

# NHS Western Isles

**Report on the 2009/10 Audit to the Board and the Auditor  
General for Scotland**

**July 2010**



 **AUDIT SCOTLAND**



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# Key Messages

## Introduction

In 2009/10 we looked at the key strategic and financial risks being faced by NHS Western Isles. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

## Financial statements

We have given an unqualified opinion on the financial statements of NHS Western Isles for 2009/10. 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.

## Financial position and use of resources

Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes

The Board carried forward a £9k surplus from 2008/09 before taking account of adjustments arising from the implementation of International Financial Reporting Standards (IFRS). As at 31 March 2010 the Board disclosed a cumulative surplus of £11k.

The Board's financial statements include significant provisions, particularly in respect of pensions, however, they do not reflect any potential liability for Equal Pay claims as there is a lack of information to enable quantification of the liability. Accounting estimates and provisions, by their nature, include a degree of uncertainty and any under-estimate of costs in 2009/10 could have a significant impact in future years.

In the medium to long term the Board faces a number of challenges to maintaining its financial position. These include the requirement to meet the Government's savings targets, cost pressures in respect of prescribing growth, use of locums and utility costs, and the uncertainty over the level of uplifts. The Board had an underlying recurring deficit of £0.845m in 2009/10, which was offset by a non recurring surplus of £0.845m. The Board has forecast a recurring deficit of £1.155m in 2010/11. Non-recurring financial resources of £1.166m have been identified to offset the deficit and achieve financial balance. In addition, in



May 2009 the Scottish Government Health Directorates (SGHD) provided a brokerage arrangement to fund the Board's cumulative deficit brought forward from 2007/08 of £3.097 million. Under the terms of the brokerage agreement, the Board will repay this funding over the six financial years commencing 2012/13.

## **Governance and accountability**

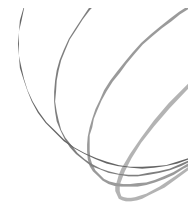
Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall, the corporate governance and control arrangements for NHS Western Isles operated satisfactorily during the year, as reflected in the Statement on Internal Control. However, we note in this context the recent announcement that the Chair of the Board will leave the organisation at the end of August 2010 and the early replacement of this key position will be important for governance arrangements going forward. In addition, governance support arrangements have continued in partnership with NHS Highland. We also examined the key financial systems underpinning the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

## **Performance**

The development of a clinical strategy for the Board has been ongoing for more than two years and the Board received and approved the Executive Overview document at its meeting in December 2009. The Board approved a further three month period of engagement and discussions with clinical staff, and at its Board meeting in March 2010, the Board approved three priority areas to be taken forward in the immediate to medium-term. The three priority areas were: implementation of a modern and community-focused mental health service; development of efficient and strengthened community based services which are able to better respond to the shifting the balance of care; and implementation of efficiency measures to improve clinical performance against benchmarks. The Board agreed to receive detailed project plans at the May 2010 Board meeting

The Board reviewed its performance management arrangements to ensure better linkages to its planning processes, and to enhance scrutiny and reporting of performance against HEAT targets. As a result, the Board approved a single system integrated performance management framework and a programme of comprehensive performance management reviews across all Board functions. This commenced in March 2010.

The Board demonstrated good performance against a number of challenging HEAT targets by the end of March 2010 including waiting time targets for inpatients, inequalities health checks and reduced psychiatric readmissions. However, it was noted that some targets, including outpatient and cancer waiting times, were only partially achieved. Some HEAT waiting times targets will become more demanding from 2010 with the introduction of the 18 week target for the period between referral and treatment.

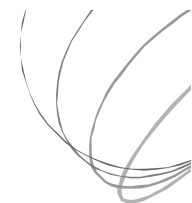


## **Looking forward**

The final part of our report notes some key risk areas for NHS Western Isles going forward. There are significant challenges around future funding, implementation of the clinical strategy, the achievement of savings targets and maintaining effective partnership working with the Comhairle and partner Boards.

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

**Audit Scotland**  
**July 2010**

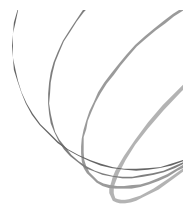


# Introduction

1. This report summarises the findings from our 2009/10 audit of NHS Western Isles. The scope of the audit, in accordance with the Code of Audit Practice, was set out in our Audit Plan which was presented to the Audit Committee on 17 March 2010. 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. Best value duties apply across the public sector and, in the health service, best value is a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and this has been further developed during 2009/10 with the completion of its bank of best value Toolkits which, although primarily designed for audit use, are available to all public bodies for reference.

**Exhibit 1: Framework for a best value audit of a public body**





4. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer guidance to public bodies, and particularly those in the Central Government and Health sectors, on securing continuous improvement in performance, with due regard to the balance between cost and quality.
5. Throughout this report we comment on aspects of NHS Western Isles' arrangements in this area. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not yet have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report represents a further step towards that goal.
6. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. Where these have a bearing on the activities, risks or performance of NHS Western Isles, we make reference to these reports in this document. Full copies of the study reports can be obtained from Audit Scotland's website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
7. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of NHS Western Isles during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.





# Financial Statements

8. In this section we summarise key outcomes from our audit of NHS Western Isles' financial statements for 2009/10 and the 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. Also, the Board's 2009/10 financial statements were prepared on the basis of International Financial Reporting Standards (IFRS) for the first time.

## Our responsibilities

9. 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.
10. 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

11. We have given an unqualified opinion on the financial statements of NHS Western Isles for 2009/10.
12. As agreed, the unaudited accounts were provided to us on 24 May 2010 supported by a comprehensive working papers package. The good standard of the supporting papers and the timely responses from NHS Western Isles staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 23 June 2010 as outlined in our Annual Audit Plan.



## Issues arising from the audit

13. As required by auditing standards we reported to the audit committee on 23 June 2010 the main issues arising from our audit of the financial statements. The key issues reported were as follows:
14. **Equal Pay Claims** – As at 31 March 2010, NHS bodies had received some 11,000 claims and these had been referred for the attention of the NHS Scotland Central Legal Office (CLO). NHS Western Isles currently has 15 claims outstanding. It is possible that these claims represent a current liability for NHS boards generally. As with a number of other NHS boards, an unquantified contingent liability and has been included in NHS Western Isles' accounts for equal pay. Further details on this issue are included at paragraphs 18 to 21 below.

### Risk area 1

15. **Pension provisions** – The current information received from the Scottish Public Pensions Agency (SPPA) is considered by the Board to be insufficiently detailed and consequently the provision is based on best estimates. This is a recurring issue and we have obtained, from the Board, formal assurances in a letter of representation that the provision represents a reasonable estimate of the liability for pensions.
16. **Stock Reconciliation** – In previous years we have reported on discrepancies between stock values recorded in the general ledger for accounts purposes, and the values maintained within automated stock systems, in particular in relation to pharmacy stocks recorded in the Ascribe stock system. In the 2009/10 accounts, the cumulative differences to date have been corrected by adjustment of the general ledger to agree with the automated systems. We were satisfied with the reliability of the stock system and so were in agreement with this adjustment being made.
17. **Deferred Income** – As at 31 March 2010, £1.448m of deferred income is included within the balance sheet as a creditor balance. This balance relates to a number of individual project funding amounts received from the SGHD which are being carried forward to meet future spending plans in relation to each project. The arrangement for accruing such unspent funding is an area meriting further clarification with the Scottish Government. The effect of amending this treatment would be to increase the Board's surplus for the year. However, the SGHD have indicated that the Board may continue to treat these items as a creditor balance in 2009/10, although they wish to review the position for 2010/11 when any impact on funding can be worked through. Appropriate disclosure has been sought in the letter of representation and the Board should liaise with SGHD to agree the appropriate treatment for 2010/11.



## Equal Pay Claims

18. The National Health Service in Scotland has received in excess of 11,000 claims for equal pay and NHS Western Isles has currently only 15 claims outstanding. These have been referred for the attention of the CLO to co-ordinate the legal response to this issue.
19. Developments over the past year have slowed the progress of claims and led to a reduction in the number of claims going forward. The CLO have stated that claims still do not provide sufficient detail about the comparator jobs to allow an estimate to be made of the likelihood of the success of the claims or of any financial impact that they may have. The CLO and Equal Pay Unit are monitoring the progress of claims as well as developments relating to NHS equal pay claims elsewhere that may further inform the position.
20. Discussions have been held between Audit Scotland, their partner firms, the Scottish Government, the CLO and Board representatives to ascertain the appropriate accounting treatment of equal pay claims in 2009/10. Given the CLO's advice that, although some liability is probable, it is not possible to estimate the impact of the claims, it has been agreed that disclosure as an unquantified contingent liability remains appropriate for the 2009/10 financial statements of affected NHS Boards.
21. We continue to strongly encourage NHS Western Isles, working with the Scottish Government Health Directorates, the CLO 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.

## Regularity

22. 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.

## International financial reporting standards (IFRS)

23. As announced by the Chancellor in the 2008 Budget report on 12 March 2008, Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. As a prerequisite to this, health boards were required to prepare shadow IFRS based accounts for 2008/09 to provide comparative figures for the 2009/10 IFRS based accounts. This exercise progressed well and provided a solid base for compiling the 2009/10 accounts.



# Use of Resources

24. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of NHS Western Isles:

- financial position
- financial management
- management of people
- management and use of ICT.

## The Board's financial position

### Outturn 2009/10

25. NHS Western Isles is required to work within the resource limits and cash requirement set by the Scottish Government. The Board's performance against these targets is shown in Table 1.

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**Table 1**  
**2009/10 Financial Targets Performance**

<b>Financial Target</b>	<b>Target £000</b>	<b>Actual £000</b>	<b>Variance £000</b>
Revenue Resource Limit	69,805	69,794	11
Capital Resource Limit	2,581	2,573	8
Cash Requirement	71,700	71,643	57

26. The Board has achieved a cumulative surplus of £11k. The Board carried forward an adjusted surplus of £9k from 2008/09. Table 2 shows how the current year's surplus of £11k was achieved through a combination of recurring and non-recurring funding. The Board had an underlying recurring deficit of £1.155m in 2009/10 which was offset by a non recurring surplus of £1.166m.



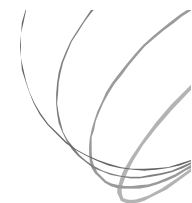
Table 2

Funding Position 2009/10

	£ Million	£ Million
Recurring income	68.065	
Recurring expenditure	70.212	
Recurring savings	0.992	
<b>Underlying recurring surplus/(deficit)</b>		(1.155)
Non-recurring income	1.740	
Non-recurring expenditure	1.991	
Non recurring savings	1.417	
<b>Non-recurring surplus/(deficit)</b>		1.166
<b>Financial surplus/(deficit)</b>		0.011
<b>Underlying recurring surplus/(deficit) as a percentage of recurring income</b>		(1.7 %)

**Financial sustainability and the 2010/11 budget**

27. There were tighter financial settlements for health boards in 2009/10 with a general uplift of 3.15% which was equivalent to the previous year but considerably down on the 6% in previous years. This downward trend has continued in 2010/11 as the SGHD has confirmed a general funding uplift of 2.15%, and has indicated that future funding growth will be held at 1%. This will have a significant impact on long term financial planning and the control of pay and non pay costs. In common with other public sector organisations, boards have been set an efficiency savings target of 2% in 2010/11, equivalent to £1.18m in NHS Western Isles’ case, however, these savings are expected to be covered within the Board’s Financial Recovery Plan.
28. In NHS Western Isles’ budget for 2010/11 expenditure, a general pay uplift of 2.5% has been assumed across all staff groups. Pay costs account for approximately 45% of all Board expenditure, therefore this increase in pay costs presents a significant challenge to the Board’s Financial Plan in 2010/11. NHS Western Isles also faces other significant cost pressures which have to be managed within current resources, such as its ongoing reliance on locum medical staff, the high incidence of procedures provided by mainland boards, rising drug costs and energy costs. Non pay budgets have been set to reflect 2009/10 expenditure patterns, with no general inflationary uplift. Specific increases have been anticipated where appropriate, for example prescribing has been uplifted by 5%. Along with pay costs, these factors will significantly affect the Board’s ability to meet current and future financial targets
29. The Board has identified a recurring deficit of £0.845m for 2010/11, and an overall funding gap of £3.928m. Within the Local Delivery Plan for 2010/11, savings have been identified to cover the total funding gap, with £2.544m of these being recurring savings, so that the underlying recurring deficit is forecast to be £0.845m. Non recurring savings have also been identified, which bring the forecast



position to one of overall break even. The Board therefore predicts the underlying recurring deficit for 2010/11 to be improved from the 2009/10 outturn of £1.155m per Table 2 above, although the Board itself has assessed over £1.5m of the total £2.5m savings as being high risk. Management are therefore continuing to identify further savings wherever possible, and are closely monitoring progress towards set targets.

### Risk areas 2 & 3

30. In the medium to longer term the Board faces a number of challenges to maintaining its financial position. These include the requirement to develop comprehensive cost savings plans to achieve recurring savings, the cost pressures in respect of prescribing growth, pay increases and utility costs, high use of locums and the uncertainty over the level of uplifts. The public sector as a whole is facing a difficult time ahead as emphasised in the Auditor General for Scotland's report '*Scotland's public finances: preparing for the future*' which is considered in more detail below.

#### **Extract from Auditor General's report *Scotland's public finances***

*The public sector is coming under the greatest financial pressure since devolution.*

- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.

*The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.*

- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.
- *In the current economic climate difficult decisions will have to be made about priority spending programmes.*
- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.



## People management

31. Audit Scotland is developing a range of audit toolkits to cover key best value principles. These are being developed for use by auditors although and are being made available to public bodies themselves for reference. In 2009/10, continuing our focus on the use of resources, we applied the best value toolkit on People Management. This exercise was part of our developing approach to the audit of best value which involves the cumulative development of a picture of NHS Bodies' best value activities over a period of time, setting it in the context of identified best practice.
32. The People Management toolkit covered a number of specific areas: policies and structures supporting effective people management; integration of workforce planning with strategic and financial planning processes; managing and developing the performance of staff, and communication and involvement of staff.
33. A number of areas of good practice and areas where improvements could be made were identified by our audit work. These will be detailed in our report along with our overall conclusion on the Board's approach to people management which will be issued in August 2010.
34. Also, as with other health boards in Scotland, NHS Western Isles faces a major challenge in achieving the national sickness absence standard of 4%. The sickness absence rate for the Board at 31 March 2010 is 4.3% which although above target is an improvement on last year when the rate was 4.4%. The Board continues to address sickness absence through its Attendance Management Policy and by the inclusion of attendance management as a key target for senior staff within their performance objectives.

### Risk area 4

## Management and use of ICT

35. As part of the 2009/10 audit we reviewed aspects of the Board's management and use of ICT as follows:
  - Computer services review, follow-up (2008/09).
  - Review of e-care data sharing, follow-up.
  - Your Business@Risk – Information Governance and Security Survey.

### Computer services review follow-up (2008/09)

36. We carried out a follow-up review of the actions taken in response to our 2008/09 Computer Services Review. NHS Western Isles restructured the reporting arrangements for Information Technology and established an eHealth Programme Board during the first quarter of 2010. The clinical leadership of the new eHealth Programme Board has the potential to provide a steer for the ongoing local implementation of *Better Health, Better Care*. The guidance and leadership of the eHealth Programme Board could provide a sound basis for NHS Western Isles to balance their available resource with local and national eHealth and IT service delivery demands.



37. Management continue to address the nine remaining risks that were identified in our earlier Computer Services Review.

### **Review of e-Care data sharing follow-up**

38. We have requested that the Chairman of the Outer Hebrides Data Sharing Partnership provides a further progress update on the action plan developed following the 2007/08 Data Sharing Partnership Arrangements audit. A follow-up report will be prepared as soon as this information becomes available.

### **Your Business@Risk – Information Governance and Security Survey**

39. Your Business @ Risk (YB@R) is a web-based survey that helps bodies quickly assess procedural, cultural and ethical compliance risks that have the potential to undermine the effectiveness of their information governance. The Graham Committee report on the Standards of Conduct in Public Life and the Standards Commission for Scotland endorsed this type of tool and recommended that a survey of this type be used throughout the whole of the public sector. YB@R provides a snapshot of whether an organisation's information governance policies are achieving their objectives and can help minimise the likelihood of data loss and the consequent corrective work that would ensue.
40. All users of eHealth facilities within NHS Western Isles were invited to participate in the web based survey to assess their awareness of security issues and their role in reducing risk to the organisation. The survey was launched on Monday 24<sup>th</sup> August and closed on Monday 14 September 2009. Responses were fairly evenly distributed throughout acute services, primary care services and administration functions, which allowed us to conclude that results provided a fair representation of the situation across the organisation.
41. Our review identified a number of areas where NHS Western Isles staff demonstrated a high level of awareness of good practice, however, the survey also identified an apparent lack of knowledge and awareness in certain other areas. These issues merit further consideration by management, as ongoing information security awareness training is developed, and should inform development of future information security policies and procedures.
42. The overall profile of results demonstrated a low level of information security awareness within NHS Western Isles. We have agreed with the Director of Finance that the outcomes from the survey will be communicated to staff and that risk areas identified will be addressed through the Corporate Management Team.





# Governance and Accountability

43. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our main findings arising from our review of NHS Western Isles arrangements.
44. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

## Overview of arrangements

45. This year we reviewed:
  - internal audit (paragraph 58)
  - key systems of internal control (paragraphs 53 to 55)
  - aspects of ICT (paragraphs 35 to 42)
  - arrangements for the prevention and detection of fraud and irregularity (paragraphs 59 to 62)
  - commitment to the National Fraud Initiative (paragraphs 63 to 69).
46. Our overall conclusion is that governance and accountability arrangements within NHS Western Isles are sound and have operated through 2009/10.

## Patient safety and clinical governance

47. The Board continues to work with NHS Quality Improvement Scotland (NHS QIS) to support the implementation of clinical governance and risk management (CG&RM) standards to ensure that clinical governance principles are embedded in local practice. One of the HEAT targets is that boards should show improvement against the standards. The Board had its follow-up review by QIS in March 2010, and should receive its findings in July. The Board's self assessment submitted in advance of this review indicated that the Board was on track to achieve improvement to overall Level 2, with possible Level 3 in some areas.
48. NHS Western Isles has made good progress with regard to patient safety, in line with the Scottish Patient Safety Programme (SPSP) launched in 2007 by the Scottish Patient Safety Alliance, which brings together the Scottish Government, NHSQIS and NHS boards. The Board was commended in its 2009 Annual Review for achieving very low rates of C Diff and MRSA infection, and the incidence of Healthcare Associated Infection in general continues to be low within the Western Isles and has made good progress towards achieving the objectives of the SPSP during 2009/10.

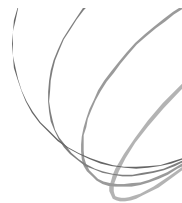


## Partnership Working

49. Partnership working in the NHS covers a number of areas, including partnerships with staff groups, local authorities, the voluntary sector, private healthcare providers and regional planning with other NHS boards. The Board has undertaken significant work in partnership with the Comhairle since establishing Western Isles Community Health and Social Care Partnership (CHaSCP), in 2007/08, to provide care and public health services in a local setting to meet the needs of the local population.
50. Partnership working with staff continues to improve. Both the Human Resources Forum and Area Partnership Forum have active and participative agendas contributing to the Board's priority areas. The Chief Executive continues to have both a scheduled programme of open meetings with staff and a schedule of informal, open meetings with staff side colleagues.
51. The ability of the Board to work in partnership with the Comhairle has been demonstrated in the successful development to date of the Western Isles Community Health and Social Care Partnership, in accordance with its 3 year Development Plan. Management of the CHaSCP is through a Joint Services Committee, a CHaSCP Committee and a Management Team. During 2009/10, the Board began implementing its CHaSCP Development Plan 2009/2012, underpinned by a detailed annual plan. The Board, however, needs to ensure that the CHaSCP continues to demonstrate service improvement, as care provision shifts from acute to community based services. Audit Scotland is also currently carrying out a national performance audit of Community Health Partnerships across Scotland and will examine the current position in the Western Isles as part of this national work.
52. Formal partnership arrangements with other boards have been further developed, principally with NHS Highland, to provide support in key management areas. The effectiveness of these arrangements has been reviewed and, where necessary, priorities have been changed to ensure that the most effective use is made of the resources offered. A revised service agreement for the provision of non clinical support services by NHS Highland in 2010/11 was signed off in June 2010.

## Systems of internal control

53. 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 2009/10 Deloitte, the Board's internal auditors, provided their opinion that, based on the internal audit work undertaken during the year, the Board had an adequate framework of control over the systems reviewed. Their annual report also draws attention to those areas where controls require to be improved.
54. As part of our audit we reviewed the high level controls in a number of NHS Western Isles systems that impact on the financial statements. This audit work covered a number of areas including payroll, trade payables, cash and bank, family health services, trade receivables, stores and general ledger.



Our overall conclusion was that NHS Western Isles has adequate systems of internal control in place. We identified some areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed-up at a future date to confirm that improvements have been made.

55. In addition we placed formal reliance on aspects of internal audit's systems work in terms of International Standard on Auditing 610 (*Considering the Work of Internal Audit*) to avoid duplication of effort. In particular we relied on aspects of internal audit's work on payroll and capital expenditure. The work of internal audit provides us with additional assurances on the adequacy of the internal control environment within NHS Western Isles.

### **Statement on internal control**

56. The Statement on Internal Control (SIC) provided by NHS Western Isles reflected the main findings from both external and internal audit work. This SIC records management's responsibility for maintaining a sound system of internal control and summarises the process by which the Accountable Officer obtains assurances on the contents of the SIC.
57. The SIC also drew attention to the Board's strategic five year financial plan which forecasts the achievement of recurring financial balance by end 2012/13. It noted that this outcome was reliant on delivery of savings identified in the financial recovery plan, and on identification of further savings to provide a contingency against any unforeseen slippage. The SIC also makes reference to the Board's arrangements in relation to Best Value and information governance.

### **Internal Audit**

58. 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. Also, as part of our risk assessment and planning process for the 2009/10 audit we assessed whether we could place reliance on NHS Western Isles' internal audit function. We concluded that the internal audit service operates in accordance with relevant Internal Audit Standards and has sound documentation standards and reporting procedures in place. We therefore placed reliance on their work in a number of areas during 2009/10, as we anticipated in our annual audit plan.

### **Prevention and detection of fraud and irregularities**

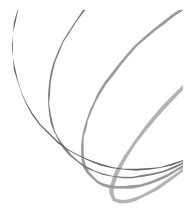
59. NHS Western Isles has a comprehensive range of measures in place to prevent and detect fraud including Standing Financial Instructions, a Code of Conduct for staff and supporting policies and procedures. The Board has also entered into a formal partnership agreement with NHSScotland Counter Fraud Services (CFS).



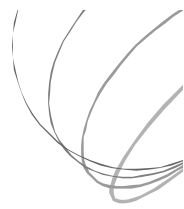
60. The Board has also agreed a formal protocol covering a programme of Payment Verification checks with the Practitioner Services Division of NHS National Services Scotland. In 2009/10 these checks included verification against patient records, requesting patients to confirm treatment by letter, visits to practices and examination of patients.
61. Additionally, the Board's internal audit function has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud.
62. The Board's HR staff received focussed training from CFS in June, and November 2009 was designated as fraud awareness month. NHS Western Isles, as part of this initiative, held several staff training events, including a Board presentation, in conjunction with CFS, to promote awareness of fraud and anti-fraud measures throughout the Board area.

## **NFI in Scotland**

63. During the year NHS Western Isles took part in the 2008/09 National Fraud Initiative (NFI) in Scotland. The NFI in Scotland is a counter-fraud exercise led by Audit Scotland, assisted by the Audit Commission (our sister organisation in England). It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
64. NFI allows public bodies to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
65. As part of our local audit work we carried out a high level assessment of NHS Western Isles' approach to the NFI. The Board's Fraud Liaison Officer and selected team members systematically review data matches. Additionally, the Risk Monitoring & Audit Committee receives regular reports on anti-fraud activities including updates of NFI investigations. We concluded that the Board is proactive in preventing and detecting fraud, and largely complied with the guidance for participation in the NFI. Some areas were identified for further action, and the related work was completed during March/April 2010.
66. The Audit Scotland report *The National Fraud Initiative in Scotland; making an impact*, which was published on 20 May 2010 set out the results of the 2008/09 NFI exercise. It involved 74 bodies, including councils, police forces, fire and rescue services, health boards, the Scottish Public Pension Agency and the Student Award Agency for Scotland.



67. Overall, the outcome of the 2008/09 exercise was worth £21.1 million to the public purse. The report also highlights that while the NFI has been successful, much of the information used in this exercise was collected before the recession really took hold. An economic downturn is commonly linked to a heightened risk of fraud, and public bodies need to remain vigilant.
  
68. The cumulative outcome of the current and previous NFI exercises in Scotland is now around £58 million and there have been at least 80 successful prosecutions since the last NFI report in 2008. Audit Scotland will require data for the next NFI exercise in October. This is expected to be carried out under new powers currently before the Scottish Parliament. These will provide for more collaboration with other UK agencies to detect 'cross border' fraud, extend the range of public sector bodies that may be involved, and allow data matching to be used to detect other crime as well as fraud.
  
69. The national report *The National Fraud Initiative in Scotland; making an impact* includes a self-appraisal checklist. We recommend that officers involved in the NFI should use the checklist as part of their preparations for the NFI 2010/11.



# Performance

70. 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. Key features of best value include setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery. Additionally, it includes a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes for citizens.

## Vision and strategic direction

71. The Corporate Plan *Better Health, Better Care, Better Here* 2010/11 outlines how the Board is going to achieve its overall purpose: ***“To protect and improve the health and well-being of the Western Isles population and to ensure the reliability and delivery of sustainable and safe healthcare and services.”*** The plan consists of seven corporate objectives as detailed below:

- Provide patient centred care, focusing on the health needs of the population, and identifying opportunities for improving patients’ experience.
- Continue to ensure delivery and continuous improvement of a range of high quality health improvement, health protection and health care services to the people of the Western Isles within the financial and other resources available, and by working in partnership with our staff and the people we serve.
- Develop and deliver a Clinical Strategy for NHS Western Isles which will describe the strategic intent of the Board and the future pattern of health services available to the Western Isles population.
- Support and develop a confident, competent, flexible and responsive workforce.
- Ensure continued improvement of all the following governance systems to meet national standards and best practice: Board/Staff/Clinical/Financial, Audit and Risk Management.
- Deliver national HEAT targets, as described in the Local Delivery Plan, and requirements as agreed at the 2008/09 Annual Review.
- Operate as full partners with colleague bodies in the Western Isles and on the mainland.



72. The Corporate Plan is subject to annual review, and the underlying Local Delivery Plan links the corporate objectives to the government's HEAT targets. Quarterly performance updates on HEAT Key Performance Measures (KPMs) are provided in summary form to the Board for information. These reports are compiled from monthly reporting on KPMs which is reviewed by Single Operating Division management teams and Corporate Management Team.

## Managing Risk

73. There are a number of key challenges and risks for the Board in delivering its plans. The Board has put in place good systems for the identification and management of risk with the adoption of a single corporate risk register, corporate risk management policies and the issuing of guidance for managers. These corporate risk arrangements are supported by local departmental risk management arrangements. The challenge for the Board is in embedding a risk aware culture within the organisation for the future management of existing and emerging risks in the medium to long term.

74. The main risk areas are:

- Financial Management and Affordability
- Service Redesign and Sustainability
- Effective Partnership Working
- Performance Management
- Workforce Planning.

75. These areas are addressed elsewhere in this report. Each area is complex and comprises multiple issues which will require careful management to resolve. We have continued to monitor the Board's progress in each of these areas over the course of the year and have commented on this within the report.

## Service Development

76. Our annual audit plan also highlighted that NHS Western Isles faces a unique challenge in providing safe and sustainable services to its resident population. As a consequence of this challenge, the detailed work of developing a clinical strategy for health services in the Western Isles was begun late in 2007/08 and has continued during 2009/10. The clinical strategy will be consistent with the key principles of the Scottish Government's report "*Delivering for Remote and Rural Healthcare*".



77. The development of a clinical strategy has been ongoing for more than two years, having experienced considerable slippage from the original timetable, so that the Board now expects to consider the final service options in August 2010. Work on the clinical strategy is now focussed on three key elements:

- Modernisation of the Western Isles Hospital
- Implementation of the Mental Health Strategy
- Modernisation of Community Services.

78. Further slippage in the development of the clinical strategy could be damaging to the Board's progress in these areas. Furthermore, the draft strategy may be subject to independent scrutiny, if instructed by the Cabinet Secretary for Health and Wellbeing.

**Risk area 5**

## Performance Overview

79. Performance monitoring and reporting against HEAT targets is reasonably well developed within NHS Western Isles, and during 2009/10 performance management arrangements became further integrated with the Board's planning cycle. As part of the inter board support arrangements, NHS Western Isles has been liaising with NHS Highland in relation to performance management processes, including the development of a performance management framework across the CHaSCP.

80. The Board demonstrated good performance against a number of challenging HEAT targets by the end of March 2010 including waiting time targets for inpatients, inequalities health checks and reduced psychiatric readmissions. However, it was noted that some targets, including outpatient and cancer waiting times, were only partially achieved.

81. Waiting times have been falling over recent years as the Board has achieved successive Government targets. The current Government target is that by December 2011 the total maximum journey will be 18 weeks from referral to treatment. . At the end of March 2010 NHS Western Isles had not achieved the target of no outpatients waiting more than 12 weeks from GP referral to an appointment. However, the Board had achieved the 12 week inpatient/day case target by March 2010.

82. The challenge for the Board will be to maintain momentum and increase efficiency to meet the new Government targets in a more financially restrictive environment where the opportunities for additional investment will have to be balanced with the other strategic and operational objectives of the Board.

**Risk area 6**





83. There is now an expectation that all public sector bodies, including the NHS, should be able to demonstrate how their activities are aligned with the Government's over-arching purpose through the National Performance Framework (2008). This introduced Single Outcome Agreements (SOAs) for local government bodies in 2008/09. In 2009/10 this was extended to the health sector through the mechanism of Community Planning Partnerships (CPPs). As a result, NHS boards are required to engage with local authorities, and other public bodies, to agree the priority outcomes and related indicators, and set out how these will support the National Outcome in SOAs.

## Performance Management

84. During 2009/10 the Board approved a single system integrated performance management framework and a programme of comprehensive performance management reviews across all Board functions commenced in March 2010. The programme of performance management reviews is undertaken by executive directors of the Board in consultation with lead officers from relevant functions of the Board. The timing of the reviews is aimed at contributing towards and assisting the Board's preparation for both the Annual review and the mid-year review. The Board's pre-existing monthly reviews which focus on finance, absence and associated risk continue as a separate process.
85. The Cabinet Secretary for Health and Wellbeing, as part of the Annual Review of NHS Western Isles in September 2009 highlighted areas where specific action would be required to ensure that certain performance targets are achieved. These included continuing to deliver all waiting/access and HEAT performance targets and meeting the revised timeline for completion of the clinical strategy. An Annual Review Action Plan has been prepared by the Board to identify responsible officers and track progress for reporting to the Board.
86. One of the major challenges facing all boards in Scotland is tackling health inequalities. Although levels of deprivation within the Board area are below the Scottish average, the Board has incorporated actions within its Local Delivery Plan, service plans and performance reports to assess progress in this area.

## Improving public sector efficiency

87. The Audit Scotland report *Improving public sector efficiency* was published on 25 February 2010. It provided a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also provided an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report on the previous efficiency programme.



88. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. However, there are serious financial challenges ahead – the most significant since devolution – and making the required savings through efficiency will become increasingly difficult.
89. The report recommended that in order to deal with reduced future funding and to increase savings, public bodies need to consider fresh approaches to improving efficiency and productivity. They must also take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.
90. The drive to improve efficiency and productivity is not just an exercise for managers and service providers, it also requires strong leadership and engagement from the very top of public bodies. Leaders and senior decision-makers within an organisation have a responsibility to check, challenge, monitor and support their organisations in delivering efficiency and productivity improvements. The report's recommendations highlighted areas that public bodies' key decision makers should look at to assess their organisation's development and to challenge existing arrangements (shown below).

**Extract from Audit Scotland report *Improving public sector efficiency***

*In order to improve the delivery of efficiency savings public bodies should:*

- ensure they have a priority-based approach to budgeting and spending
- continue to improve collaboration and joint working, overcoming traditional service boundaries
- consider using alternative providers of services, if these providers can improve the efficiency, productivity or quality of services
- improve information on costs, activity, productivity and outcomes, including setting baselines to measure performance against
- give greater urgency to developing benchmarking programmes
- maintain the momentum of activities and initiatives to improve purchasing and asset management and extend shared services
- ensure there is a joined-up approach to efficiency savings across the public sector, avoiding duplication
- ensure that plans are in place to deliver savings, clearly setting out what action will be taken, the level of savings to be delivered and how these will be measured
- strengthen the involvement of front-line staff, service providers and users in redesigning public services
- reduce reliance on non-recurring savings to meet financial targets and generally use these as part of a wider and longer term strategy
- report efficiency savings consistently.

91. To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible within the Board for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.



## National Studies

92. Audit Scotland's Performance Audit Group undertake a programme of national studies each year in consultation with key stakeholders. The findings and key messages of these studies are published in national reports which are publicised and widely distributed. In addition they are also available on Audit Scotland's website.
93. At a local level, NHS Western Isles circulates all national reports for noting at the Board's Risk Monitoring & Audit Committee. However, there is currently no formal process in place to ensure that the findings of national reports relevant to the Board are considered in detail to identify their potential impact and the Board's progress in addressing recommendations locally. The following table lists all Audit Scotland national reports issued during 2009/10 which may be of relevance to the Board.

**Table 3**

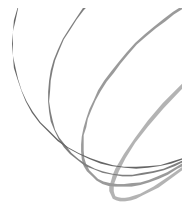
**Audit Scotland national performance reports issued during 2009/10**

Report Title	Date of Publication
Managing the Use of Medicines in Hospitals – Follow-up Review	16 April 2009
Overview of Mental Health Services	14 May 2009
Improving Public Sector Purchasing	23 July 2009
Scotland's Public Finances: Preparing for the Future	5 November 2009
Overview of the NHS in Scotland's Performance 2008/09	10 December 2009
Improving Public Sector Efficiency	25 February 2010
Managing NHS Waiting Lists	4 March 2010
Review of Orthopaedic Services	25 March 2010

94. Audit Scotland's expectation is that NHS Boards should consider the findings contained in national reports and identify actions to be taken locally. Recent discussions at the Risk Monitoring & Audit Committee highlighted the need for the Board to introduce a suitable process for dealing with national reports and due consideration is being given to this issue.

### **Risk area 7**

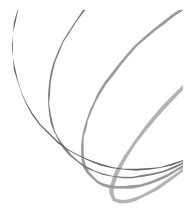
95. Full copies of all the above reports and our other national reports can be downloaded from Audit Scotland's website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).



# Looking Forward

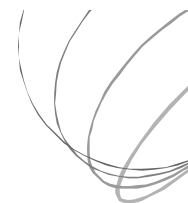
96. NHS Western Isles faces a number of challenges in 2010/11, which include:

- **Financial management and affordability** – The funding settlement for 2010/11 provides an uplift of 2.15%. Given the current economic situation, and the impact of the recent UK Government emergency budget in June 2010, the future for funding uplifts is uncertain. This could have a significant impact for long term financial planning and the control of pay and non pay costs. NHS Western Isles have also identified that during 2010/11 it must deliver savings £3.4m in order to eliminate any deficit, fully fund inflationary pressures, and fund agreed developments appropriately. Delivering these efficiency savings without impacting on services presents a significant challenge for the Board.
- **Efficiency, future funding and economic developments** - Scottish public bodies reported more efficiency savings than the Government's two per cent target in 2008/09, but there are serious financial challenges ahead – the most significant since devolution – and making the required savings through efficiency will become increasingly difficult. To deal with any reduced future funding and increase savings, fresh approaches to improving efficiency and productivity must be considered. This will require a more fundamental approach to be taken to identify priorities, improve the productivity of public services, and improve collaboration and joint working. NHS Western Isles has projected that savings of approximately £2.5m to £3m per annum will have to be made in the years beyond 2010/11 to achieve financial balance. The challenge for NHS Western Isles is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **Service redesign and sustainability** – The successful, continued agreement and implementation of early deliverables as part of the Clinical Strategy which should deliver safe, efficient and sustainable healthcare across the Western Isles will require high levels of public support and high levels of cooperation between the Board and its partner organisations. Community Health (Care) Partnerships have been one of the most significant service redesign features in recent years. NHS Western Isles and its partner local authority have been innovative in designing a structure that encompasses a true partnership approach to local health and social care provision. The challenges for the Board will be to implement a timely and effective clinical strategy and to demonstrate that the current CHaSCP structure is delivering its objectives and is instrumental in shifting the balance of care from acute to primary care settings.



- **Equal Pay** - The Equal Pay Directive has made it clear that pay discrimination should be eliminated from all aspects of remuneration. NHS Western Isles currently has 15 claims outstanding. Significant ongoing uncertainties have been identified by the CLO resulting in an unquantified contingent liability disclosure in 2009/10. However, 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.
- **VAT increase** – The Chancellor’s emergency budget on 22 June included an increase in VAT from 17.5% to 20% from January 2011. It has been reported that the VAT increase will increase the cost of supplies across the NHS in Scotland by £26 million and NHS Western Isles will bear a portion of this increase. The increase in VAT poses a risk to the Board’s financial position.
- **Best Value** - The concept of best value is seen as a key driver of modernisation and improvement in public services. Audit Scotland has continued its commitment to extending the best value audit regime across the whole public sector and significant development work has taken place over the last year including the finalisation of its best value toolkits. This has been matched by the Scottish Government’s commitment to refreshing its Best Value Guidance for Public Bodies. NHS Western Isles should continue to respond to this important initiative as it develops

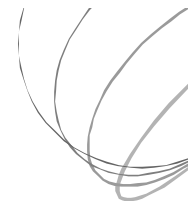
97. The Board recognises these challenges and is taking steps through its planning processes to address them. We will continue to monitor the progress that the Board is making on these key issues.



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	NHS Western Isles as with other Boards has not been able to quantify the extent of its liability for Equal Pay claims. There is a risk that these liabilities will have an impact on the Board's financial position.	Whilst we await advice from the Central Legal Office, we do not consider that the 15 claims being processed will have a major effect on the financial position. However we record it as a risk in our financial reports to the Board to ensure that it continues to be taken into account.	Director of Finance	Ongoing
2	During 2010/11 the Board require to achieve £3.4 million of cost savings to achieve break-even. Delivery of these savings presents a risk to the quality of and affordability of services.	Progress with development and implementation of savings action plans is reported regularly to the Corporate Management Team and the Board. The Financial Recovery Plan is project-managed by the Deputy Director of Finance.  Achieving savings targets is incorporated into individual performance objectives.  Monthly performance meetings are held by the Executive Directors with senior budget holders to ensure that savings targets are delivered.	Director of Finance	Ongoing
3	The Board continues to face significant cost pressures relating to the rate of growth in prescribing costs, mainland referral costs, locum costs and supplies during 2010/11. Any significant fluctuations in these costs will present a risk to NHS Western Isles achieving financial balance.	The Board has set a realistic budget for 2010/11 which should take account of current pressures although they will be closely monitored as we progress through the year. In terms of prescribing, referrals, locum usage and supplies these areas are receiving close scrutiny to improve cost control. However the recent UK emergency budget has brought additional pressures which we will be addressing along with any other unplanned pressures. The Board is working on identifying additional savings to create a contingency reserve to buffer against significant fluctuations.	Director of Finance	Ongoing
4	The Board may not achieve the sickness absence standard of 4%.	Managers are supported by the Promoting Attendance Task Force to manage the most challenging aspects of staff attendance. The Task Force has also been instrumental in introducing changes to the Promoting Attendance Policy and in the introduction of a Case Conference Approach to facilitating earlier return to work.  The new Medical Certificate (Med 3) will provide real opportunities for avoiding unnecessary absence.	Director of Human Resources and Workforce Planning	Ongoing



Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
5	Failure to progress development and implementation of the Board's clinical strategy may have a negative impact on improvements within certain areas of Board activity.	NHS Western Isles is now pursuing three prioritised next stage early deliverables as part of the service modernisation aspect of our clinical strategy. An incremental risk assessed and prioritised approach is now the method for taking the clinical strategy work forward.	Chief Executive	Ongoing
6	There is a risk that NHS Western Isles may not be able to maintain and improve their performance against the nationally determined HEAT targets.	Areas of risk are addressed through the SLA Group and via development of appropriate obligate networks, and service redesign. Progress is reported to each meeting of the Board.	Nurse Director/Chief Operating Officer	Ongoing
7	There is a risk that the Board may not recognise and respond to issues highlighted in national performance reports issued by Audit Scotland.	In future the appropriate Executive Lead will produce a local interpretation report to brief the Corporate Management team, the relevant governance committee(s) and if necessary the Board.	Chief Executive	Ongoing