Shetland Health Board

Annual report on the 2011/12 audit

AUDIT SCOTLAND

Prepared for Shetland Health Board and the Auditor General for Scotland
July 2012

Contents

Key messages

2011/12

The Scottish public sector faces significant challenges in balancing budgets while also delivering on its commitments. In 2011/12 we assessed the key strategic and financial risks being faced by Shetland Health Board. 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.

We have given an unqualified audit report on the financial statements of Shetland Health Board for 2011/12. We also concluded that in all material respects, the expenditure and income shown in the financial statements was incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

The Board achieved all of its financial targets in 2011/12. The financial statements recorded an in year overspend of £0.34 million, however, taking into account the brought forward underspend of £0.46 million from 2010/11, the board achieved a cumulative surplus of £0.12 million for 2011/12.

In 2011/12 the board achieved recurring savings of £1.47 million against a planned recurring savings target of £1.67 million. The balance was met from non-recurring savings. The board achieved this surplus through management of its savings programmes, workforce management and a series of one off measures. The Board still carries a significant underlying deficit, representing the difference between recurring expenditure and resourcing, which stands at £1.56 million at 31 March 2012. This is an increase of 11.4% on the underlying deficit of £1.40 million as at 31 March 2011.

The board has a framework in place for monitoring and reporting performance. In 2011/12 the board met or exceeded a significant number of performance targets set by the Scottish Government and, in a number of areas, performance continues to improve. However, some performance targets were not fully achieved and in those cases the board has established actions to improve performance.

In 2011/12, the board had sound governance arrangements in place which included a number of standing committees overseeing key aspects of governance. These included an Audit Committee, Staff Governance Committee and Clinical Governance Committee. The board also had an effective internal audit function and anti-fraud arrangements.

Outlook

The position going forward is becoming even more challenging than previous years with limited increases in funding and challenging savings targets. To achieve continuing financial balance, the Board has set a challenging savings programme of £2.466 million in 2012/13. The Board will need to closely monitor this plan to ensure any emerging budget pressures or projected overspends are identified and addressed at an early stage.

The board has also approved a long term financial plan with the aim of eliminating its underlying deficit by the end of 2015/16. To achieve this target, the Board will need to identify £7.469 million of recurring savings over the next four years.

The significant financial challenges that the board faces in 2012/13 and beyond will require the board to further prioritise its use of resources to establish a sustainable position. This will make maintaining or improving on the performance targets set by the Scottish Government even more challenging.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Shetland Health Board. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.

2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of Shetland Health Board.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that Shetland Health Board understands its risks and has arrangements in place to manage these risks. The Board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

4. This report is addressed to the Board and the Auditor General for Scotland and should form a key part of discussions with the Audit Committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.

5. This report will be published on our website after consideration by the board. The information in this report may be used for the Auditor General's annual overview of the NHS in Scotland's financial performance later this year. The overview report is published and presented to the Public Audit Committee of the Scottish Parliament.

6. The management of the board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
   - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
   - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
   - the regularity of the expenditure and income.

9. Auditors review and report on, as appropriate, other information published with the financial statements, including the director's report, governance statement and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion in that the financial statements of Shetland Health Board for 2011/12 give a true and fair view of the state of the body's affairs and of its net operating cost for the year.

11. Shetland Health Board is required to follow the 2011/12 Government Financial Reporting Manual (the FReM) and we confirm that financial statements have been properly prepared in accordance with the FReM.

12. We have also reviewed the board's governance statement and concluded that it complies with Scottish Government guidance.

Regularity

13. 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 income shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by 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.

Accounting issues

14. As agreed, the unaudited financial statements were provided to us on 7 May 2012 supported by a comprehensive working papers package. The good standard of the supporting papers and the timely responses from Shetlands Health Board staff allowed us to conclude our audit

within the agreed timetable and provide our proposed opinion to the Audit Committee on 22 June 2012 as outlined in our Annual Audit Plan.

15. The accounts, including the narrative elements, required a significant number of disclosure and formatting corrections following the audit process. Within the health board, the processes and responsibilities for updating the accounts to an agreed final version were not clear and this led to an extension of the timeline for finalising an agreed version of accounts. The board should ensure that procedures are improved to ensure that all audit amendments are made to the accounts in advance of the accounts being prepared for signature.

Risk area 1

16. A number of monetary errors were identified during the audit, where if adjustments had been made there would have been a net effect of decreasing net operating costs by £48,000. The net impact on the balance sheet would be to increase net assets by £48,000. These errors were not material to the accounts as a whole.

17. As required by auditing standards we reported to the Audit Committee on 22 June 2012 the main issues arising from our audit of the financial statements. The main points were as follows:

Governance Statement

18. The first draft of the governance statement received for audit review was long and contained a high level of detail at least in part because it included a substantial quantity of continuing information from earlier periods. There is a risk that an overly detailed statement may lack the required impact. During the clearance meeting, we requested that the statement was revisited to ensure that key issues and positive developments were clearly identifiable by the reader. Following this, the revised statement provided by the board was shorter and more focussed than the original draft. The board should ensure that the governance statement is thoroughly reviewed and updated each year at an early stage of the accounts preparation process.

Risk area 2

Pension Provisions

19. Shetland Health Board uses information provided by the Scottish Public Pensions Authority (SPPA) to calculate the required Pension and Injury Benefit Provisions at 31 March 2012. Also required are Scottish Interim Life tables, which are prepared by the Office of National Statistics, and the discount factor, where the FReM interprets IAS 37 to require bodies to use the real rate set by HM Treasury.

20. Through our work it was identified that there were a number of errors in the pension provision figures included in the unaudited financial statements which resulted from the use of the wrong interim life tables and discount rate. The same errors appear to have been included in the prior year audited accounts. The value of the errors in both years was not material. The current year figures have been adjusted for the errors. The Board should undertake a detailed

review to ensure that the correct interim life tables and discount rate are used, and that all other balances are accurate.

Risk area 3

Prior year adjustments - Donated Assets

21. The 2011/12 FReM required boards to change the accounting treatment for donated assets which led to the removal of the donated asset reserve from their accounts. This requirement was a change in accounting policy which was reflected in the financial statements of Shetland Health Board with appropriate amendments made to prior year statements.

Heritage assets

22. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. From 2011/12 boards were required to separately disclose any heritage assets. During 2011/12 the board conducted a review of non-current assets which identified that no such assets are held by the board.

Outlook

Endowments

23. As a result of an agreed derogation from the FReM, NHS Scotland boards were not required to consolidate endowment funds within their 2011/12 financial statements, in terms of IAS 27, Consolidated and Separate Financial Statements. The Treasury and Scottish Government have delayed the consolidation of NHS Endowment Funds until financial year 2013/14.

Financial position

24. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

25. Auditors consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

26. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

The board's financial position as at 31 March 2012

27. Shetland Health Board is required to work within the resource limits and cash requirement set by the Scottish Government Health and Social Care Directorates (SGHSCD). In 2011/12, the SGHSCD required NHS boards to differentiate between core and non-core expenditure for both revenue and capital.

28. The board achieved all its financial targets in 2011/12 as outlined below Table 1:

Table 1: 2011/12 Financial Targets Performance £'000s

Financial Target	Target	Actual	Variance
Revenue Resource			
Core	45,843	45,721	122
Non Core	2,801	2,801	-
Capital resource			
Core	655	655	-
Non Core	-	-	-
Cash position			
Cash requirement	53,000	52,340	660

29. The board recorded an in year overspend of £0.34 million. Taking into account the brought forward underspend of £0.46 million from 2010/11, the board achieved a cumulative surplus of £0.12 million for 2011/12. The board had budgeted to breakeven against its Revenue

Resource Limit in 2011/12. The board achieved recurring savings of £1.47 million against a planned recurring savings target of £1.67 million. The balance was met from non-recurring savings. The board achieved this surplus through management of its saving programmes, workforce control measures and a series of one off measures.

30. Historically, boards have relied upon a measure of non-recurring funding to achieve financial targets. However, due to the one-off nature of this type of funding, the tighter financial settlement compared to the past and reduced flexibility within expenditure budgets, there is less scope for reliance on non-recurring income to achieve financial balance as NHS boards seek to rationalise their cost base.

31. The board still carries a significant underlying deficit representing the difference between recurring expenditure and resourcing, which stands at £1.56 million at 31 March 2012. This is an increase of 11.6% on the opening underlying deficit of £1.40 million. The board has also set a long term financial plan with the aim of eliminating its underlying deficit by the end of 2015/16. To achieve this target, the board will need to identify £7.47 million of recurring savings over the next four years.

Capital Resource Limit

32. The board broke even against its total Capital Resource Limit (CRL) in 2011/12 with net capital expenditure of £0.655 million. The main areas of expenditure were on endoscopy equipment and improvements to theatres.

Financial planning to support priority setting and cost reductions

Financial sustainability and the 2012/13 budget

33. Uplifts in financial settlements have been reducing in recent years. In 2009/10 there was a general uplift of 3.15%, in 2010/11 the corresponding figure was 2.15% while the baseline revenue funding uplift for 2011/12 was 1.1% (after adjusting for the loss of prescription income and the introduction of the Change Fund). This pattern has continued into 2012/13, with the board's baseline revenue funding uplift being confirmed as 1%. Given the current economic conditions and the impact of national spending priorities, there is also a risk that funding uplifts will be lower in future years. These pressures will have a significant impact on long term financial planning and the control of pay and non-pay costs.

34. The cost challenges facing the board are significant and in some cases there is an element of uncertainty about further potential increases in costs. The board plans to breakeven in 2012/13. The board’s ability to achieve financial balance is largely dependent on it successfully developing and implementing a comprehensive cost savings plan. The board has set a very challenging savings programme of £2.466 million for 2012/13. The cost savings are to be achieved through a number of means, including management of savings programmes, service redesign, vacancy management and other one-off measures. Similar to other boards, NHS Shetland faces financial pressures including increases in pension costs,

increased drug costs and the cost of using medical locums. NHS Shetland also faces the additional cost pressures associated with patient travel to the mainland.

Risk area 4

35. The board has approved a long term financial plan with the aim of eliminating its underlying deficit by the end of 2015/16. In order to achieve this, the board will need to identify £7.469 million of recurring savings over the next four years. The delivery of the cost savings plan in 2012/13 and beyond will be more challenging than it has been in recent years. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. Failure to achieve planned cost savings could impact on the board's ability to achieve a break even position.

Outlook

Significant financial risks beyond 2012/13

36. The board's 2012/13 financial plan indicates that the board will be required to achieve annual savings of 3% in the period to 2015/16 to achieve financial balance. The majority of the cost savings in each year are expected to be generated from recurring sources. These levels of savings will be extremely challenging as the majority of readily achievable savings initiatives will have already been identified in recent years.

Risk Area 5

Pension costs

37. Following the advice of the Scottish Government, Note 24: Pension Costs reflects a net liability of £370 million for the NHS Superannuation Scheme arising from the most recent actuarial valuation. Note 1 of the accounts, Accounting Policies, states that the most recent actuarial valuation was for the year 31 March 2004. Given that the Scheme ought to be subject to a full actuarial valuation every four years, a more up to date valuation would have been expected to have been reflected in the 2011/12 accounts.

38. While there was a more recent actuarial valuation carried out at 31 March 2008, the publication of this valuation has been placed on hold by HM Treasury pending the outcome of public sector pension reforms. Given that periodic actuarial valuations are key to determining the adequacy of employer and employee contributions to the Scheme, publication of the latest actuarial valuation will bring clarity as to the adequacy of current contributions to meet the future commitments of the Scheme.

Governance and accountability

39. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

40. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

41. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
    - corporate governance and systems of internal control
    - the prevention and detection of fraud and irregularity
    - standards of conduct and arrangements for the prevention and detection of corruption.

42. In this part of the report we comment on key areas of governance.

Corporate governance

Committee structure

43. The corporate governance framework within Shetland Health Board is centred on the board which is supported by a number of standing committees that are accountable to it:
    - Audit Committee
    - Staff Governance Committee
    - Clinical Governance Committee
    - Remuneration Committee
    - Strategy and Redesign Committee
    - Community Health Partnership (CHP) Committee

44. The Board's Service and Redesign Committee was replaced during 2011/12 with a Strategy and Redesign Committee. The new committee's work has been extended to incorporate risk management and provides a forum for strategic and policy decisions and development. The board will hold two development sessions each year to supplement the work carried out by the Strategy and Redesign committee. These sessions will focus on the development of the board, board arrangements and the effectiveness of the board's governance arrangements.

Patient safety and clinical governance

45. Patient safety is at the heart of clinical governance and risk management and a number of national arrangements and initiatives are in place to assist Boards in this area. NHS Healthcare Improvement Scotland (NHS HIS) has lead responsibility for reviewing boards' performance in relation to patient safety, and for working with boards to improve patient safety. The remit of the Healthcare Environment Inspectorate (part of HIS) is to reduce the risk of HAIs in acute hospitals through assessment, inspection and reporting of boards' performance against HAI standards.

46. Healthcare Improvement Scotland performed a peer review of the board's Sexual Health Services in May 2011. The review covered a broad range of activities including clinical services, health improvement, information, training and partnership working. Staff were praised on the progress that had been made so far in the provision of accessible sexual health and family planning services and the plans for improvement. However, this review also highlighted the difficulties in sustaining such services in a small island board.

47. The remit of the Healthcare Environment Inspectorate (part of HIS) is to reduce the risk of hospital acquired infections (HAIs) through assessment, inspection and reporting of boards' performance against government standards. The Healthcare Environment Inspectorate began inspections of services for older people in acute hospitals in November 2011. These reviews were requested by the Cabinet Secretary for Health, Wellbeing and Cities Strategy in June 2011. The results of HAIs for Shetlands Health Board for 2011/12 can be found in the section on 'Overview of performance targets in 2011/12'.

48. The Quality Strategy for NHS Scotland was published in May 2010. The board has received regular updates on progress with the implementation of the recommendations set out in the national Quality Strategy. The reports to the Board include an action plan which links the Board's existing clinical governance and service development plan with the quality drivers set out in the national strategy. The Area Clinical Forum (ACF) is taking a quality assurance role in the development of the plan and the delivery of the strategy locally.

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.

50. Partnership working in Shetland Health Board is well established. The board works closely with Shetland Islands Council and many other statutory and voluntary agencies. In addition, a formal partnership agreement is in place with NHS Grampian to deliver a wide range of clinical and non-clinical services. For example, from 1 November 2011 the Board's payroll function was outsourced to NHS Grampian.

51. The Community Health and Care Partnership (CHCP) has successfully supported the establishment of Shetland's Public Partnership Forum (PPF). The PPF is a network of local individuals and organisations. Its role is to inform local people about the range of health and

social care services that are provided locally, whilst engaging local service users, carers and the public about how to improve CHCP services. We noted in our annual audit plan that there have been difficulties in recruiting office bearers to the PPF since its establishment in August 2010. At present there is a temporary chair appointed to the PPF. We will continue to monitor the situation.

52. This is very much a developing area at a national level, and the Scottish Government's plans for integrating health and social care are further discussed in the Outlook paragraphs of this report.

Internal control

53. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

54. 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 2011/12, Scott Moncrieff, the board's internal auditors, provided their opinion that, based on the internal audit work undertaken during the year, there were no significant concerns that required specific mention in the annual governance statement.

55. As part of our audit we reviewed the high level controls in a number of Shetland Health Board systems that impact on the financial statements. This audit work covered a number of areas including capital accounting, cash & cash equivalents, family health services, general ledger, inventories, trade receivables and trade payables. Our overall conclusion was that Shetland Health Board had adequate systems of internal control in place in 2011/12. 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.

Internal Audit

56. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit). We carried out a review of internal audit in early 2012 and concluded that the internal audit service operates in accordance with Government Internal Audit Standards and has sound documentation standards and reporting procedures in place. We placed reliance on internal audit work in a number of areas including the financial ledger, non-pay expenditure and creditors, travel and subsistence and budget management. This not only avoided duplication of effort but also enabled us to focus on other significant risks.

Governance Statement

57. The governance statement, provided by the board's Accountable Officer, reflects the main findings from both internal and external audit work, and highlights the process by which the accountable officer obtains assurances over the adequacy and effectiveness of the system of internal control. This is a new format of disclosure for 2011/12 as specified by the SGHSCD. The new format includes the requirement for an overt assurance that arrangements have been made to ensure Best value. Overall it was concluded by the board that no significant control weaknesses or issues have arisen, that no significant failures have arisen in the expected standards for good governance, risk management and control, and that appropriate arrangements for Best Value are in place. Our audit has confirmed that we concur with this assessment.

ICT Service Review

58. As part of our 2011/12 audit we carried out an ICT service review within Shetland Health Board. The audit work was based on an established computer services review methodology developed by Audit Scotland and it provides a high-level risk-based assessment of ICT services in five key areas; governance & delivery, strategy, access controls & compliance, asset protection and business continuity.

59. The review identified a number of areas where the board is exposed to a degree of risk, including:

- Procedures for running the eHealth unit, such as back-up and restoration of servers and change management processes, were either not documented or not accessible to IT staff.
- The IT unit did not have access to a test or development environment. Changes to operating systems are therefore implemented in the live operational environment and can lead to disruption to services due to previously unidentified issues.
- The board has made good progress in considering the continuity of its operations. However, disaster recovery arrangements for the IT facility had not been tested. There were also some persistent errors reported by the management software for the server back-up process.
- Procedures for removing access to information resources for staff who have left the employment of the Board were applied inconsistently.

60. An action plan was agreed with officers to ensure that arrangements are put in place to address the risk areas identified from the review.

Prevention and detection of fraud and irregularities

61. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

62. Shetland Health Board has a range of measures in place to prevent and detect fraud, including Standing Financial Instructions, a Code of Conduct for staff and a range of policies

that are available to staff via the intranet. The board has a formal partnership agreement with NHSScotland Counter Fraud Services (CFS) and their reports are circulated to appropriate managers and to the Audit Committee.

63. 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. Additionally, the board has agreed a formal protocol covering a programme of Payment Verification checks with the Practitioner Services Division of NHS National Services.

64. We concluded that the board's arrangements were adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely.

NFI in Scotland

65. Shetland Health Board participates in the National Fraud Initiative (NFI). This is a counter-fraud exercise that 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. Where matches are identified, public bodies are required to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved.

66. The most recent data matching exercise collected data from participants in October 2010 and the national findings were published by Audit Scotland in May 2012. Specific arrangements are monitored at a local level as part of the ongoing audit. Based on the 2010/11 exercise, the outgoing auditors concluded that the board's arrangements are mostly adequate but steps could be taken in specific areas to make a worthwhile improvement.

67. Participants should now be preparing for the 2012/13 exercise where data will be requested by October 2012. The national report published in May 2012 included a self-appraisal checklist that all participants were recommended to use prior to NFI 2012/13.

Standards of conduct and arrangements for the prevention and detection of corruption

68. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in Shetland Health Board are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

Partnership Working

69. This is very much a developing area at a national level. In December 2011 the Cabinet Secretary for Health and Wellbeing announced the Scottish Government's plans to integrate adult health and social care across local government and the NHS. The main proposals are as follows:

    - Community Health Partnerships will be replaced by Health and Social Care Partnerships (HSCPs). The partnership will be the joint responsibility of the NHS and local authorities, and will work with the third and independent sectors.
    - HSCPs will be accountable to Ministers, leaders of local authorities and the public for delivering new nationally agreed outcomes. These will initially focus on improving older people's care.
    - NHS boards and local authorities will be required to produce integrated budgets for older people's services.
    - The role of clinicians and social care professionals in the planning of services for older people will be strengthened.

70. A smaller proportion of resources, money and staff, will be directed towards institutional care and more resources will be invested in community provision. The Scottish Government launched a consultation on the integration of adult health and social care on 8 May 2012. The consultation sets out proposals to inform and change the way that the NHS and local authorities work together and in partnership with the third and independent sectors.

NHS Waiting Times

71. The Auditor General has asked Audit Scotland to examine the use of patient unavailability codes in the management of NHS waiting times. This follows the recent critical review into NHS Lothian's reported misuse of patient unavailability codes and recognises the importance of this for patients and the public and the need for independent assurance.

72. Audit Scotland will look at how these codes were being used by health boards in Scotland during the past year. Audit Scotland will prepare a report on its findings which the Auditor General will present to Parliament after its summer 2012 recess. In addition, boards' internal auditors have been requested by the SGHSCD to carry out a review of waiting times as part of their 2012/13 internal audit plans. The results of this work are to be reported by 17 December 2012.

Equality Act 2010

73. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of 'Specific Duties' which came into force in

May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013. We will consider progress made by the board in implementing these requirements as part our 2012/13 audit.

Best Value, use of resources and performance

74. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value (BV).

75. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.

76. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

77. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. Audit Scotland has prepared a series of Best Value toolkits to facilitate its reviews in these areas.

78. During the course of their audit appointment, auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

79. This section includes a commentary on the Best Value / performance management arrangements within Shetland Health Board. We also note any headline performance outcomes / measures used by Shetland Health Board and any comment on any relevant national reports and the board's response to these.

Management arrangements

Best Value

80. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.

81. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

82. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:
    - vision and leadership
    - effective partnership
    - governance and accountability
    - use of resources
    - performance management
    - equality (cross-cutting)
    - sustainability (cross-cutting).

83. Guidance on the Best Value Framework was issued to Directors of Finance on 19 October 2011 from the Chair of the NHS Corporate Governance & Audit Group.

84. NHS Shetland started the process of creating a Best Value Framework during 2010/11 that required key committee chairs to offer formal assurance to the Chief Executive as Accountable Officer in relation to the 9 BV characteristics. In May 2012, the Chief Executive presented the Board with the final version of the Best Value Framework. The framework will need to be adopted by individual standing committees, incorporated into their work plans and reported on at year end by them. The expectation is that in future years the board will be in a position to provide overt assurance at the year end of compliance with their best value framework.

Service Redesign

85. Our annual audit plan highlighted that a key element of NHS bodies' response to the need to deliver high quality services in a challenging financial environment is to focus on the design and sustainability of its services. The clinical strategy sets out how NHS Shetland's clinical services will be delivered over the next three years to achieve its vision and strategic goals. The strategy was designed to ensure that future services will meet the needs of Shetland's local population and the standards and requirements laid out in national policy and guidance.

86. Redesign proposals fall into the following programmes:
    - Primary Care which will review access to service; utilisation of the Medical workforce; Mental Health services; Pharmacy modernisation; Dementia care services; locality based service delivery Integration of Health and Community Care which will include developing a model of 24/7 community nursing; supporting self management; the integration of health and social care teams including development of a generic worker role.
    - Hospital Services – encompassing a review of most hospital based services including dental, patient flow, discharge planning, hospital at night and out of hours; laboratory services; medical imaging; theatre utilisation; reducing avoidable A&E attendances; preoperative assessment; physiological measurements; audiology

- Family and Child Health – this will aim to implement a single structure for family and child health services
- Working with Other Partners – this will include a review of current pathways for admitted and non admitted patients between NHS Shetland and NHS Grampian.

87. The Board has recognised that the strategy will have to be delivered in a way that ensures financial sustainability for the medium to long term. This is particularly important in light of the significant changes to public sector funding anticipated over at least the next five years.

Performance management

88. The board has a well developed framework in place for monitoring and reporting performance. Comprehensive performance reports detailing performance against national HEAT targets and local priorities are submitted to the Board at every meeting.

89. Shetland Health Board is subject to an annual review which is chaired by the Cabinet Secretary for Health and Wellbeing. The annual review highlights good performance and identifies areas where specific action would be required to improve health and treatment.

People Management

90. As with other health boards in Scotland, Shetland Health Board has been working towards delivering the sickness absence target of 4% during 2011/12. The sickness absence rate at 31 March 2012 was 4.99%, which is up on the previous year figure of 4.31%. It should be noted that, during 2011/12, the Board's monthly percentage of sickness absence was below 4% on 6 occasions. The Board has in place management reporting on sickness absence on a monthly basis with the ability to drill down to individual level so that specific areas for improvement can be identified.

The Role of Boards – follow-up audit

91. *The Role of Boards – A follow-up audit* was carried out by local auditors in 2011/12 to assess the progress that the Shetland Health Board has made to improve the performance and operation of its Board against the recommendations made in Audit Scotland's national performance report 'The Role of Boards' (September 2010).

92. In carrying out the study we used a checklist based on the key issues identified in the national report and this checklist was discussed with the Head of Corporate Services who provided supporting evidence as appropriate. Our findings will be reported shortly.

Overview of performance targets in 2011/12

93. Each board meeting at NHS Shetland includes the latest performance report detailing the progress towards achieving the key performance targets set by the Scottish Government (HEAT targets and standards), other national policy guidance such as 'Better Together, Scotland's patient experience programme' and local targets.

94. The board demonstrated good performance against a number of challenging HEAT targets by the end of March 2012. However some targets, including sickness absence and mandatory training, were not achieved. The performance report provides details of the actions being taken by the board to improve performance in these areas.

95. Following the Clostridium difficile (C diff) outbreak at the Vale of Leven Hospital in 2008, each NHS Board has been required to publish, on a bi-monthly basis, numbers of staphylococcus aureus bacteraemia (SAB) and C diff infections broken down monthly by hospital, as well as information on hand hygiene and cleaning compliance levels. There have been no cases of SAB in Shetland in over 2 years. One community-acquired C diff case was identified in October 2011. Cleaning standards compliance remains high at 97.5%, well above the target of 90%. Estates monitoring compliance also remains very high at 99.4%.

Patient experience survey

96. In May 2012, the Scottish Government published its report on the patient experience survey of GP and local NHS services in the Shetlands as part of its patient experience programme, 'Better Together'. The survey was managed by the Scottish Government in partnership with Information Services Division (ISD) of NHS National Services Scotland.

97. The results were very good with a 'positive response' comment on each question asked ranging between 62% and 100%. Out of the 39 questions asked of patients, only 2 had responses within the 60-70% range (6 between 70-80%; 12 between 80-90%; 19 between 90-100%). These both related to access to General Practitioner type questions ('Able to book a doctors appointment 3 or more working days in advance', and 'Overall arrangements for getting to see a doctor').

98. In comparison with the 2009/10 survey results, improvements were recorded relating to questions on doctors and nursing staff, along with time waiting to be seen. There was a fall in the level of positive comments relating to the question 'Getting to see or speak to someone'. The 'Rating of overall care provided by GP surgery' dropped from 88% in 2009/10 to 84% in 2011/12.

99. The results of the survey will be used by GP surgeries, the CHP, the health board and the Scottish Government to improve the quality of healthcare in Scotland.

National performance reports

100. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. The findings and key messages of these studies are published in national reports.

101. The board has a formal process 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. These reports are considered to ensure that the required actions are allocated to specific officers and to indicate how the board will address

any recommendations made. Reports issued during the year that may be of relevance to the board include:

Table 2: A selection of National performance reports 2011/12

- Review of Community Health Partnerships (June 2011)
- Transport for Health and Social Care (Aug 2011)
- Scotland's Public Finances – Addressing the Challenges (Aug 2011)
- A Review of Telehealth in Scotland (Oct 2011)
- Overview of the NHS in Scotland's performance 2010/11 (Dec 2011)
- Cardiology Services (23 Feb 2012)
- Commissioning Social Care (March 2012)

Reports can be found at ***www.audit-scotland.gov.uk***

Outlook

Performance

102. The significant financial challenges that will be faced in 2012/13 and beyond will require the board to prioritise its resources. This will make maintaining or improving performance even more challenging.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Internal Audit Reliance Letter	29 February 2012	22 March 2012
Annual Audit Plan	29 February 2012	22 March 2012
The Role of Boards – Follow-up audit	20 August 2012	8 November 2012
Internal Controls Management Letter	4 May 2012	22 June 2012
Report to Audit Committee in terms of ISA 260	13 June 2012	22 June 2012
Independent auditor's report on the financial statements	13 June 2012	22 June 2012
ICT Service Review	30 May 2012	8 November 2012
Annual Report on the 2011/12 Audit	31 July 2012	8 November 2012

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	**Post-audit amendments to financial statements** The narrative elements of the financial statements required a large number of amendments following the audit process. In addition. the processes and responsibilities for updating the accounts to an agreed final version were not clear which resulted in an unnecessary extension of the timeline to finalising an agreed version of accounts. **Risk: the sign-off deadline for the accounts may not be achieved due to the volume of changes required to the narrative sections of the financial statements and delays in the updating and clearance process.**	Review of lessons learnt from 2011-12 audit will be built in to the planning cycle and time table for 2012-13 Audit. Process will be altered to how data is transferred from annual accounts template to the annual report to allow better scrutiny and presentation of information. Clear timescale for completion of written sections of annual accounts to be developed and confirmed. Out-come to be built into the annual accounts planning timetable.	Director of Finance	Feb 2013
2.	**Governance Statement** The impact of the governance statement may have been lost with the initial level of detail that was included in the statement. Revisions were required to focus the statement and to ensure that key issues and positive developments were clearly identifiable.	Governance statement for 2012/13 to be completed according to advice from Audit Scotland.	Chief Executive	March 2013

Action Point	Risk Identified	Planned Management Action	Responsible Officer	Target Date
	Risk: key issues and positive developments are not easily identifiable due to a lack of focus within narrative.			
3.	**Pension provisions** We identified that there were a number of errors in the pension provision figures included in the unaudited financial statements which resulted from the use of the wrong interim life tables and discount rate. **Risk: accounts are inaccurate due to lack of review of pension provision balances within the accounts prior to audit.**	Procedure note for completion of task to be updated to note key tasks each year in respect of confirming the correct discount rate and verifying the life tables on the government website www.statistics.gov.uk/ is the most up-to-date.	DoF	Oct 2012
4.	**2012/13 Savings Target** The board faces a wide range of financial challenges in delivering the LDP and Quality Improvement agenda. **Risk: services may not be sustainable if plans are not in place to deliver the board's challenging savings targets.**	Close monitoring of progress on savings plan by SMT.	DoF	Monthly
5.	**Long term financial plan and underlying deficit** Significant recurring savings targets are required over next 4 years to reduce the underlying deficit to zero. **Risk: the longer term financial plan remains at risk of not being affordable and is a significant challenge to the board moving forward especially as the majority of**	Updated Financial Plan to be developed (in light of developing circumstances).	DoF	Dec 2012

Action Point	Risk Identified	Planned Management Action	Responsible Officer	Target Date
	readily achievable savings initiatives will have already been identified in recent years.			