comhairle). Informal monthly meetings have been established during 2007, with the Chairman and Chief Executive discussing areas of mutual interest with their counterparts in the Comhairle.

29. In our audit plan we identified that the Board were working with the Comhairle to develop a Community Health and Social Care Partnership (CHaSCP). Following detailed discussions, this has now been established. Formal approval from Scottish Ministers has been received, and the first meetings of the Joint Services Committee and the CHaSCP Committee, as well as that of the CHaSCP Management Team, were held in early July 2007. A second phase of these shared services, which will see a wide range of Social Care functions delegated to the CHaSCP, is due to be completed by January 2008.

30. The Board has also been working on formalising a resource transfer agreement with the Comhairle. While this was not agreed by the 31st March 2007, the relevant issues have now been resolved and an agreement has been reached.

Performance management

31. Our audit plan identified that while NHS Western Isles has a dedicated member of staff to co-ordinate and develop Performance Management arrangements, there is no formally constituted Committee or sub-Committee with a remit for overseeing all aspects of performance. This underlined the potential risk that Performance Management was not fully incorporated into the planning process and was not operating effectively. These issues are further discussed in the Performance section of this report.

32. We also identified that there were no systems in place to record and report the benefits realised from pay modernisation, and that a failure to implement such a system would mean that the Board was unable to demonstrate the benefits to the Scottish Executive and the local population.

33. Work undertaken during the year and review of Board minutes has identified that little progress has been made towards alleviating these risks. We will continue to monitor the situation during the 2007/8 year and report progress as required.

Governance

34. NHS Boards need to have a sound framework for corporate governance in order to help identify and manage business risks, and provide an effective form of scrutiny to help promote a culture of continuous improvement.

35. Our audit plan identified three main risks relating to corporate governance within NHS Western Isles:

- the need to develop and maintain effective systems of internal control, particularly those relating to budgetary control, which meet the concerns raised by Internal Audit over the last few years;
- the absence of a clinical strategy, setting out a clear plan for the delivery of safe and sustainable health services within the available resources; and
- the need for a fully developed approach to risk management.

36. Some key changes were made in the leadership of NHS Western Isles during 2006/7. A support team was established by the Scottish Executive Health Department, with an interim Chairman and Chief Executive. Under their lead, a number of actions and initiatives were put in place during the year, including a Financial Recovery Plan. Since early 2007, a permanent Chairman and Chief Executive have been appointed and they will be seeking to continue the momentum of change which was established under the support team.

37. While some progress has been made in each of the key areas, highlighted in our audit plan, during 2006/7, none of them has been fully resolved. Internal Audit's Annual Report for 2006/7 concludes that NHS Western Isles '"*has not had an adequate and effective framework of controls in place*" during the year. Their report lists 28 'Priority 1' recommendations, which require urgent attention from management. These relate to control weaknesses in a range of systems, such as budgetary control, consultant contracts, and GP payments. However, we note that Internal Audit have reviewed the 2007/08 budget setting process and have indicated that the process was more robust. Their report also includes concerns about aspects of corporate governance, with minutes of committee meetings not always being provided for Board meetings.

Action Point 5

38. Some progress has been made in developing an approach to risk management, but this is not yet fully established. Divisional risk registers are in place, but a corporate risk register, strategy and action plan are currently being developed. Similarly, while changes in service design have started to affect areas such as renal services and paediatrics, the Board not yet approved an overarching clinical strategy. A draft strategy has now been completed and there are proposals for a Clinical Strategy Team, headed by the Chief Executive, to lead the central task of coordinating the Clinical Strategy with the Financial Recovery Plan and the Workforce Plan.

Longer term planning issues

39. There are some longer term planning issues which we have identified which will have an impact on the Board in future years:

- Modernising Medical Careers; and
- National shared support services.

40. We have been monitoring developments in these areas during the 2006/7 audit. In the following paragraphs, we comment on changes that have taken place.

Modernising Medical Careers

41. Work is ongoing regarding the implementation of Modernising Medical Careers (MMC). MMC is included within the NHS Western Isles workforce plan which is discussed above. In contrast to the national position, where an increase of 10% in the number of consultants is projected over the next 10 years, a small decline is expected in the numbers directly employed by NHS Western Isles. However, this is unlikely to lead to any savings as other Boards will charge for the use of their consultants' time.

Shared Services

42. During the period from December 2004 to January 2007, NHS Scotland has been developing proposals for shared support services across the sector. It had been envisaged that this would take the form of a 'hub and spoke' system which delivered financial and related services for all NHS Scotland bodies from two central hubs with feeder activities at local Board level. A Draft Full Business Case (FBC) had been developed for this model and was made available for consultation at the end of 2006. The response to the FBC from NHS Scotland organisations, whilst supportive of the overall principle of shared services, was characterised by reservations over the risks inherent in the proposed scheme, the impact on staff and the deliverability of savings.

43. The Shared Support Services Project Board met in February 2007 to consider responses received and concluded that it would not proceed with its Draft Full Business Case in its current form. The project has now been re-launched as the Shared Support Services Programme. This involves a two-tier approach which seeks to build confidence in the new ways of working, using common processes and systems, eventually leading to a single services model based on a common finance system. The approaches comprises: a Foundation level of involvement, for all Boards centring around developing common ledger arrangements; a Pathfinder approach which seeks to develop the more advanced elements of the proposed development. Expressions of interest are being sought from Boards for Pathfinder status and a number of workshops have been held to begin the development of potential service solutions.

44. This is a highly significant development for the NHS in Scotland and the process so far has been protracted, with a major recent change in emphasis. It is estimated that a revised business case will not be available until mid- to late-2008. Full system migration is presently estimated at March 2009. There remain significant risks for the service in securing the delivery of the project, particularly in engaging and involving Boards and their staff and in developing systems which deliver clear benefits for the NHS in Scotland. Auditors will continue to monitor the development of these arrangements and the management of related risks.

Financial Statements

Our responsibilities

45. 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 were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements, and
- the regularity of the expenditure and receipts.

46. 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

47. We have given an unqualified opinion on the financial statements of Western Isles Health Board for 2006/7. However, the audit certificate includes an explanatory paragraph, commenting on the Board's financial performance. Its expenditure was outwith the Revenue Resource Limit set by the Scottish Executive Health Department, with an in-year excess against the RRL of £0.88 million, and a cumulative excess of £3.36 million.

Financial position

48. The Board's financial position continues to cause serious concern. It is required to work within the resource limits and cash requirement set by the Scottish Executive Health Department. NHS Western Isles performance against these targets is shown in Table 2 below.

49. At the beginning of the financial year 2006/7, NHS Western Isles had a cumulative deficit of £2.484 million. A Recovery Plan, agreed with SEHD in March 2006, forecast that a balanced budget would be achieved for 2006/7 and that the cumulative deficit would be eliminated by 2008/9.

Table 2 - 2006/2007 Financial Targets Performance

Financial Target	Target	Actual	Variance
	£000	***£000***	***£)00***
Revenue Resource Limit	58,223	61,587	(3,364)
Capital Resource Limit	3,795	2,650	1,145
Cash Requirement	62,018	61,627	391

50. NHS Western Isles' actual outturn for 2006/7 was a deficit of £0.880 million. This does represent some improvement on 2005/6, when an in-year deficit of £1.746 million was recorded, but its cumulative deficit now stands at £3.364 million.

51. The level of deficit for 2006/07 may in part derive from the lack of reliable budgetary information during the year. The severity of this issue later became apparent during 2006/7, when it was found that budgets had been overstated in the ledger system, and in management reports, by £1.631 million during the first part of the year.

52. There is evidence that the Board's underlying financial position is in fact more serious than suggested by the overall deficit. Taking into account other income sources and the results of a corporate savings programme, there is evidence to suggest that the Board has an underlying deficit of £8 million, as illustrated in Table 3 below.

Table 3 - Funding Position 2006/07

	£ Million	£ Million
Recurring income	56	
Recurring expenditure	(64)	
Underlying recurring deficit		**(8)**
Non-recurring income	2	
Non-recurring expenditure	(2)	
Balance of non-recurring	0	
Difference		**(8)**
Other income sources	3	
Non-recurring SEHD income/year-end support	0	
Corporate savings programme	2	
Total other income		5
Financial deficit		**(3)**

53. A revised Recovery Plan was approved by the Board in March 2007. This aims to achieve an annual surplus, from 2007/08 onwards, of around £800K. This would mean that it would eliminate its cumulative deficit by the end of 2010/11.

54. Already, however, this new Recovery Plan does not look to be achievable. Our review, covered in more detail at paragraphs 64 to 68, identified a number of concerns including:

- a programme of cost saving schemes has been compiled, with each being identified as high, medium, or low risk. However, no allowance is made for these risk factors in the total projected savings. This has been regularly reported to the Board; and
- in order to meet the planned surplus of £800K for 2007/08, savings of £286K have still to be identified...

55. Latest estimates now suggest that, instead of achieving a surplus of £0.8 million, the Board is more likely to record a further deficit of £0.3 million for 2007/8. It has been asked to provide a further financial plan to SEHD, setting out proposals to achieve an in-year revenue balance and therafter reduce the cumulative deficit.

56. The Board continues to be 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 2010/11.

Action Point 1

Issues arising from the audit

57. Significant improvements were made by finance staff in the working papers provided to support the draft accounts. A number of presentational and accounting issues were identified during the audit but these were resolved in discussion with senior financial officials. We reported the following main issues to the Audit Committee on 21 June 2007.

- **Capitalisation of Staff Costs:** Testing of Fixed Assets identified that the Board were capitalising £300k of staff costs relating to finance and IT staff in the draft accounts. There was insufficient evidence to show that all of these costs were directly related to specific capital projects, as required in the Capital Accounting Manual.

  Resolution: The 2006/07 accounts have been amended, with £80k of the proposed costs being treated as capital expenditure, and the remaining amounts being charged to revenue in-year.

- **Family Health Services:** Testing of Family Health Services and discussion with finance staff identified that the Board were over-accruing on Pharmaceutical Services by approximately £370k.

  Resolution: The 2006/07 accounts have been amended, improving the financial position, and the Pharmaceutical Services accrual is now estimated correctly.

- **Agenda for change accrual**: We draw specific attention to the accrual for costs of the Agenda for Change programme for the period October 2004 to March 2007. Provision is necessary to reflect the costs attributable to the thirty month period ended 31 March 2007, but as yet not fully determined by the Board. A national methodology was developed to provide a basis for calculating these costs. Within this framework, the figure included within Western Isles Health Board's financial statements (£948k) has largely been arrived at by estimation using the national model. We have asked the Board for formal assurances, in a letter of representation, that the provision, in their judgement, represents a prudent estimate of anticipated costs.

  Resolution: Appropriate disclosure in Letter of Representation.

- **Outstanding balances with Comhairle nan Eilean Siar:** The Health Board is currently in discussions with Comhairle nan Eilean Siar over resource transfer payments between the organisations, and consequently payments to and from Comhairle nan Eilean Siar had been frozen. There are consequently large Creditor and Debtor balances within the accounts relating to outstanding payments between the organisations.

  Resolution: We understand that a formal agreement on resource transfer payments has now been reached and that financial transactions between the two organisations have been resolved.

Statement on internal control

58. The Statement on Internal Control provided by the Accountable Officer reflected the main findings from both external and internal audit work.

59. It is important to note that the review by the Board's internal auditors concluded that NHS Western Isles "*has not had an adequate and effective framework of controls in place*" during the year to 31st March 2007. Their report lists 28 'Priority 1' recommendations, which require urgent attention from management. These relate to control weaknesses in a range of systems, such as corporate governance arrangements, budgetary control, consultant contracts, and GP payments. The Board has significantly improved its financial and accounting controls over the past year, but clearly needs to continue to focus on these key areas of control and ensure that priority areas are fully addressed.

60. These issues have been acknowledged and disclosed in the Statement on internal Control.

Performance Management

Introduction

61. 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 focused primarily on performance management and partnership working.

Performance management

62. The Scottish Executive Health Department introduced new delivery and performance arrangements for NHSScotland during 2005/06. One of the key building blocks of these new arrangements is the introduction of local delivery plans (LDP). The LDP focuses on a core set of objectives, targets and measures that reflect Ministers' key priorities for the Health portfolio.

63. A key component of the SEHD's new performance arrangements was the introduction of statutory HEAT (Health Improvement, Efficiency, Access to Services and Treatment) targets that all health boards are required to measure and report their performance against. NHS Western Isles is reporting on its HEAT target performance, however, it has not yet agreed its corporate objectives, nor has it yet established a performance management framework to provide assurances to the Board on the delivery of objectives. We have referred elsewhere in this report that there were no systems in place to record and report the benefits realised from pay modernisation. These issues were underlined in the recent report by NHS QIS who also indicated that the Board had not demonstrated that its approach to performance management was being implemented or monitored across the whole Board area.

Action Point 6

64. As part of the 2007/08 audit we will be reviewing the progress that NHS Western Isles have made in strengthening their arrangements for securing Best Value since our baseline review work in 2005/06. Over the next year we will also be developing and refining our approach to the audit of public bodies' arrangements to secure economy, efficiency and effectiveness in the use of resources, as this is one of our key objectives as auditors, set out within the new Code of Audit Practice approved by the Auditor General. This will inform our ongoing work to develop an approach to the audit of Best Value across the Scottish public sector. We intend to consult with both clients and stakeholders at key stages of these initiatives.

Community Health and Social Care Partnership

65. The National Health Service Reform (Scotland) Act 2004 required every Health Board to establish Community Health Partnerships (CHPs). These 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.

66. NHS Western Isles were unable to comply with the original target dates for establishing a CHP during 2005, as it was unable to reach a formal agreement with Comhairle Nan Eilean Siar (the Comhairle). However, following much negotiation, agreement has now been reached and a Community Health and Social Care Partnership (CHaSCP) has recently been put in place.

67. A Scheme of Establishment was approved by Scottish Ministers in April 2007, with the CHaSCP to act as a "health improvement" organisation with delegated resources, staff and services, aimed at making a difference to the health of the population while reducing inequalities. The CHaSCP, unlike the more conventional CHPs developed in most other NHS Board areas, also encompasses Social Care Services.

68. Delegated authority for the provision of a full range of community health services has now been approved. The first meetings of the Joint Services Committee and the CHaSCP Committee, as well as that of the CHaSCP Management Team, were held in early July 2007. The second phase of these shared services, due to be completed by the end of January 2008, will see a wide range of Social Care functions delegated to the CHaSCP.

69. Once the various organisational arrangements are completed, a key challenge for the new CHaSCP will be developing a sound approach to performance management and being able to demonstrate that there have been improvements in the services being provided to patients.

Action Point 7

National studies

70. In 2006/7, Audit Scotland published three national studies:

- Informed to Care: Managing IT to deliver information in the NHS in Scotland (November 2006);
- Catering for Patients: A follow-up report (November 2006); and
- Planning ward nursing – legacy or design? (January 2007).

In December 2006 an overview report was published: Overview of the financial performance of the NHS in Scotland, and two publications to assist NHS Boards and their members were published:

- Health and community care bulletin (May 2006), a summary of the key findings from the 2005/06 national studies; and
- How the NHS works: Governance in Community Health Partnerships; a self-assessment tool (May 2006).

Informed to Care: managing IT to deliver information in the NHS in Scotland

71. This national study sought to provide a high-level overview of the national picture at a time when new structures were being put in place across the NHS (unified boards and community health partnerships), new staff contracts are being implemented, there is increasing joint working with other parties, such a local authorities, and there is increasing opportunity for innovation in service delivery and data management with developments in Information Management and Technology (IM&T).

72. The report concluded that 'Delivering for Health', published by the SEHD, signalled a more corporate approach for IM&T, with a shift away from local autonomy for strategic planning and associated decision-making, and that the SEHD recognised the need to review governance and management arrangements for IM&T throughout the NHS and was taking steps to improve them. Nevertheless there is still the need to develop an overarching information framework or strategy to inform the development of integrated IT solutions for the NHS in Scotland, taking account of all information needs and recent policy initiatives.

73. The report highlighted that the NHS does not know how much it spends on IM&T overall, but recognises that it falls short of the Wanless target of 3-4% of total health spend and should it seek to do so the SEHD will have to consider the future funding of IM&T developments. It was felt that greater stakeholder engagement is required to ensure all information needs are effectively addressed, and, finally, best practice in identifying, monitoring and reporting expected benefits from IM&T projects has to be adopted consistently across the service.

Catering for patients – a follow up report

74. This follow-up study assessed progress in implementing recommendations made in a baseline report, published November 2003, in the areas of nutrition, quality, patient satisfaction, costs and management of the catering service.

75. The key findings were that catering services are offering an improved level of choice, there are improvements in collating the views of patients, there are improvements in associated management information systems and Boards have reduced the level of wastage.

76. However more work has yet to be done in the areas of: nutritional care of patients, conducting patient satisfaction surveys, and closer management of the level of subsidy for non-patient catering services.

Planning ward nursing – legacy or design? – a follow up report

77. This follow-up study assessed progress made in implementing recommendations made in a baseline report, published 2002, in the areas of: workload and workforce planning, recruitment and retention, the use of bank and agency nurses, information on the quality of nursing care, and information to inform workforce planning and management of resources at ward level.

78. The key finding was that the SEHD has made progress in addressing the recommendations, thus laying the foundations for better ward nursing workload and workforce planning in the future. A wide range of recruitment and retention programmes have been implemented, and dependency on agency nurses (i.e. external to the NHS) has reduced, whilst use of bank nurses (i.e. internal to the NHS) has increased.

79. Areas for further improvement were identified in respect of: management information on workload and workforce; planning establishment to take account of annual leave, average sickness cover, study time, protected time for senior nursing staff, etc; closer management on the use of bank nurses and the development of quality indicators.

Governance

Introduction

80. This section sets out our main findings arising from our review of NHS Western Isles' governance arrangements as they relate to:

- clinical governance; and
- corporate governance.

Clinical governance

81. Clinical governance is a key activity of any health board. A Corporate Governance Committee is well established, but a recent report from NHS Quality Improvement Scotland (QIS) has identified some significant failings. These include a lack of clear strategic priorities, a lack of performance monitoring, and no clear links between corporate objectives and risk management priorities. A Clinical governance strategy has been drafted and is currently out for consultation. The Board have also drawn up an action plan to address the issues raised by QIS who are to carry out a follow-up review during 2007/8.

Action Point 8

Corporate governance

82. 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 the Board's financial position. We have made comment on the financial position at paragraphs 50 to 58, and 64 to 68.

83. We carried out a review of the work of Internal Audit, which is provided by Deloitte and Touche, and were able to conclude that the service operates fully in accordance with the NHS Internal Audit Standards. As a result, we relied on the work of Internal Audit to give us assurance in relation to aspects of our governance responsibilities, particularly those relating to systems of internal control, such as:

- Budgetary Control;
- Payroll; and
- Fixed Assets.

84. During 2006/7, the Board has reviewed and revised a wide range of key arrangements, issuing updated versions of its Standing Orders, Standing Financial Instructions, Scheme of Delegation, Code of Conduct, and Appointment Procedures.

85. Despite these improvements, there are still serious concerns about the overall system of internal control. Internal Audit's Annual Report for 2006/7 concludes that NHS Western Isles '"*has not had an adequate and effective framework of controls in place*" during the year. Their report lists 28 'Priority 1' recommendations, which require urgent attention from management. These relate to control weaknesses in a range of systems, such as budgetary control, consultant contracts, and GP payments. These issues are discussed with the Audit Committee on an ongoing basis.

Action Point 5

86. Some progress has been made in developing risk management. Divisional risk registers are in place, and a corporate risk register, strategy, and action plan are currently under development. But arrangements are not consistent across the organisation or effectively reviewed by management or the Board. It is recognised that these will now need to take into account new national guidelines provided by NHS Quality Improvement Scotland.

87. Perhaps more fundamentally, the Board has yet to show that it is able to consistently provide the strong leadership and make the difficult decisions needed to achieve its financial recovery. It has made some progress in improving the quality of reports provided for members, but there is still a risk that its discussions could tend to focus on matters of operational detail. However, under its new Chairmanship, there is an opportunity to refocus the activities of the Board and provide NHS Western Isles with the strong leadership required.

Financial management

88. During the year we carried out a review of the Board's financial position and financial management arrangements. This review, which was carried out across all NHS bodies audited directly by Audit Scotland, considered whether: financial planning is integrated with the overall strategic aims of the Board, the budget setting processes are robust; and there is adequate scrutiny of financial plans and budget monitoring undertaken across the Board.

89. To address those objectives we conducted interviews and reviewed documentation in respect of: planning and budgets, budget setting and budget monitoring, reporting and scrutiny, and, finally, forward planning.

90. Our overall conclusion was that financial management within NHS Western Isles presents a real and on-going challenge to the Board. The pressure to meet the ever increasing challenge of delivering high quality services within budget, in a demand-led environment is one that the Board is striving to achieve. The continued under-achievement against financial recovery targets, however, cannot be sustained over the medium term.

91. In 2006/7 the Board returned a deficit of £0.88 million against its RRL, reducing their in-year overspend against a prior year deficit of £1.7 million. The Board must ensure realistic and achievable financial recovery targets are set, with specific efficiency saving schemes being identified. Close monitoring of financial performance against budget is vital in 2007/8 if the Board are to achieve their highly demanding financial recovery targets.

92. Our main conclusions are:

- the current Recovery Plan, approved by the Board in early 2007 is unrealistic and the planned savings are unlikely to be achieved. A surplus of £0.8 million was planned for 2007/8; latest estimates suggest that the Board is heading towards a deficit of £0.3 million; and
- there are concerns that a general lack of financial management expertise and financial focus at board level, and weaknesses in the monitoring reports provided to members, may result in an insufficient level of scrutiny and monitoring of progress towards financial recovery.

National Fraud Initiative

93. The National Fraud Initiative (NFI) was extended to cover the National Health Service in Scotland by HDL (2006) 44. The NFI is a biennial data matching exercise whereby computerised techniques are used to compare and match information about individuals held by various public bodies and on various financial systems to identify potential fraud, error or anomalies for investigation.

94. Under the NFI, payroll data is downloaded and provided to the Audit Commission's NFI appointed auditor (who process the data for Audit Scotland) who matches this information against other data sets such as housing benefit applicants, local authority pensioners, students, deceased persons, etc. The results are passed back to Boards for further investigation and analysis.

95. Auditors are required to monitor the Board's progress in implementing the National Fraud Initiative and we undertook this as part of our audit. The results of our review were that:

- NHS Western Isles has reviewed the information received from the NFI; and
- no potential frauds were identified.

Looking Forward

96. NHS Western Isles faces significant challenges in 2007/8 which include:

- achieving a financial recovery which at least avoids incurring a further in-year deficit for 2007/8 and starts to reduce the cumulative deficit of £3.4 million;
- developing a clinical service strategy to help ensure that safe and sustainable health services are delivered within available resources for the people of the Western Isles;
- addressing the concerns raised by NHS Quality Improvement Scotland particularly on the lack of progress in developing, implementing, and embedding clinical governance structures and practices, and performance management;
- ensuring that the new CHaSCP is fully established and can demonstrate that it has lead to measurable improvements in patient services;
- ensuring that the high number of priority audit recommendations are properly addressed;
- continuing to develop and enhance its corporate governance arrangements to help ensure that the Board provides strong leadership, is able to effectively monitor and scrutinise performance, and is able to make the necessary difficult decisions to resolve any areas of under-performance; and
- a number of actions and initiatives were put in place during 2006/07 by the support team under the Interim Chief Executive. It is of the highest importance that the Board maintains the momentum of change which was set in progress by those initiatives.

97. The Board recognises these challenges and is taking steps through its planning processes to address them but the severity of these challenges must be recognised and the actions to be taken by the Board need to be appropriately focused and robustly carried through. We will continue to monitor the progress that the Board is making on these key issues.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	The Board's cumulative deficit has risen to £3.4 million and there are doubts that the current Recovery Plan will deliver the necessary savings. There is a significant risk that a further deficit will be incurred in 2007/8 and that the cumulative deficit will not be eliminated by 2010/11.	The CEO is leading the Executive Team to ensure robust action plans are developed and implemented. The CEO will take difficult decisions where necessary to ensure that the target is met.	Chief Executive	Ongoing
2	In the absence of a clinical service strategy, there is risk that the health services being provided are unsafe or unsustainable within the available resources.	This risk is acknowledged and is being addressed via Clinical Governance processes. The Clinical Governance Committee reports to the Board regularly.	Chief Executive	Ongoing
3	The cost of equal pay claims could be higher than anticipated which would increase the risk to the achievement of the financial plan.	NHSWI does not anticipate a significant level of claims arising due to its history of paying all staff on an equal basis. The Board will work with the Scottish Government to establish the likely value of claims during 2007/08.	Chief Executive	March 2008
4	The continuing absence of ICT disaster recovery plans presents a risk that, in the event of an incident, services will not be restored in a timely fashion.	NHSWI will be developing and implementing disaster recovery plans over the next 6 months. In parallel we are actively optimising and simplifying our IT infrastructure and working towards improving data back-up processes.	Director of Finance	January 2008
5	There is a risk that the high number of 'Priority 1' recommendations from Internal Audit, identifying significant gaps in internal controls, will not be quickly addressed.	Progress is reported to each Risk Monitoring and Audit Committee meeting and the CEO will hold responsible officers to account for any lack of progress.	Chief Executive	October 2007

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
6	The Board has yet to develop satisfactory performance management arrangements. There is a risk that members and management are not fully apprised of performance issues and that key decisions are not appropriately informed.	A progress report on all performance targets identified in the Local Delivery Plan is now presented to the Board on a regular basis. At present, responsibility is spread across three Executive Directors. It is intended that responsibility will be given to a single Executive Director to ensure that all performance management issues are co-ordinated and reported together.	Chief Executive	October 2007
7	There is a risk that the new CHaSCP will not be able to demonstrate improvements in the services provided to patients.	The CHaSCP is overseen by the Joint Services Committee which is chaired by a NHSWI Non Executive Director. Regular reports will be made to WI Health Board.	Chief Executive	Ongoing
8	There has been a lack of progress in developing, implementing, and embedding clinical governance structures and practices. There is a risk to the delivery of high quality health services.	The Board has a formal action plan for implementing the recommendations of the recent QIS report on risk management and clinical governance. The Executive Team will be closely monitoring progress.	Chief Executive	For review December 2007