

July 2008

Annual Report to Members

NHS Shetland



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1. Introduction

To the members of NHS Shetland Board and the Auditor General for Scotland.

- 1.01 We have completed our audit of NHS Shetland for the year ended 31 March 2008.
- 1.02 The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2007/08 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.
- 1.03 Our overall responsibility as external auditor of NHS Shetland is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in March 2007.
- 1.04 In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources.
- 1.05 It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving not only the “appointed auditor”, but also the Auditor General for Scotland and other auditors such as Audit Scotland’s Health Public Reporting Group.
- 1.06 Our audit has been planned and conducted to take account of these wider perspectives.
- 1.07 Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260: “*Communication of audit matters to those charged with governance*”, we are required to communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity.
- 1.08 This Annual Report to Members, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.
- 1.09 We would like to thank all NHS Shetland managers and staff for their assistance throughout the audit process.

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Kintyre House
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GLASGOW
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10 July 2008

2. Executive Commentary

The Audit Process and Accounting Issues

- 2.01 The financial statements and supporting schedules were not presented to us for audit within the agreed timetable, with a draft of the financial statements not being available for review until more than one week after the planned date and commencement of our audit. This first draft was itself incomplete and several notes required management changes during the course of our audit work.
- 2.02 The quality of working papers provided and internal review process undertaken by management were not yet fully completed at the time of the audit, largely due to the changing draft accounts. Contributory factors to this position relate to the implementation of the new financial system in February 2008 and higher than anticipated staff turnover within the Finance Department.
- 2.03 Despite these pressures, we believe an effective working relationship has been established with your officers and we hope to enable you to develop a more effective accounts closure and preparation process for 2008/09.
- 2.04 We are required to report any unadjusted errors to those charged with governance. Two errors were identified during the course of the audit which remain unadjusted in the final accounts. These relate to a 'Drug Accrual' of £0.196 million which could not be supported by appropriate evidence and Family Health Service (FHS) Income and Expenditure which could not be reconciled to the ledger or to information provided by NHS National Services Scotland. This FHS issue could have resulted in the surplus being overstated by up to £0.135 million.

Our Audit Opinion

- 2.05 Our audit opinion concerns both the true and fair statement of NHS Shetland's ("the Board's") financial results for the year ended 31 March 2008 (2007/08) and the regularity of its income and expenditure in the year.
- 2.06 We are pleased to report that our opinion on the true and fair view on the financial statements is unqualified.
- 2.07 Our regularity opinion on income and expenditure is also unqualified.
- 2.08 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is unqualified. Our audit opinion does not extend to any other part of the Directors' Report.

Governance Arrangements

- 2.09 A summary of the work we have performed in the year in relation to the Board's Governance Arrangements was set out in our 2007/08 Interim Management Letter. The Board has in place sound arrangements developed over a number of years.

Business Risk Areas

- 2.10 The Board faces a number of particular business challenges over the next few years relating to service sustainability and financial management.

- 2.11 NHS Shetland has in place a service redesign strategy entitled “2020 Vision of Shetland’s Healthcare”, which contains eight key themes, as set out below:
- National Direction
 - Shetland Public
 - Safety and Quality
 - Workforce
 - Transport
 - Facilities
 - Medical Technologies
 - Information and Communication Technologies
- 2.12 The Board also has in place a Hospital Capital Plan, which has a main aim to relocate Montfield inpatient services onto the Gilbert Bain Site. This would allow all inpatient services to be provided from one location.
- 2.13 In relation to financial management, the Board has in place a range of savings initiatives to allow it to meet the break even target for the next three years. In 2008/09, where there is a gap of £0.872 million, these include a reduction in prescribing costs, primarily through the use of additional generic drugs, and realising the full year impact of the closure of the Rehabilitation Ward. A number of smaller measures are also in place.

Financial Performance and Forecast

- 2.14 The Board achieved a £0.98 million surplus for the year, compared to the predicted break-even position reported in the financial plan at the beginning of the year. This surplus included £0.37 million of funding which was carried forward from the 2006/07 year end; therefore there was a £0.61 million saving against the in year Revenue Resource Limit.
- 2.15 The Board is projecting to break even in 2008/09; this is dependent on sound management of recurring and non-recurring income and expenditure and the achievement of a savings programme of £0.872 million.

Systems of Internal Control

- 2.16 The Code of Audit Practice requires us to review and report on the Board’s Statement of Internal Control. Based on our normal audit procedures, we do not disagree with the disclosures contained within the Statement of Internal Control.
- 2.17 A number of control matters requiring corrective action have been reported previously to the Board’s Audit Committee. The more significant of these relate to:
- The need to introduce a fixed asset module to the financial ledger to replace the existing spreadsheet system.
 - The continued reliance by the Board on the abatement of the Revenue Resource Transfer from Shetlands Island Council in order to achieve a break even position.

3. The Audit Process, our Audit Opinion and Accounting Issues

Accounts Preparation and Audit Process

- 3.01 The financial statements and supporting schedules were not presented to us for audit within the agreed timetable, with a set of draft financial statements not being available for review until more than one week after the planned date and commencement of our audit. This first draft was itself incomplete and several notes required management changes during the course of our audit work.
- 3.02 In addition, the quality of working papers provided and internal review process undertaken by management were not fully complete at the time of the audit, largely due to the changing sets of draft accounts. Contributory factors to this position relate to the implementation of the new financial system in February 2008 and higher than anticipated staff turnover within the Finance Department.
- 3.03 Despite these pressures, we believe an effective working relationship has been established with your officers and we intend to work closely with management next year to enable you to develop a more effective accounts closure and preparation process for 2008/09.

Action Point 1

Preparation and Approval of Financial Statements

- 3.04 The Financial Statements were prepared in accordance with the accounting requirements contained in the NHS Accounts Manual for the Annual Report and Accounts of Unified NHS Boards, and supplementary guidance, as issued by the Scottish Government Health Directorates (SGHD) and approved by the Scottish Ministers.
- 3.05 The Financial Statements were submitted to the Board's Audit Committee on the 26 June 2008 and approved and adopted at the Board meeting on that date.

Our Audit Opinion

- 3.04 Our audit opinion concerns both the true and fair statement of NHS Shetland's ("the Board's") financial results for the year ended 31 March 2008 (2007/08) and the regularity of its income and expenditure in the year.
- 3.05 We are pleased to report that our opinion is unqualified on both counts.
- 3.06 We also provide a view as to whether those parts of the Remuneration Report subject to audit have been prepared properly. Our opinion on the Remuneration Report is unqualified. Our audit opinion does not extend to any other part of the Directors' Report.

Key Financial Targets

3.07 The Board achieved its key financial targets for the year, as follows:

Financial Targets	Achievement
Revenue Resource Limit ("RRL")	The Board spent £41.208 million against its RRL of £42.184 million, resulting in a surplus of £0.976 million.
Capital Resource Limit ("CRL")	Total capital spend was £3.457 million against a CRL of £3.615 million, resulting in an under spend of £0.158m.
Cash Requirement Target	The Board spend during 2007/08 was £43.816 million; remaining within the cash requirement target of £43.816 million.

Accounting Issues

3.08 We noted several accounting issues during the course of our audit of the financial statements and the following are brought to your attention.

3.09 The accruals line within the total creditors figure in the accounts (note 16) contains a balance of £0.196 million for a drug accrual. We were not provided with sufficient and appropriate evidence to support this balance and management could not confirm the reason for its existence in the accounts. As this accrual requires further investigation by management for it to be fully understood, management decided not to adjust it in the 2007/08 accounts (see inclusion in table at 3.16 below). Additional work will be required by management during the current year to ensure that any remaining drug accrual to be included in the 2008/09 accounts can be fully supported by appropriate evidence.

Action Point 2

3.10 Due to a review of the fixed asset register a number of amendments have been made to the balances contained within it. To account for these adjustments Management has restated the opening balances within the accounts. The net impact of these adjustments is nil; however this has resulted in a £7,000 movement between reserves.

3.11 Management has been unable to reconcile the Family Health Services income and expenditure streams to the general ledger at the year end and have therefore been unable to provide explanations for the differences between the values contained in the ledger, and thus the accounts, and those supplied by NHS National Services Scotland. As a result, the surplus may be overstated by up to £0.135 million. The introduction of the new financial system in February 2008 complicated this reconciliation process. Management believe the reconciliations will be completed by July 2008 with any necessary correcting entries to be posted in 2008/09. No adjustment has been posted in the 2007/08 accounts (see inclusion in table at 3.16 below). It is essential that management reinstate the timely month end reconciliations which were in place before the introduction of the new financial system, and that all income and expenditure figures are fully reconciled.

Action Point 3

3.12 A provision has been included within the accounts in relation to outstanding agenda for change payments. These payments are outstanding because the exercise required to calculate their exact value has not yet been initiated by the Board; thus payments cannot yet be made to the relevant employees. The methodology applied to create the provision of £0.034 million is basic and lacks detailed back-up due to the lack of information available to the finance department. As a result of this we are unable to conclude if the provision is reasonably based. Due to the lack of information available, we are unable to calculate a more accurate amount; therefore no adjustments have been proposed in relation to this issue.

Misstatements and Significant Audit Adjustments

- 3.13 Misstatements represent audit findings for which we do not agree with the amount, classification, presentation or disclosure of items in the financial statements.
- 3.14 In conducting our audit procedures, we may identify misstatements that require adjustments to the recorded amounts. These audit adjustments are discussed with management who, in consultation with us, determine if an adjustment should be processed. Our expectation is that all non trivial misstatements are adjusted.
- 3.15 As a result of our work, we proposed a number of audit adjustments and the majority of these have been processed by management in the finalised version of the 2007/08 financial statements.
- 3.16 However, a number of other misstatements remain unadjusted, as follows:

Description	Proposed Adjustment (£'m)
Drug Accrual (see paragraph 3.09 above)	Increase surplus 0.196
FHS Income and expenditure (see paragraph 3.11 above)	Decrease surplus (0.135)

- 3.17 We would normally expect management to process adjustments of this nature. However, we do not believe that the failure to process these adjustments materially impacts upon the true and fair view of the financial statements.

4. Governance and Business Risk Areas

Introduction

4.01 We comment on the following areas throughout this section of the report:

- Overall Governance
- Financial management
- Service sustainability
- People management
- Performance management
- Partnership working
- Information management

4.02 We have reported in greater detail on a number of these areas in our Interim Management Letter for 2007/08 submitted to the Audit Committee on 20 March 2008.

Overall Governance Arrangements

4.03 Through good governance, NHS boards are able to improve services for patients and the working lives of those staff that care for them.

4.04 NHS Shetland has established Board and Committee structures which have been developed over a number of years, monitoring financial and clinical performance through the following Committees:

- Audit;
- Staff Governance;
- Remuneration;
- Clinical Governance; and
- Public/patient Involvement Steering Group.

4.05 The organisation has also formed a Community Health Partnership (CHP) with the local Council. The CHP has a separate governance committee which reports to the Board.

4.06 As included in the Interim Management Letter, NHS Shetland has put in place a process of reviewing and reassessing corporate risks through the Controls Assurance Group (CAG). This group reviews all new and existing high level risks and agrees the actions required to manage the risk.

4.07 The CAG is charged with producing, reviewing and updating the Board's Risk Management Strategy, ensuring that this is translated into an annual work-plan and ensuring that risk management is embedded throughout the organisation. The group also oversees the maintenance of the corporate risk register and assigns personal responsibility for risks at senior management team level.

- 4.08 All risks are now assigned to a Committee of the Board and risk is a standing agenda item for every Committee.
- 4.09 A review entitled "Clinical Governance & Risk Management: achieving safe, effective, patient focused care and services" and was performed by NHS QIS in May 2007. NHS Shetland received a grading of 7 out of 10. The review identified areas for improvement and an action plan has been put in place.
- 4.10 A Staff Governance Committee is in place to oversee the Staff Governance Action Plan. No issues were identified in this area during our interim review.

Financial Management

- 4.11 The Board achieved a surplus of **£0.976 million** in the financial year to 31 March 2008, meeting all of its financial targets relating to Revenue Resource Limit, Capital Resource Limit and Cash Requirement.
- 4.12 In the forthcoming financial year, the Board anticipates that it will need to make £0.872 million in savings. This will be achieved initially through £0.682 million of recurring savings, supported by £0.190 million of non-recurring savings. Over the coming three years the Board is expecting to have to achieve total recurring savings of approximately £2.637 million as a result of various factors including a reduced uplift in funding and adjustments made to the NRAC funding formula.
- 4.13 It was noted that although a surplus of £0.976 million was achieved in 2007/08, this relied on Shetland Council abating the £1.2 million revenue transfer which was due from the Board to the Council. Had this payment been made, the Board would have ended with a loss of £0.224 million. This abatement will be required in future years to maintain the break even position and is not 'guaranteed' by the Council. The reliance on this abatement was raised as an issue in the Interim Management Letter and remains as a significant underlying risk for the Board.
- 4.14 Each year the budget setting process is preceded by the development of the Local Delivery Plan ("LDP"). The LDP process considers the services proposed for the next year and the associated costs, resulting in the preparation of the financial budget. The LDP for 2008/09 was approved by the Scottish Government Health Directorates on 9 June 2008, having been approved by the Board on 25 March 2008.
- 4.15 A number of monthly financial reports are produced to scrutinise the financial position. Detailed reports are sent to budget holders, while the Board receive high level reports of the financial position for the whole organisation. Budgetary control is delegated to budget holders who take responsibility for the operational aspect of budgetary control.

Service Sustainability

- 4.16 Following the announcement of the financial settlement for the NHS, unfunded pay increases and NRAC formula changes, NHS Shetland has estimated that it will be required to make savings of £2.637 million over the next 3 years in order to meet the break-even target. These savings are part of the "2020 Vision of Shetland's Healthcare" strategy which has been put in place to improve services and to ensure sustainability. The key themes of this strategy have been included at 2.09 above and our Interim Management Letter issued earlier in the year commented further on these matters.
- 4.17 Budget setting for the 2008/09 financial year has identified an initial gap of £0.872 million. Measures identified to close this gap include a number of service sustainability actions which include switching to generic statins to reduce drug costs; additional reductions in prescribing costs; delayed discharge responsibility being passed to Local Councils to reduce expected costs in this area; and, the benefit of the full year effect of the Rehabilitation Ward closure. These measures could realise savings of around £0.358 million, but further measures need to be identified to meet the remaining £0.514 million. The Board is aware that strict management discipline is needed to achieve the required levels of savings over the next three years.

Action Point 4

- 4.18 All Boards are required by the Scottish Government to find efficiency savings of 2% per year. NHS Shetland currently spends 10% of its revenue resources with NHS Grampian and therefore through the negotiation of the Service Level Agreement, NHS Shetland has passed the risk of finding 10% of its total efficiency savings to NHS Grampian. This amounts to £0.109 million of the required savings for 2008/09 taking the remaining amount to be met through other local measures down to £0.405 million (£0.514 million less £0.109 million).

People Management

- 4.19 NHS Shetland continues to progress with the Agenda for Change process and has accrued £0.138 million and provided £0.034 million (total of £0.748 million accrued/provided in 2006/07) to fund backdated pay awards for bank staff, former employees who left before assimilation and cases which are subject to review. The significant decrease in the year of £0.576 million has been caused by payments being made to current employees as the process nears completion.
- 4.20 Fifty requests for reviews have been lodged with NHS Shetland. Management do not anticipate that any additional requests will be received due to the relatively small number of staff and the stage of the Agenda for Change process within NHS Shetland.
- 4.21 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 (CLO) co-ordinates the NHS Scotland approach to this issue.
- 4.22 NHS Shetland has received no claims under the Equal Pay Act 1970; however the standard wording agreed between NHS Scotland and Audit Scotland has been included in the Contingent Liability note to the accounts, as claims may still be lodged with the Board
- 4.23 In addition to the work performed at our final audit at the request of Audit Scotland, we also conducted a review of the compliance with the NHS Scotland pre-employment checks guidance. This work was initiated in response to the security incidents in London and Glasgow in summer 2007 which allegedly involved overseas staff working in the NHS, and is an extension of the work performed by Audit Scotland in November 2007 as part of their national report “*Overseas staff in the NHS – pre-employment checks*”. The results of this review will be reported separately as management are still seeking elements of evidence for our review.

Performance Management

- 4.24 Performance management is carried out through monitoring against the Local Delivery Plan (LDP) which is agreed on an annual basis by the Board and is based upon the nationally prescribed HEAT targets. The LDP includes trajectories to indicate how national targets will be reached by March 2010. The LDP to cover the three years from 2008/09 to 2010/11 was approved by the Scottish Government on 9th June 2008.
- 4.25 During 2007/08 the Board met its waiting time targets with no patient waiting more than 18 weeks for an inpatient or outpatient appointment. Meeting the revised target of no more than 12 weeks by April 2009 is a challenge which the Board is working towards, along with NHS Grampian which is an essential partner in ensuring that the target is met for all patients of NHS Shetland.
- 4.26 In 2007/08, there were two breaches of the requirement for all cancer cases to be treated within 62 days of referral. This is an area where the Board is reliant on NHS Grampian for certain element of the treatment and it is working closely with NHS Grampian to understand the reasons for the breaches and prevent re-occurrence.
- 4.27 The target of zero delayed discharges of longer than six weeks has been met, but will remain an area which the Board must focus on in order to continue to meet this target.

- 4.28 A national requirement to reduce sickness absence within the NHS has resulted in increased visibility of absence levels. NHS Shetland consider sickness absence regularly at Senior Management Meetings and the Local Partnership Forum in order to address the performance of the organisation (5.45% annual average sickness absence as at March 2008 against a target of 4%). The Director of Human Resources will also undertake an audit and compliance role over the year with spot checks and specific targeted objectives and deliverables put in place.

Partnership Working

- 4.29 In our 2007/08 Interim Management Letter we reported on the progress made by NHS Shetland in establishing appropriate structures and processes to help deliver its partnership working.
- 4.30 NHS Shetland's geographic boundaries coincide with those of Shetland Island Council and there is a history of the two organisations working closely together, most recently through initiatives such as the Joint Future agenda and the Community Health Partnership (CHP).

Information Management

- 4.31 NHS Shetland has in place a local eHealth strategy which was approved in 2006. This strategy reflected the eHealth commitments of 'Delivering for Health' and local commitments to support improvements in operational systems and infrastructure in preparation for local delivery of the national eHealth strategy.
- 4.32 In February 2008 a new financial ledger system was introduced and in April we performed an additional review into its implementation. Although training has been provided to key system users there is still a significant amount of improvement which could be made around the utilisation of the new system. NHS Shetland is now planning to review the processes supporting the new system to refine and change accordingly. This will help strengthen the overall control environment.

Action Point 5

5. Financial Targets and Performance 2007/08

Revenue Out-turn

- 5.01 The actual out-turn for the year was a surplus of £0.98 million. It should be noted that the Board carried forward funding from 2006/07 of £0.37 million, and so expenditure incurred during the year was £0.61 million below the in year allocation.
- 5.02 It is emphasised that we do not express a specific audit opinion on the figures on the following pages – these have been extracted in agreement with management from various reports, supporting papers and detailed discussions with management.
- 5.03 **The Board's Reported Financial Out-turn for 2007/08.**

	£'m Actual	£'m Actual
Recurring income	34.21	
Recurring expenditure (before savings)	(35.91)	
Recurring savings	<u>0.50</u>	
Underlying recurring surplus / (deficit)		(1.20)
Non-recurring income	7.97	
Non-recurring expenditure (before savings)	(6.02)	
Non-recurring savings	<u>0.23</u>	
Non-recurring surplus/(deficit)		<u>2.18</u>
Financial surplus/(deficit) for the year		<u>0.98</u>
Figures confirmed by Nick Kenton, NHS Shetland Director of Finance		

- 5.04 In order to achieve a surplus position it should be recognised that the Board needed to fully utilise its carry forward of £0.37 million. Furthermore, the surplus was largely achieved through the Council not seeking income due for the revenue transfer of £1.2 million. There is clearly an ongoing and significant risk should the Council decide in future that it wants to receive the income due for the revenue transfer.

Action Point 4

5.05 **Actual Out-turn versus Original Plan**

	£m	£m
Projected Break Even (1 April 2007)		0
<u>Costs (over)/under budget:</u>		
Delayed Discharge Reserve	0.13	
Community Nursing	0.12	
Community Dental	0.26	
Over performance on Healthcare SLAs	(0.35)	
Overspend on UNPACs and ECRs	(0.41)	
Overspend on Estates	(0.23)	
Release Carry Forward Reserve	0.37	
Other	<u>0.56</u>	0.45
<u>Income over/(under) budget:</u>		
Additional Waiting Times Funding	0.15	
Back-dated Correction of Junior Doctors Funding	<u>0.20</u>	0.35
<u>Savings over/(under) budget:</u>		
Human Resources	0.13	
Prescribing	<u>0.05</u>	<u>0.18</u>
Actual surplus reported (31 March 2008)		<u>0.98</u>

Costs under budget (net £0.45 million):

5.06 The detailed breakdown included above identifies the areas which saw overspends and under spends in the year under review and as a result no further explanation is included within this report.

5.07 Capital Expenditure Out-turn

Capital Expenditure 2007/08	£'m
Capital expenditure in year	2.98
Capital Grants given	<u>0.53</u>
	3.51
Capital Receipts	(0.05)
Capital Grants received	<u>(0.00)</u>
Capital Resource Limit out-turn	<u>3.46</u>
Capital Resource Limit	<u>3.62</u>

Capital Expenditure

5.08 Of the £2.98 million spent on fixed asset additions in the year, £2.66 million related to the purchase/construction of buildings. These are the result of Phase 1 of the Hospital Capital Plan being progressed in the year with wards being refurbished and extensions being made to the Guilbert Bain Hospital. The remainder of the additions were in relation to Plant and Machinery and IT equipment.

Capital Grants Given

5.09 During the year the Board utilised £0.53 million of its total capital allocations (some of which was specifically allocated for that purpose) on the following capital grants:

- Upgrade to fire systems in care homes
- Alterations to peoples housing to allow them to remain in the community (Aids and Adaptations)
- Equipment for an ophthalmic practice
- Dental surgery improvements

PFI/PPP Projects

5.10 NHS Shetland is not involved in any PFI/PPP projects and has no plans to enter into any.

6. Financial Forecast 2008/09

Forecast for 2008/09

6.01 The table identifies that the Board plans to break even in 2008/09.

	£'m Forecast	£'m Forecast
Recurring income	35.18	
Recurring expenditure (before savings)	(37.71)	
Recurring savings	<u>0.68</u>	
Underlying recurring surplus / (deficit)		(1.85)
Non-recurring income	8.21	
Non-recurring expenditure (before savings)	(6.55)	
Non-recurring savings	<u>0.19</u>	
Non-recurring surplus/(deficit)		<u>1.85</u>
Financial surplus/(deficit) forecast for the year		<u>0.00</u>
Figures confirmed by Nick Kenton, NHS Shetland Director of Finance		

Cost Pressures

6.02 NHS Shetland has identified a number of financial risks, which have been incorporated into the forecast financial position.

Pay Costs

6.03 Payroll costs are expected to rise by 3% in the next year. This is primarily due to recently announced pay awards for NHS employees.

Drug Prices

6.04 Increases in the cost of new acute drugs are expected to result in a 5% increase in the overall drug budget in 2008/09.

Revenue Transfer

- 6.05 The above break even position has been calculated on the assumption that Shetland Island Council will continue to abate the revenue transfer which is due to them each year. This has been agreed in principle with the Council but there is no signed agreement in place. If the Council were to request the revenue transfer amount which is due to them in 2008/09 it would increase costs by around £1.2 million, taking the board into a deficit.

Use of Non-Recurring Funding and Planned Savings

- 6.06 Of the required £0.872 million (rounded to £0.87 million in above table) of savings needed to breakeven in 2008/09, £0.682 million relate to recurring savings with the remaining £0.190 million from non recurring savings. The main areas where recurring savings are planned include: the switch to using generic statin drugs; the transfer of responsibility for late discharges to the Council; the full year impact of the closure of the rehabilitation ward and a general reduction in the spend on prescribing.
- 6.07 Included within the total recurring savings of £0.682 million is £0.109 million relating to a reduction in the predicted Service Level Agreement (SLA) costs which will be incurred through the use of services provided by NHS Grampian. NHS Shetland has agreed with NHS Grampian that it will commit to meet the 2% required NHS savings target on all services which it provides to NHS Shetland. Therefore the risk of achieving these savings now lies with NHS Grampian.

7. Systems of Internal Control

Statement on Internal Control

- 7.01 The Code of Audit Practice requires us to review and report on the Board’s Statement of Internal Control.
- 7.02 The Board has used the correct format for its Statement and has outlined the processes it has employed to identify and evaluate risks. In addition, key elements of the Board’s control framework have been highlighted.
- 7.03 The Statement also outlines areas where the Board plans to improve internal control. These include:
 - A specific plan has been put in place to develop the Clinical Governance and Risk Management framework across the organisation;
 - Further training on risk management has been incorporated into the mandatory refresher day aimed at middle managers;
 - The Board plans to produce a formal competency framework for managers as part of their personal development plans; and,
 - A business case has been approved to put in place an electronic risk management, complaints and incident reporting system, and it is expected that it will be operational by September 2008.
- 7.04 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Follow Up Report on control matters raised for action in previous years

- 7.05 We followed up the Board’s progress in implementing recommendations made by ourselves in the prior year and by the previous external auditor. Our Follow Up Report was considered at the Audit Committee meeting on 20 March 2008.
- 7.06 At the time of reporting, of the 43 agreed actions, progress was as follows:

Status	Annual Report to Members 2006/07	Interim/Final Management Report 2006/07	Follow Up Report 2006/07	Total
Action Implemented	11	7	5	23
Action in Progress	3	6	3	12
Limited/Little Progress to Date	0	5	0	5
No Longer Applicable	0	2	1	3
Total	14	20	9	43

- 7.07 Although good progress has been made towards implementing the recommendations with over half being fully implemented and particularly good progress made with the recommendations from our 2006/07 annual report, we noted that further work is still required in order to fully implement all audit recommendations.

7.08 Areas where further action remains are in respect of:

- The acquisition of a fixed asset module and restricting access to fixed asset information; and
- Discussions and finalisation of arrangements with Shetland Island Council with regard to the Resource Transfer abatement.

Interim Management Letter 2007/08

7.09 Our Interim Management Letter was presented to the Audit Committee on 20 March 2008. The report contained two recommendations to improve controls; none of which were graded as higher risk.

7.10 The Board has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. We will follow up this action plan during our 2008/09 audit.

National Fraud Initiative (NFI)

7.11 We submitted a return to Audit Scotland in February 2008, providing information on NHS Shetland arrangements for the management of its 2006/07 NFI project. We concluded that NHS Shetland appeared to have established satisfactory systems to fulfil the requirements of the 2006/07 NFI exercise.

7.12 As outlined in CEL 18 (2007) the Scottish Government Health Directorate supports Audit Scotland's proposal that NHS bodies should continue to participate in NFI.

7.13 The 2008/09 exercise will commence on 6 October 2008 with payroll being the only mandatory dataset for submission by health bodies; however health bodies may also take the opportunity to submit trade creditors' payment history information for comparison.

Fraud Strategy and Submission

7.14 CEL(2008)03 informed Boards of the need for an updated strategy to combat NHS fraud and set out specific action in relation to the strategy. NHS Shetland maintains a fraud log in line with Counter Fraud Services (CFS) guidance and involves CFS wherever necessary in the investigation of fraud. In addition, updates are provided to each Audit Committee of any new frauds or developments in frauds already highlighted to the Committee.

7.15 A return has been made to Audit Scotland of the reported frauds that have occurred within the Board during the year. This was a nil return.

8. Other Matters

Car Park Tariffs

- 8.01 An independent review group concluded that parking at NHSScotland hospitals is a service for patients and should be free of charge. However, the group noted that there are some sites where parking charges may be unavoidable and, in these circumstances, boards should follow the guidance contained in CEL (2008)1.
- 8.02 The group recommended that a maximum charge should be set following a review of existing car parking schemes. In the interim, boards should implement a maximum daily charge of £3.00. Where current charges are under £3.00, they should remain unchanged. Boards may wish to introduce a time limit of around four hours to prevent congestion.
- 8.03 NHS Shetland does not have any car parking charges in place and has no plans to introduce any. It is therefore in compliance with this guidance.

Waste Management

- 8.04 CEL(2008)02 required NHSScotland Boards to incorporate the actions contained in Health Facilities Scotland's Waste Management Action Plan 2007 into their waste management and property strategy timetables.
- 8.05 At present the majority of waste generated by NHS Shetland is shipped elsewhere to be disposed of by a contractor, with only around 10% of waste being incinerated on the island. As part of the implementation of the Waste Management Action Plan 2007, contracts are currently being negotiated to make the waste management process more efficient, the aim being for around 70% of waste to be incinerated on the island. The energy generated through the incineration would then be used to heat the hospital.

Management of Controlled Drugs

- 8.06 CEL(2007)21 and CEL(2007)07 passed the responsibility for the management and enforcement of the Controlled Drug Regulations to NHS Boards in Scotland. Boards were required to appoint an Accountable Officer to implement the new governance arrangements so that they support healthcare professionals and encourage good practice in the use of controlled drugs when clinically required by patients
- 8.07 In response to these CELs, NHS Shetland has appointed the Chief Pharmacist to the role of Accountable Officer for the management of controlled drugs for the organisation. The Accountable Officer has addressed responsibilities of the role and is working to raise the profile of the requirements of the CELs across the organisation.

Appendix 1: Action Plan

Ref	Recommendation (report paragraph)	Risk Category	Management Response and Action	Responsible Officer	Date of Implementation
1	3.03 – NHS Shetland should put in place more effective arrangements relating to its accounts closure and preparation process for 2008/09.	High	Agreed	Finance Manager	January 2009
2	3.09 – NHS Shetland should ensure that appropriate action is taken to fully understand the Drug Accrual included within the accounts and that any necessary corrective adjustments are posted in 2008/09. Any remaining amount contained within the 2008/09 accounts must be supported by appropriate evidence.	Medium	The Drug accrual has been in the accounts for a number of years, and is based on figures which come from JAC. This is to be linked electronically to Cedar when NHS Shetland joins the consortium in December 2008	Finance Manager	January 2009
3	3.11 – NHS Shetland should ensure that all Family Health Services (FHS) reconciliations are completed and that any necessary corrective adjustments are posted in 2008/09. Throughout the year, the reconciliations should be performed on a timely basis to ensure the information in the ledger is accurate and up to date.	Medium	FHS reconciliations are complete monthly for all months to January 2008. The last two months are not complete because of the new Cedar system, and the availability of reports. The reconciliations will be brought up-to-date by the end of July.	Finance Manager	July 2008

Ref	Recommendation (report paragraph)	Risk Category	Management Response and Action	Responsible Officer	Date of Implementation
4	4.17 – NHS Shetland should ensure that appropriate action is taken over any proposed changes to its investment plans to ensure that recurring and non-recurring savings are achievable. This includes the securing of the revenue transfer abatement from Shetland Island Council on a more formal and recurring basis.	High	Agreed in principle. If the Revenue Resource Transfer abatement cannot be secured going forward then alternative savings will clearly need to be identified.	Director of Finance	December 2008
5	4.32 – NHS Shetland should ensure that the planned review of processes supporting the new financial ledger system is completed in order to refine and change the processes accordingly.	Medium	Agreed.	Finance Manager	September 2008

Appendix 2: Other Reports Submitted During the 2007/08 Audit

Reports submitted by PricewaterhouseCoopers LLP during the 2007/08 audit process

Planning visits

1. Annual Service Plan

Interim Visits

2. Follow up of 2006/07 Audit Recommendations
3. Interim Management Letter 2007/08

Final Accounts Visit

4. Audit Opinion
5. Annual Report to Board Members

Health Reports finalised by Audit Scotland during 2007/08

1. Managing long-term conditions (16 August 2007)
2. Primary care out-of-hours services (30 August 2007)
3. Health and community care bulletin (11 October 2007)
4. Priorities and Risks Framework: A national planning tool for 2007/08 NHSScotland audits (16 November 2007)
5. Overseas staff in the NHS – pre-employment checks (29 November 2007)
6. Overview of Scotland's health and NHS performance 2006/07 (14 December 2007)
7. A review of free personal and nursing care (1 February 2008)

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