Western Isles Health Board

Report on the 2007/08 Audit

AUDIT SCOTLAND

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Western Isles Health Board

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Introduction and context

In 2007/08 we looked at the key strategic and financial risks being faced by Western Isles Health Board. We audited the financial statements and we also reviewed aspects of performance management and governance. This report sets out our key findings.

Western Isles Health Board has faced serious financial, governance and staffing issues over a number of years and the Auditor General has issued three consecutive Section 22 reports on the Board since 2004/05. Following the latest Section 22 report, issued in October 2007 regarding the financial year 2006/07, the Scottish Parliament's Audit Committee decided to hold an inquiry prompted by the seriousness of the issues arising and the length of time which had elapsed without a clear resolution.

The Audit Committee published its report on 6 May 2008. This concluded that the Board had faced cost pressures and also problems relating to its remoteness, but that these had been exacerbated by poor financial management and internal control systems. The Audit Committee noted recent improvements but highlighted the need for a clear and innovative clinical strategy, and improved governance and internal control arrangements. The Committee also called for more decisive action from the Scottish Government Health Directorates when problems arose in Boards.

Financial position

The Board carried forward a cumulative deficit of £3.364 million from 2006/07. However, there were signs of progress in 2007/08 towards achieving longer term financial sustainability. After five consecutive years of in-year deficit, Western Isles Health Board achieved an in-year surplus for 2007/08 of £0.267 million, reducing its cumulative deficit to £3.097 million.

The improvement in the Board's financial position has been achieved through a range of measures including several which are non-recurring in nature. The Board has identified that it needs to continue to address its underlying funding gap and has clearly linked its future financial sustainability with the need to establish a sustainable clinical strategy. Steps to address these longer-term issues, including a financial recovery plan, are now underway. A significant development is the proposal by the Scottish Government to provide brokerage in 2008/09 to cover the cumulative deficit, if the Board's recovery plans are being successfully delivered.

Financial statements

We have given an unqualified opinion on the financial statements of Western Isles Health Board for 2007/08. The audit report, however, includes an explanatory paragraph commenting on the Board's financial performance as expenditure was in excess of the Revenue Resource Limit set by the Scottish Government.

We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

Performance

Performance management and monitoring arrangements continue to develop at Western Isles Health Board. In May 2008 NHS Quality Improvement Scotland reported that although a basic framework had been established, further work was needed to develop and broaden performance management arrangements. Performance against a number of key Local Delivery Plan (HEAT) targets in 2007/08 was mixed.

Best Value

In 2005/06, we carried out a baseline review of Best Value arrangements across the health service, including Western Isles Health Board. This was reviewed in 2007/08 and there is evidence that the Board has now made progress in implementing some of the principles of Best Value. During 2007/08, we have also carried out a Best Value review on the use of financial resources within Western Isles Health Board. We plan to submit our detailed report in August.

Governance

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. We have been critical of the Board's arrangements for a number of years and this area was subject to extensive comment by the Audit Committee of the Scottish Parliament. Whilst we still have some concerns, there is evidence of progress now being made. Inevitably, it will take time before the broad range of measures introduced to enhance governance arrangements becomes fully established.

The situation in the Board's senior staffing continues to be an area of risk. There has been a high turnover of Chief Executives at the Board in recent years, and the current Acting Chief Executive is shortly to relinquish his post. The Board requires to manage carefully the transition to a permanent Chief Executive.

SGHD have recently announced that all three island health boards will receive additional funding to develop formal agreements with mainland boards to strengthen their key management functions. Agreements will be developed for partnership arrangements between Western Isles Health Board and other boards, including NHS Highland.

Clinical governance arrangements for Western Isles Health Board are currently under development. The development of a clear and appropriate clinical strategy is a pivotal requirement for the Board's overall recovery from its recent difficulties.

Looking forward

The final part of our report notes some key risk areas for Western Isles Health Board going forward. Many of these are centred around the need to achieve planned savings and financial sustainability. This challenge is made all the greater by the proposals put forward by the NHS Scotland Resource Allocation Committee (NRAC) which shows that NHS Western Isles currently receives funding 13% higher than the new allocation formula would indicate. This means that, going forward, at best NHS Western Isles is likely to receive little more than annual inflation uplifts.

The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

Audit Scotland

July 2008

Introduction

1. This report summarises the findings from our 2007/08 audit of Western Isles Health Board. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 21 February 2008. This plan set out our views on the key business risks facing the organisation 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 we raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.

3. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of Western Isles Health 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.

Financial Position

4. In this section we summarise key outcomes from our audit of Western Isles Health Board's financial statements for 2007/08, and comment on the key financial management and accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

5. 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
   - the consistency of the information which comprises the management commentary with the financial statements
   - the regularity of the expenditure and receipts.

6. 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
   - assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

Overall conclusion

7. We have given an unqualified opinion on the financial statements of Western Isles Health Board for 2007/08. The audit report, however, includes an explanatory paragraph commenting on the Board's financial performance as expenditure was in excess of the Revenue Resource Limit set by the Scottish Government.

8. A draft set of accounts was received within the agreed timetable and a sound audit trail provided as supporting evidence. However, the accounts package was incomplete, with the Director's Report not being received until mid-June, while a number of late adjustments were made to the financial statements after the completion of the audit visit. This included the revaluation of fixed assets, which extended the estimated useful life of certain assets and reduced capital charges for 2007/08 by £0.482 million, and an increase in accruals totalling £0.238 million.

9. However, we were able to obtain sufficient supporting evidence for these late amendments and are satisfied that they comply with the relevant guidance. The timely responses from Western Isles Health Board staff also allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 25 June 2008.

The Board's financial position

Outturn 2007/08

10. Western Isles Health Board is required to work within the resource limits set by the Scottish Government. The Board's performance against these targets is shown in Table 1 below.

Table 1

2007/08 Financial Targets Performance £ million

Financial Target	Target	Actual	Variance
Revenue Resource Limit	60.324	63.421	(3.097)
Capital Resource Limit	3.767	3.666	0.101
Cash Requirement	64.091	66.626	(2.535)

11. Western Isles Health Board's actual outturn for 2007/08 was an in-year surplus of £0.267 million, resulting in a reduced cumulative deficit at 31 March 2008 of £3.097 million. This is the first time since 2001/02 that the Board has been able to report an in-year surplus, and is a significant achievement. However, the Board will face considerable challenges in recovering the cumulative deficit, and this continues to represent a major risk to the organisation. This improvement in the Board's financial position has been achieved by a range of measures, such as savings from vacant posts and renegotiated costs of care provided to Western Isles residents by mainland health boards, although several measures of these measures are non-recurring. The Board has identified that it needs to continue to address its underlying funding gap and has clearly linked its future financial sustainability with the need to establish a sustainable clinical strategy. Steps to address these longer-term issues, including an agreed financial recovery plan, are now underway.

Risk Area 1

12. Table 2 shows how the surplus of £0.267 million was achieved through a combination of recurring and non-recurring funding. Historically Boards have relied upon non recurring funding to achieve financial targets. However, with the tightening financial settlement in future years and the option of capital to revenue transfers no longer available to Boards, it will become increasingly difficult to rely on non recurring income and expenditure to make up the difference as Boards seek to rationalise their cost base.

Table 2

Funding Position 2007/08

	£ Million	£ Million
Recurring income	53.935	
Recurring expenditure	(56.913)	
Recurring savings	0.430	
Underlying recurring surplus/(deficit)		**(2.548)**
Non-recurring income	6.389	
Non-recurring expenditure	(6.196)	
Non recurring savings	2.622	
Non-recurring surplus/(deficit)		**2.815**
Financial surplus/(deficit)		**0.267**
Underlying recurring surplus/(deficit) as a percentage of recurring income		**(4.7%)**

2008/09 Budget

13. Initial budgets for 2008/09 indicated a £2.177 million funding shortfall, despite an increase in the Board's baseline allocation of 3.15%. However, following a range of secured savings, the estimated shortfall has been reduced to £0.550 million.

14. This highlights the challenges facing the Board if it is to continue to achieve financial break-even during 2008/09 and further reduce its cumulative deficit. Further potential savings have been identified from a range of measures, including controls over the filling of vacant posts, negotiated reductions in the costs associated with some Service Level Agreements with other health boards, and the GP dispensing / prescribing programme. Taking these into account, the Board is now planning to achieve break-even for 2008/09, but it recognises that it needs to make longer-term changes through its Clinical Strategy in order to achieve financial sustainability.

15. The Scottish Government has also confirmed that it is content with the financial profile and level of savings set out in the Board's financial recovery plan for the 3 year period 2008/09 to 2010/11, and has stated its commitment to provide the necessary brokerage to cover the accumulated deficit if progress is sustained at mid-year of the 2008/09 plan.

Risk Area 2

Issues arising from the audit

16. As required by auditing standards we reported to the Audit Committee in June 2008 the main issues arising from our audit of the financial statements. The key issues reported are highlighted below.

17. **Agenda for change provision.** As at 31 March 2008, £1.151 million was accrued in respect of agenda for change payments. This figure includes estimations based on Western Isles Health Board assumptions and refers to a range of staff posts and grades. We asked the Board for formal assurances, in a letter of representation, that the accrual, in their judgement, represents a prudent estimate of anticipated costs.

***Resolution*:** Appropriate assurance was provided in the letter of representation.

18. **Equal pay claims.** NHS Trusts in England have settled equal pay claims for employees in traditionally female roles and similar claims have now been received by Boards in Scotland. As at 31 March 2008, NHS bodies had received some 12,000 claims and these had been referred for attention to the Central Legal Office. It is possible that these claims represent a current liability for NHS boards generally. By the end of March 2008, Western Isles Health Board had received 37 claims under the Equal Pay Act. We were informed by Finance staff that Western Isles Health Board is aware of the potential risk posed by equal pay claims but at this stage it is not possible for the Board to make an estimate of any financial impact that may arise. An unquantifiable contingent liability has been included in the accounts for 2007/08. We asked the Board to confirm this view in the letter of representation.

***Resolution*:** Appropriate disclosure was provided in the letter of representation.

19. **Stores.** Stock items are not being accrued by the organisation and accruals are therefore understated. The value of these items is not known, although it is not considered material. A number of control issues were also identified during our audit including apparent under-staffing of the department and ongoing errors between the Ascribe pharmacy system and the ledger.

Resolution: Appropriate disclosure was provided in the letter of representation.

20. **Pension provisions**. The Board currently has a provision of £0.248 million, carried forward from the previous year, for the costs relating to early retirements. As a result of delays on the part of the Scottish Public Pensions Agency, the Board did not received any up to date information for 2007/08 and, as a result, no adjustment has been made to the provision brought forward from 2006/07. We are satisfied that this provision is not materially misstated, but we asked the Board for formal assurances in a letter of representation that up to date information was still not available and that the provision was based on the best available information.

Resolution: Appropriate disclosure was provided in the letter of representation.

Equal Pay Claims

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 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 NHSScotland approach to this issue.

22. For 2006/07, we accepted that no estimate of the potential liability for these claims could be identified because this was an emerging issue, still at an early stage, and as a result a contingent liability was included in Western Isles Health Board financial statements. We strongly encouraged Western Isles Health Board's management, working with the Scottish Government Health Directorates and other NHS Boards, to resolve this matter in advance of compilation of the 2007/08 financial statements.

23. The CLO has coordinated the legal response to all claims and has attended Tribunal Hearings at which discussion about procedural matters has taken place. The CLO affirms that the cases in Scotland are at too early a stage to allow any assessment of financial risk to be included in the financial statements.

24. A number of issues contribute to this uncertainty:

    - certain recent applications incorporate a challenge to the Agenda for Change system, stating that it is, in itself, discriminatory and perpetuates discrimination. This allegation is made in terms of section 77 of the Sex Discrimination Act and seeks to bring all those who were signatories to the Agenda for Change Final Agreement into the proceedings, including Unison and GMB. This allegation of discrimination needs to be legally tested

    - claimants also seek to identify whether or not the Scottish Government or Health Boards is/are responsible for all the claimants' terms and conditions relating to pay. This is often referred to as the "single source issue". If this issue is actively pursued by the claimants, then it will require to be legally tested.

25. We note the CLO's current view of the stage the cases have reached but strongly encourage Western Isles Health Board, working with the Scottish Government Health Directorate and other NHS Boards, to form a view of the potential liabilities as soon as possible taking into account the progress of cases in Scotland and England.

Risk Area 3

Regularity

26. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

Performance Management

27. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

28. Accountable officers also have a duty to ensure the resources of their organisation are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.

29. This section covers our assessment of the way in which Western Isles Health Board secures value for money in the use of its resources. This year we focused primarily on examining the arrangements for Best Value through a follow up to the baseline review we carried out in 2005/06 and reviewing the Board's use of financial resources.

Performance Management

30. Some progress has been made in improving performance management within NHS Western Isles, with performance issues now reported monthly to every Board meeting. However, there is still no formally constituted Committee or sub-Committee with a remit for overseeing all aspects of performance. This underlines the continuing risk that performance management is not fully incorporated into the planning process and not operating effectively.

31. NHS Quality Improvement Scotland also identified risks in their Update Report on '*Clinical Governance & Risk Management: Achieving safe, effective, patient-focused care and services*', published in May 2008. This noted that the Board was in the early stages of developing its performance management arrangements and that a basic framework was being established at the time of the review. The review identified that performance arrangements were very HEAT (*Health, Efficiency, Access, Treatment*) focused, as prescribed by the Scottish Government, but that '*the breadth of the performance agenda requires fuller development and co-ordination to include other aspects of performance*'.

32. NHS Quality Improvement Scotland also highlighted that while '*there appears to be considerable work at ground level, there is no system in place to capture and collate these into agreed formats for formal reporting purposes*'.

33. We also identified that, during most of the year, there were no systems in place to record and report the benefits realised from pay modernisation. However, a Pay Modernisation Plan has now been

established, setting out a framework which will help the Board demonstrate improvements in performance.

Risk Area 4

Local Delivery Plan

34. The Local Delivery Plan (LDP) is the key agreement between the NHS Board and the SGHD that describes and demonstrates how the Board will deliver improvements against the 4 key ministerial objectives of Health, Efficiency, Access and Treatment. Delivery is determined by improved performance against 31 key performance measures. These measures also feature in the Board's own monitoring arrangements. However, of the 31 targets in the Local Delivery Plan for 2007/08, the Board was unable to report on 12 of the targets, including emergency re-admissions for over 65s, due to data not being available.

35. Performance against a number of key Local Delivery Plan (HEAT) targets in 2007/08 showed improvement. For example:

    - uptake of childhood vaccinations, with the target of 95% MMR vaccination (at age five years), delivered consistently throughout 2007/08

    - a number of key access targets were met in full by December 2007 deadlines, including no patient waiting longer than eighteen weeks for inpatient or day case treatment and no patient with urgent referral for cancer treatment waiting longer than 2 months.

36. The Board did not meet its target for reducing Healthcare Associated Infections in 2007/08. However, with relatively low volumes in patient numbers the reported figures can be very sensitive to small caseload numbers. Early evidence from 2008/09 suggests an improving position.

37. The 2008/09 LDP is considerably different from previous years with more than half the measures/ targets changing in some way and a number of measures converted to 'standards' which Boards must deliver on an ongoing basis, for example zero delayed discharges of more than six weeks. Successful delivery of several of the targets/standards will continue to be dependent on the availability of Local Authority funding to support areas of joint working. Budget pressures facing Local Authorities themselves create the main financial risk as resources, previously received by the Board to address delayed discharges, are to be allocated to local authorities from April 2008. As this will not be ring fenced there is a risk that this resource will not be available.

Best Value developments

38. The positive impact of the Best Value concept in local government led Scottish Ministers to introduce a non-statutory Best Value duty on all public sector accountable officers (i.e. across health and central government) in 2002. This was reinforced by refreshed Ministerial guidance in 2006, highlighting the importance that the Scottish Government places on Best Value as a means of supporting public service reform.

39. That position was again re-iterated in the Scottish Government's recent response to the Crerar scrutiny review which credited the Best Value regime as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year.

40. The framework for our proposed Best Value audit approach was agreed by Audit Scotland's Corporate Management Team in September 2007. It is based on the key principles of flexibility and proportionality; alignment and integration with our existing activities; being delivered within our existing resources, and with an evolutionary implementation.

41. Using the Scottish Government's nine best value principles as the basis for our audit activity, we have identified five priority development areas (Use of Resources, Governance and Risk Management, Accountability, Review and Option Appraisal, and Joint Working) for our initial development work.

42. Currently we are concentrating on the development of Use of Resources audit toolkits, focusing initially on Financial Management, Efficiency, and Information Management. These toolkits are being piloted in a number of NHS and central government clients during 2007/08 and 2008/09. Developed toolkits will also be made available to public bodies to consider for self assessment.

43. The first of these toolkits, which covers Financial Management, was piloted in Western Isles Health Board during 2007/08. The review sought to establish the Board's position in relation to:

    - financial governance and leadership
    - financial and service planning
    - finance for decision-making
    - financial monitoring and control
    - financial reporting.

44. Our work in this area is ongoing, although we have established that the Board's arrangements are reasonably based. We plan to submit our detailed report in August, drawing upon examples of good practice across the NHS in Scotland.

45. In 2005/06 we carried out a baseline review of Best Value arrangements across the health service including Western Isles Health Board. The baseline review was built around the then Scottish Executive's nine best value principles – commitment and leadership, accountability, responsiveness and consultation, joint working, sound governance, sound management of resources, use of review and option appraisal and equal opportunities arrangements.

46. In 2007/08, we reviewed the baseline information to ascertain what arrangements Western Isles Health Board has put in place to take forward the Best Value agenda and demonstrate continuous improvement. We are presently collating information for this update and will report our findings shortly.

National Studies

47. Audit Scotland published four national study reports relevant to Western Isles Health Board and the key findings from these are summarised in the paragraphs which follow.

A Review of free personal and nursing care

48. This report evaluated the robustness of financial planning, monitoring and reporting arrangements for free personal and nursing care, examined the current costs and funding allocations for free personal and nursing care for councils and identified the financial impact on older people, the Scottish Government and councils.

49. The report recommended that the Scottish Government and councils should continue to work together as a matter of urgency to clarify current ambiguities with the policy and should agree a national eligibility framework which defines risks and priority levels to ensure transparency in access to care for older people.

50. The report also recommended that councils should work with local health partners to evaluate the longer-term consequences of reducing domestic home care services, such as cleaning, shopping and laundry services.

Managing Long Term Conditions

51. The study examined services for adults with long term considerations generally, focusing on two conditions in particular i.e. chronic obstructive pulmonary disease and epilepsy.

52. Some of the key recommendations were:

- that the SGHD, NHS boards and local authorities should collect better information on activity, costs and quality of services for long term conditions to support the development of community services
- the SGHD, NHS boards and local authorities should evaluate different ways of providing services to ensure cost effectiveness and share good practice
- NHS boards should take a more strategic role to ensure better working between CHPs and the acute sector to support the development and resourcing of community services
- the SGHD and NHS boards should agree targets to support the development of community-based services
- NHS boards and local authorities, through CHPs, should ensure comprehensive information is given to patients about their condition, and the health and social care services available, at the time of diagnosis.

Primary care out-of-hours services

53. This study reviewed changes to the delivery of primary care out-of-hours services. We looked at national and local planning for out of-hours care; how much it costs the NHS; and how the current delivery of out-of-hours services affects patients and GPs.

54. The key messages are:

- over 95 per cent of GP practices have chosen to opt out of providing 24-hour care to their patients, with responsibility passing to NHS boards. This has been a major challenge for NHS boards but they have managed to sustain services for patients. The opt-out offers an opportunity for NHS boards to change the way services are delivered and to improve patient care, although this will take time to be used to its full potential
- most of the funding for new out-of-hours services comes from NHS boards' budgets. This has added to cost pressures for NHS boards, particularly in rural areas where they have had to meet a greater percentage of the costs. The cost to NHS boards in 2006/07 was approximately £67.93 million
- the overall impact on patient care of GPs opting out of out of-hours services is not clear as it has been introduced alongside other changes. Due to the lack of national data available it is difficult to assess whether patients are benefiting, however, over 80% of patients are satisfied with the service they received. GPs are positive about being able to opt out and 88% of GPs are relieved to no longer have 24-hour responsibility for patients.

Overseas staff in the NHS-pre-employment checks

55. This study was undertaken as a consequence of the security incidents in London and Glasgow in June 2007 which allegedly involved staff working in the NHS, including the Royal Alexandria Hospital. Following these incidents the Cabinet Secretary for Health and Wellbeing asked for the Auditor General to carry out an examination of whether pre-employment screening of overseas staff working in the NHS in Scotland was in line with the relevant guidelines.

56. The Auditor General published his report in late November 2007 and the key messages were:

- the NHS in Scotland does not have an accurate picture of the number of overseas staff employed
- boards reported 1,161 overseas staff in NHS employment across Scotland at September 2007. However this is likely to be an underestimate as boards had difficulty identifying staff here on indefinite leave to remain. Of the overseas staff identified, boards estimated that 89 per cent of these were doctors or nurses
- in the five sample boards where more detailed work on compliance with pre-employment checks for overseas staff was carried out, boards had similar procedures and there was evidence of high compliance with procedures in the sample of personnel records reviewed.

57. In December 2007 the Scottish Government produced guidance on the recruitment of staff, including the additional procedures that must be followed when recruiting overseas staff. This guidance sets out the minimum requirements for NHS employers and implementation of the guidance is a requirement of the Staff Governance standard.

58. During 2007/08, we carried out a brief review of the arrangements in place at Western Isles Health Board for the recruitment of overseas staff. No significant issues were identified.

Governance

Overview of arrangements

59. This section sets out our main findings arising from our review of Western Isles Health Board's governance arrangements. This year we reviewed:

- key systems of internal control
- internal audit
- aspects of information and communications technology (ICT).

60. We also discharged our responsibilities as they relate to prevention and detection of fraud and irregularity; standards of conduct; and the organisation's financial position (see paragraphs 10 to 15). Our overall conclusion is that arrangements within Western Isles Health Board have improved over the past year, although there is still some way to go to achieve best practice.

61. The Board's committee and management arrangements, and the effectiveness of the Board, have been the subject of critical comment in previous reports. These areas have continued to improve throughout 2007/08, at a time of intense external scrutiny from the Scottish Parliamentary Audit Committee and the media. In addition to developing a set of corporate objectives and working towards a clinical strategy, significant improvements include:

- improvements in performance reporting to the Board on progress being made on corporate objectives and national HEAT targets
- a review of the terms of reference of all governance committees to help ensure that they are properly aligned with the Board's overall objectives
- the establishment of a corporate risk register which is regularly updated and reported to the Board
- the introduction of bi-monthly workshops, aimed at improving the training and development of Board members
- the establishment of a new post of Chief Operating Officer
- the introduction of informal mentoring arrangements with other health boards, concentrating on improving financial planning and governance, medical leadership and staff governance.

62. Inevitably, it will take time before this broad range of changes becomes fully established. The changes have been made at a time of uncertainty and changes in senior management within the Board, with the continuing need for a permanent Chief Executive to be appointed. Significant change in Board membership is also expected in the coming year, which requires to be proactively managed to help avoid any significant disruption.

Corporate Plan

63. The 2008/09 Corporate Plan was approved by the Board at the meeting of 26 June 2008. The plan includes six key Corporate Objectives summarised as:

- to continue to ensure delivery and continuous improvement of a range of high quality health improvement, health protection and health care services
- to ensure continued improvement of governance systems to meet national standards and best practice
- to deliver national targets (HEAT) as described in the Local Delivery Plan and requirements as agreed at the 2006/07 Annual Review
- to develop and deliver a Clinical Strategy which will describe the future pattern of health services available to the Western Isles population
- to successfully establish and develop a Single Operating Division incorporating the development of the Community Health and Social Care Partnership (CHaSCP)
- to be full partners with colleagues both in Western Isles and on the mainland.

64. The key risk in the delivery of the Corporate Plan is the development and implementation of the Clinical Strategy, while recognising the special requirements of the Board's geography and population (see the national policy document, '*Delivering for Remote and Rural Healthcare*' SGHD, May 2008). The current lack of a Clinical Strategy represents a major risk to the organisation, and hampers the Board's ability to deliver services on a planned and systematic basis.

65. Progress is being made through the Clinical Strategy Project Team and Clinical Strategy Steering Group with *Phase 1 – Identification of Proposals*, due to be completed by July 2008. *Phase 2 – Formal Consultation and Decision* is scheduled to begin in August 2008, with a planned completion date of February 2009.

Risk Area 6

Systems of internal control

66. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2007/08, the Board's internal auditors provided their opinion that, based on their work undertaken during the year, improvement has been made in the development of the control framework, although a number of areas were identified where there is still scope for improvement.

67. As part of our audit we reviewed the high level controls in a number of Western Isles Health Board systems that impact on the financial statements. Our overall conclusion was that key controls were operating adequately.

Statement on internal control

68. The Statement on Internal Control provided by Western Isles Health Board's Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out Western Isles Health Board's approach to this, and the developments which are currently underway to address the issues identified.

Internal Audit

69. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2007/08 audit we assessed whether we could place reliance on Western Isles Health Board internal audit function. We concluded that the internal audit service operates in accordance with the NHS Internal Audit Manual and therefore placed reliance on their work in number of areas during 2007/08, as we anticipated in our annual audit plan.

Clinical strategy

70. The report by the Audit Committee of the Scottish Parliament (May 2008) expressed a number of concerns over the sustainability of the current model of care, and identified the lack of a fully costed clinical strategy as a key factor in hampering the Board's ability to manage its finances effectively. The Committee also recommended that Western Isles Health Board draws on the work being done by NHS Scotland on the future of remote and rural health services in preparing a long term clinical strategy.

71. The Board is currently addressing the key recommendations set out in the Committee's report. A Clinical Strategy Project Team and Clinical Strategy Steering Group are driving a consultation process to develop a Clinical Strategy (see paragraph 65 above).

72. The Board has acknowledged that a sound financial appraisal of the options emerging from the strategy is required. Additional external financial and health economist input is currently being sourced and will be considered as part of the option appraisal.

Clinical governance

73. The Board has established some important elements of clinical governance. For example, it has a Clinical Governance Committee which met regularly during 2007/08. However, it still needs to make further progress. NHS Quality Improvement Scotland published their Update Report on '*Clinical Governance & Risk Management: Achieving safe, effective, patient-focused care and services*' in May 2008. The Update noted that the organisation '*has experienced many changes in leadership roles over the last year and this has made it difficult for the NHS Board to move forward with its clinical governance and risk management agenda at a strategic level*'.

Chief Executive position

74. The situation in the Board's senior staffing continues to be an area of risk. As the Audit Committee of the Scottish Parliament noted, there has been a high turnover of Chief Executives at the Board in recent years. The former Chief Executive was suspended from his post during the year and recently dismissed. Another former Chief Executive remains on the Board's payroll, but is on secondment to NHS NSS. The current Acting Chief Executive is shortly to relinquish his post. The Board requires stability in this key position as it attempts to move forward after a number of years of managerial and financial difficulties. There is clearly a need to manage carefully the transition to a permanent Chief Executive.

Risk Area 8

People management

75. Across the NHS, full implementation of Agenda for Change continues to be an onerous and resource consuming process. It was expected that full assimilation would have been achieved by end of December 2007. This has not yet been achieved, although progress has been made with all but three job descriptions assimilated and 20 out of 40 reviews now completed. There are risks to staff morale from the protracted nature of the process, as well as uncertainty over financial implications while this activity is ongoing.

76. HDL (2005) 51 required that each NHS board in Scotland achieve a target of no more than 4% sickness absence by 31 March 2008, although the target date has now been amended to 31 March 2009. At 31 March 2008 NHS Western Isles had an absence rate of 5.51% and still has some way to go before meeting this national target.

77. The Board has a sickness absence policy in place, and training sessions have been provided with the support of Occupational Health and the Trade Unions to develop managers and supervisors on the process. In addition an Employee Counselling Scheme has been launched to provide help and advice to staff on a range of issues including personal and work related problems, while the Board has also updated the training for Confidential Contacts as part of the Dignity at Work Policy, with an additional 28 staff undertaking the training.

Partnership working

78. Western Isles Community Health and Social Care Partnership (CHaSCP) was established in June 2007, and became fully operational in April 2008, with the aims of providing services as close to the homes of patients and service users as possible; increasing the amount of collaboration between partner agencies such as Comhairle nan Eilean Siar and the Health Board; improving communications and consultation with staff, the public, patients and service users; and streamlining the use of resources in the island economy. The second phase of this process has now begun and will see a wide range of Social Care functions delegated to the CHaSCP, and the Board need to ensure that the CHaSCP is able to demonstrate service improvements, commensurate with the re-allocation of funding, as it moves forward.

79. Progress has also been made in conjunction with Comhairle nan Eilean Siar through the Outer Hebrides Community Planning Partnership. A proposal was approved at the Board Meeting of 26 June 2008 to make a formal commitment to explore the potential integration or sharing of some services with the Comhairle, and the Integrated Service Delivery Project Team will now examine various opportunities during the scoping phase of the project. Potential opportunities being examined include community access points, support for joint future including the possible integration of training, the integration of some estates management between the Board and Comhairle, operational joint working for energy and waste management between local partners, reprographics and Gaelic translation.

80. The Project Team will involve representatives from Lews Castle College and the voluntary sector as well as the Health Board and Comhairle, and we will continue to monitor progress in this area as the project progresses.

81. Formal partnership arrangements are also being developed with other boards, including NHS Highland, to provide support in key management areas. These arrangements are underpinned by an additional Scottish Government allocation of £0.250 million to Western Isles Health Board, which is intended to address specific difficulties Island Boards have around management capacity. The arrangement will build upon the knowledge and experience gained through the current partnership arrangements with NHS Borders.

Prevention and detection of fraud and irregularities

82. Western Isles Health Board has in place a number of measures to prevent and detect fraud, including Standing Financial Instructions and Operating Procedures. The Board has a formal programme of internal audit work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud.

National Fraud Initiative

83. During 2007/08, we continued to monitor the Board's participation in the 2006/07 National Fraud Initiative (NFI). This exercise is undertaken as part of the audit of the participating bodies. NFI brings together data from health bodies, councils, police, fire and rescue boards and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.

84. The NFI has generated significant savings for Scottish public bodies (£9.7 million from the 2006/07 exercise and £37 million including previous exercises). Health bodies did not identify a significant part of these savings, as they are principally responsible for payroll matches, however the inclusion of health bodies in the process was worthwhile. Health employees were linked with several payroll irregularities, including a significant payroll fraud involving working while on sick leave at another body. Health employees were also linked with more than 90 cases of Housing Benefit fraud or overpayment. Where fraud or overpayments are not identified in a body, assurances can usually be taken about internal arrangements for preventing and detecting fraud.

85. In May 2008 Audit Scotland released its report *National Fraud Initiative in Scotland 2006/07*. A full copy of the report is available on Audit Scotland's website www.audit-scotland.gov.uk . The report highlighted a range of areas where prevention and detection of fraud had been enhanced.

86. The report also noted that while the majority of participating bodies performed their role satisfactorily, reported performance was not as good in the following areas:

- about a quarter of participants could have planned better for NFI, demonstrated more commitment to the exercise or started work on their matches more promptly
- bodies should review their approach to selecting matches for investigation. Better use could have been made of the web based application.

87. We continued to monitor the Board's progress with NFI as part of the 2007/08 audit. Adequate progress has been made to date in following up the NFI output and all necessary investigative work was completed within the required timescales, with no major issues identified.

88. Looking forward, Audit Scotland is working to widen the scope of the NFI in line with the rest of the UK. Public bodies will provide information again in October this year as part of their 2008/09 audits with the output expected in early 2009. We shall monitor Western Isles Health Board's progress.

Information and Communication Technology

89. In 2006/07 we carried out a computer services review of the information and communication technology service provision within Western Isles Health Board. This highlighted a number of risk areas for which management agreed actions to reduce the level of risk.

90. As part of our 2007/08 audit we have revisited the sixteen risks identified to determine what progress had been made. Our follow-up review highlighted that seven of the risk actions had been completed or implemented, while 9 remained as work in progress.

91. An eHealth and IT strategy has been developed and adopted by the Executive Team, while the IT department has been re-aligned within the organisation and now reports to the Director of Finance. An Information Governance Officer has also been appointed and the role of IT Security Officer resides with this function.

92. An IT disaster recovery plan has been drafted as a first step towards establishing a disaster recovery process that minimises risk and provides guidance and support to IT management and staff. The Board must remain focused on business continuity planning to ensure that the organisation can continue to function in the event of a disruption in IT service provision.

93. While progress has been made, in some areas this has been slower than anticipated. The preparation of a detailed plan for the implementation of the IT strategy has been delayed, anticipating the Clinical Strategy and new National eHealth strategy, while the Active Directory project, to identify data on servers, has had its target completion date revised to July 2008. The identification of data held on user controlled devices is scheduled as part of the implementation of the acceptable use policy during the latter half of 2008.

Risk Area 7

Data Sharing Partnership arrangements – 2007/08

94. The Outer Hebrides Data Sharing Partnership was set-up in 2007 as an 'early implementer' of the national eCare Data Sharing programme to carry out activities that make electronic data sharing possible. The partnership includes Western Isles Health Board, Comhairle nan Eilean Siar and Northern Constabulary and revised existing information sharing arrangements between the Board and Comhairle to cover all required consent and disclosure aspects.

95. The first phase of the project, including data cleansing and matching as well as the sharing of Child Protection Messages electronically, has been completed successfully. However, there are a number of challenges for which the Data Sharing Partnership needs to find solutions.

96. There is limited funding available for phase 2 of the project, which may result in benefits envisaged from the project not being realised. This affects the addition of further application systems, the implementation of the electronic sharing of Single Shared Assessment information and the appointment of a data sharing manager. Project documentation, necessary for future management of the partnership, also needs to be fully agreed, while there are currently no business continuity or disaster recovery arrangements in place for either system.

Looking Forward

97. Western Isles Health Board faces a number of challenges in 2008/09, which include:

- **Future funding –** The Board has achieved in year balance and has plans to bring its recurrent deficit to within 1% of recurrent income by 2011. The Scottish Government has indicated that it will consider making brokerage available to cover the Board's cumulative deficit if good progress is reported at September 2008. However that brokerage amount will have to be returned in a future period, and therefore there will continue to be financial pressures in future years. This will be made more challenging by the report of the NHS Scotland Resource Allocation Committee (NRAC), on future funding levels for Scottish Health Boards, which shows that NHS Western Isles currently receives funding 13% higher than the new allocation formula would indicate. This means that, going forward, at best NHS Western Isles is likely to receive little more than annual inflation uplifts.
- **Clinical strategy –** The Board is currently developing its clinical strategy. The Clinical Strategy Project Team and Clinical Strategy Steering Group are driving a consultation process to develop a Clinical Strategy, with *Phase 1 – Identification of Proposals due to be completed by the end of July 2008*. The Board aims to complete *Phase 2 – Formal Consultation and Decision* by February 2009. There is a risk that the proposed strategy does not meet the requirements of the national policy document '*Delivering for Remote and Rural Areas*' and does not gain political or public support.
- **Management capacity –** The Board has had difficulties over a number of years with staff turnover at a senior level. It will require to resolve the issue of the vacant permanent Chief Executive post as a first stage in continuing its move forward. It will also require to ensure that the Board itself is appropriately staffed and trained to provide its challenge and scrutiny role. SGHD have recently announced that all three island health boards will receive additional funding to develop formal agreements with mainland boards to strengthen their key management functions. Agreements will be developed for partnership arrangements between Western Isles Health Board and other boards, including NHS Highland.
- **International Financial Reporting Standards (IFRS)** – As part of the UK Budget 2007 the Chancellor announced that the timetable for IFRS implementation was to be extended by a year with central government accounts in Scotland to become IFRS compliant with effect from the 2009/10 financial year. The Scottish Government have notified central government bodies that they will be required to produce shadow IFRS based accounts for the financial year in 2008/09, including a restated balance sheet as at 1 April 2008. This process may require significant resource to complete and it will be important that the restatement is tackled early in 2008/09, with a plan in place to manage the transition.

- **Scotland Performs** – The Scottish Government is continuing to develop its approach to performance management based on a National Performance Framework and outcome agreements with local government. The National Performance Framework is based on the outcome based 'Virginia-style' model of performance measurement and reporting. In support of this the Scottish Government has developed a new electronic tool and website to communicate to the public on Scotland's progress. This will include progress on overall delivery of the SNP administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how Western Isles Health Board is meeting its targets within this new framework as part of the 2008/09 audit.

- **Equal pay -** The Equal Pay Directive has made it clear that pay discrimination should be eliminated from all aspects of remuneration. Western Isles Health Board management, working with the Scottish Government Health Directorates and other NHS Boards, will require to form a view of the potential liabilities as soon as practicable, taking into account the progress of cases in Scotland and in England.

- **Data handling** – The Scottish Government carried out a review of data handling arrangements in Scotland, in response to failures in UK government bodies' procedures and practices during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures. Following the publication of an interim report in April 2008, the Scottish Government published their final report and recommendations in June 2008. We will monitor Western Isles Health Board's response to the review and action taken as part of our 2008/09 audit.

- **Best Value** - The concept of Best Value is seen as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year. Western Isles Health Board will wish to respond to this important initiative as it develops.

- **National developments** – With the election of a new Scottish Government in 2007, there are a range of national developments coming into operation or being considered, including the use of independent scrutiny arrangements for major planned service changes and the introduction of elected members on NHS Boards. Western Isles Health Board will be required to respond to this developing agenda.

98. The Board recognises these challenges and is taking steps through its planning processes to address them. 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	While the Board achieved an in-year surplus of £0.267 million, there remained a cumulative deficit at 31 March 2008 of £3.097 million. The Board faces significant challenges in eradicating the cumulative deficit, particularly with increasing cost pressures, and this continues to represent a major risk to the organisation.	The Board will work closely with its partners and SGHD to monitor progress with the Financial Recovery Plan and the achievement of recurring balance (within 1% tolerance). It has been agreed with SGHD that eradicating the cumulative deficit will be addressed once recurrent in year balance has been achieved and is sustainable. Monitoring will take place via reports to each Board meeting and the monthly MMR returns submitted to SGHD, supplemented by additional periodical meetings with SGHD personnel.	Director of Finance	Ongoing
2	The funding shortfall identified in the 2008/09 expenditure budget could hamper Board progress against the financial recovery plan. This could impact on the Board's eligibility for financial brokerage from the Scottish Government, which has been offered if progress can be maintained to the mid-year of the 2008/09 plan.	The remaining shortfall as at 30/6/08 is less than £500,000 and so this risk is significantly reduced. Progress with the FRP will be monitored as per 1. above.	Director of Finance	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.	The equal pay claims process is being handled centrally. Whilst it is not possible to estimate the value of the outstanding claims it should be noted that Western Isles Health Board has a relatively small number of claims (37). This will be incorporated into financial planning as soon as information is available.	Director of Finance	For review April 2009
4	The Board has yet to fully 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.	The Board currently receives performance reports at every meeting and will be considering any further action required to improve performance management.	CEO	December 2008

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
6	There is a risk that service redesign proposals developed by the Clinical Strategy working groups do not meet the requirements of the national policy document '*Delivering for Remote and Rural Healthcare*' and do not gain political or public support.	This is being managed as part of the Clinical Strategy management arrangements. Progress reports are made to every Board meeting.	CEO	Ongoing
7	There has been a lack of progress in the preparation of a detailed plan for the implementation of the IT strategy while the Active Directory project, to identify data on servers, has had its target completion date revised. There is consequently a risk to the delivery of high quality health services.	An external review is being considered for the IT function and this will assist in the identification and management of key risks.	DoF/COO	For review December 2008
8	There is a risk that a continued lack of staffing continuity at the most senior level in the organisation may jeopardise the Board's plans for financial recovery and the development of its governance arrangements.	The interim CEO post has been advertised internally. The substantive post will be advertised and recruited to in the remainder of the financial year.	Board Chair	March 2009