Shetland Health Board

Annual report on the 2012/13 audit

Prepared for Shetland Health Board and the Auditor General for Scotland

July 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key Messages **4**

2012/13 Key Facts 4

Outlook 5

Introduction **6**

Financial statements **7**

Audit opinion 7

Accounting issues 7

Outlook 9

Financial position **10**

The board's financial position as at 31 March 2013 10

Financial planning to support priority setting and cost reductions 11

Outlook 12

Governance and accountability **14**

Corporate governance 14

Prevention and detection of fraud and irregularities 16

Standards of conduct and arrangements for the prevention and detection of corruption 17

Outlook 18

Best Value, use of resources and performance **20**

Management arrangements 20

Overview of performance targets in 2012/13 23

National performance reports 24

Outlook 27

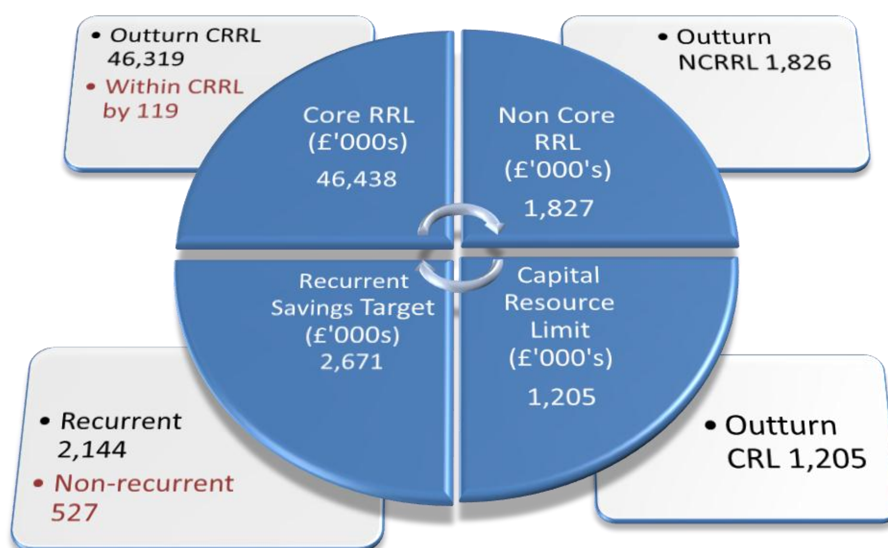
Appendix A: audit reports **28**

Appendix B: action plan **29**

Key Messages

2012/13 Key Facts

The Scottish public sector is experiencing significant challenges in providing expected levels of service within the agreed financial framework. In 2012/13 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 findings. The key financial messages are summarised in the exhibit below:



Financial Statements

We have given an unqualified audit report on the financial statements of Shetland Health Board for 2012/13. We also concluded that in all material respects, the expenditure and income 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

The board achieved all of its financial targets in 2012/13 and returned a saving against its total Revenue Resource Limit of £0.120 million as at 31 March 2013. Total efficiency savings of £2.671 million have been delivered in line with planned efficiencies for 2012/13. £0.527 million of these savings were on a non recurring basis. The board achieved its targets through management of its savings programmes, workforce management and a series of one off measures. The board, however, still carries an underlying deficit in the resource budget for ongoing activity. As at 31 March 2013 this stood at around £527k. The board, however, has

approved a long term financial plan with the aim of eliminating this underlying deficit by 2013/14.

Governance and accountability

In 2012/13, the board had sound governance arrangements which included a number of standing committees overseeing key aspects of governance. These were Audit, Staff Governance, and Clinical Governance. The board also had an effective internal audit function through its contracted out service provided by Scott Moncrieff, and sound anti-fraud arrangements were also in place.

Performance and best value

The board has a framework in place for monitoring and reporting performance. In 2012/13 the board met or exceeded a number of performance targets set by the Scottish Government. However, the board has not achieved its performance targets in some areas such as the Knowledge and Skills (e KSF) framework target, MMR immunisation uptake rates and some delayed discharge targets. In those cases the board has established actions to improve performance.

Audit Scotland's report on the management of patients on NHS waiting lists found in general good practice in the way information was recorded in its electronic waiting list system, with detailed notes contained in patient records, particularly for inpatients. A local review of waiting times carried out by internal audit identified no areas of significant concern although there was some scope for improving certain aspects of waiting times practices. The board provided written assurance to the Scottish Government that improvement actions identified by internal audit had either been implemented or were in progress.

Outlook

The position going forward is even more challenging than previous years with limited increases in funding, increasing cost pressures and challenging savings targets. To achieve continuing financial balance, the board will require to deliver £2.112 million of recurring cost savings in 2013/14. This will make maintaining or improving on the performance targets set by the Scottish Government even more challenging. This together with the challenges relating to the remote and rural nature of Shetland, and the range of services available, may impact on the board's ability to deliver its clinical strategy and identified projects.

In this context, the board faces a number of performance challenges, in particular continuing to achieve government access targets. The 12 week Treatment Time Guarantee, which is now a legal requirement, requires significant resources to achieve and sustain.

Introduction

1. This report is the summary of our findings arising from the 2012/13 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 2012/13 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 2012/13 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 addressed this requirement 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. The unaudited accounts were provided to us on 6 May 2013 and were supported by a working papers package. Overall we concluded that more editing of the narrative sections prior to the audit process would have reduced the number of presentational errors and level of repetition that was present in the draft financial statements. Prior to the accounts being submitted for

audit, the Director of Finance should ensure that enough time is allocated to proof read the accounts so that the draft financial statements are of good quality and that grammatical and other errors are minimised. This would improve the efficiency of the financial statements process.

Risk area 1

15. The processes in place for updating the accounts to a final version by the agreed date were not satisfactory, and as in 2011/12, this led to an increased amount of audit time checking several versions of the accounts. The board should ensure that procedures are improved to ensure all audit amendments are made in one version of the financial statements thereby reducing the need to prepare several versions of the accounts.

Risk area 2

16. A small number of errors were identified during the audit, where if adjustments had been made would have increased the surplus by £24,478.The net impact on the balance sheet would have been to increase net assets by £24,478.
17. As required by auditing standards we reported to the Audit Committee on 18 June 2013 the main issues arising from our audit of the financial statements. The main points were :

Holiday Pay Accrual

18. The holiday pay accrual included in trade and other payables at Note 16 to the accounts did not include figures for consultants. These staff members are some of the higher paid employees and it is important that they are included in the calculation of the accrual. The holiday pay accrual was therefore understated in the financial statements.
19. Although the number of employees involved was small and the figure unlikely to be material, the Health Board needs to review its holiday pay methodology for 2013/14 to ensure all staff members are included.

Bad Debts Write Offs

20. There were no debt write offs during 2012/13, despite the provision for bad debts increasing from around £700 in 2011/12 to £14,744 at 31 March 2013.This figure included one long-outstanding debt of £13,333. The Health Board will require to carry out a thorough review of the aged debtors listing at least on an annual basis to ensure that write offs are actioned appropriately and timeously.

Stock losses

21. The SFR 18 reported that there were stock gains of £46,853. Stock gains are unusual and the purpose of SFR 18 is to report losses to the Scottish Government. The credit figure of £46,853 arose due to stock counting and pricing differences highlighted by a stocktake. The figure in the SFR 18 was subsequently reduced to nil after a review by the board. The Health Board should review its inventory control and recording procedures for 2013/14.

Outlook

Endowments

22. As a result of an agreed derogation from the FReM, NHS Scotland boards were not required to consolidate endowment funds within their 2012/13 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. The consolidation process will be reviewed as part of our audit of the 2013/14 financial statements.

Acknowledgements

23. We would like to acknowledge the help and support we received from all members of the finance department during the course of the audit. Their help was crucial in ensuring that the sign-off deadlines were achieved.

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 2013

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 2012/13, the SGHSCD required NHS boards to differentiate between core and non-core expenditure for both revenue and capital. The board achieved all its financial targets in 2012/13 as outlined in the table below:

Table 1: 2012/13 Financial Targets Performance £'000s

Financial Target	Target	Actual	Variance
Revenue Resource			
Core	46,438	46,319	119
Non Core	1,827	1,826	1
Capital resource			
Core	1,205	1,205	0
Non Core	0	0	0
Cash position			
Cash requirement	52,000	51,985	15

28. The board had budgeted to break-even against its Revenue Resource Limit in 2012/13 and has achieved a cumulative surplus of £0.120 million. Despite this small surplus, as at 31 March 2013, the board recorded an underlying deficit of £0.527 million, which represented the

excess of recurring expenditure commitments, over recurring funding and savings, to be carried forward into 2013/14. 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 settlements 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.

Risk Area 3

Capital Resource Limit

29. The board broke even against its total Capital Resource Limit (CRL) in 2012/13 with total capital expenditure of £1.205 million. The total capital allocation was made up of core capital funding to the value of £3.777 million less deduction of £2.125 million for delayed work on Scalloway Health Centre. There was also a further deduction in relation to a capital to revenue transfer for backlog maintenance to the value of £0.472 million, giving a Net Capital Resource Limit of £1.205 million.

30. There were no major capital projects undertaken during the year. As part of the board's property strategy, an extensive review of office facilities was carried out in conjunction with Shetland Islands Council. The option to relocate Brevik House to vacant space in Montfield Hospital was approved by the Board and the works are due for completion in summer 2013.

Financial planning to support priority setting and cost reductions

31. The board's Local Delivery Plan (LDP) for 2013/14 aligns the corporate objectives with its financial plans, workforce plans and asset plans. The board's financial planning arrangements include regular monitoring, reporting and updating of information to allow potential risks to be addressed properly. It is therefore important that the board continues to closely monitor costs in order to take any required remedial action through cost savings schemes.

Workforce Planning

32. NHS Shetland's workforce plan highlights that Shetland will be one of the few local authority areas to experience outward migration in the next 25 years. It is estimated that there will be a reduction of 20% in the working age population. This will put increased pressure on local labour markets and potentially lead to a lack of required skills which could ultimately impact on the level of service delivered.

33. Through NHS Shetland's workforce plan, the board recognises that a significant level of workforce change and redesign will be required both to achieve financial balance and to continue to increase productivity and efficiency. However, NHS Shetland faces significant challenges due to its size. Some services are very small and may only include single practitioners or technicians, thereby limiting the scope for efficiencies. This ultimately means that for NHS Shetland to deliver change in the workforce, transformational change will be required.

Outlook

Financial sustainability and the 2013/14 budget

34. Uplifts in financial settlements have been reducing in recent years as outlined below:

Table 2: General funding uplift 2009/10 to 2012/13

Financial Year	General Uplift
2009/10	3.15%
2010/11	2.15%
2011/12	1.1%
2012/13	1.0%

35. Looking forward, the indications are that funding uplifts are likely to be around 2.8% in 2013/14 and 2.6% in 2014/15. Given the current economic conditions and the impact of national spending priorities, there is a risk that these pressures will have a significant impact on long term financial planning and the control of pay and non-pay costs.

36. 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 break even in 2013/14. In 2012/13 the board's cost savings plan was pivotal to the board achieving financial balance. The plan set a cost savings target of £2.671 million which was achieved, with £2.144 million achieved on a recurrent basis and the remaining £0.527 million achieved on a non-recurrent basis.

37. The board's ability to achieve financial balance is again largely dependent on it successfully developing and implementing a comprehensive cost savings plan. For 2013/14, the board needs to achieve £2.112 million of recurring cost savings which is the equivalent to 5.5% of the board's baseline revenue allocation. This represents a major challenge to the board, and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

38. The board continues to face significant cost pressures particularly across the clinical services directorate. These pressures relate to the rate of growth in anticipated prescribing costs, increases in pension costs and the cost of using medical locums. NHS Shetland also incurs the additional cost pressures associated with patient travel to the mainland.

Risk area 3

39. All additional expenditure will require to be met from the board's existing resources and, as a result, any significant fluctuations in costs will present a major challenge to Shetland Health Board achieving financial balance for the coming year. The cost savings are to be achieved through a number of means, including service redesign. During 2012/13, the board introduced a new standardised process for managers to capture and record savings proposals in a

consistent manner. This process will continue to be developed in 2013/14 with regular monitoring of the delivery of the schemes enabling prompt action to be taken where remedial action is required.

40. The delivery of the cost savings plan in 2013/14 will remain challenging. 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 will impact on the board's ability to achieve a break even position.

Risk Area 4

Governance and accountability

41. 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.

42. 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.

43. 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.

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

Corporate governance

45. 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

Patient safety and clinical governance

46. Overall, clinical governance is within the remit of the Clinical Governance Committee. The Committee provides assurance to the board that the principles and standards of clinical governance are applied to health improvement and protection across Shetland. Patient safety is at the heart of clinical governance and risk management. NHS Healthcare Improvement Scotland (NHS HIS) has lead responsibility for reviewing boards' performance and working with boards to improve patient safety. The Healthcare Environment Inspectorate (HEI) has a key role in helping NHS boards reduce the risk of Hospital Associated Infection (HAI) in acute

hospitals through assessment, inspection and reporting of boards' performance against HAI standards.

47. The HEI carried out an unannounced inspection of Gilbert Bain Hospital in August 2012. The inspection findings were positive and demonstrated that the board is complying with the majority of standards to protect patients, staff and visitors from the risk of acquiring an infection. In particular, it showed that staff are aware of their individual responsibilities for infection prevention and control, that cleaning in the hospital is good and the environment is well maintained.

48. The report also identified a small number of areas where improvements can be made including improving communication between estates and ward staff, and further improving the healthcare associated infection information that is provided for patients and visitors.

Partnership Working

49. Partnership working is actively being promoted by the Scottish Government as a means of making service delivery more efficient and cost effective particularly as it moves forward on the integration of Adult Health and Social Care services across Local Authorities and NHS Boards. Partnership working in Shetland Health Board is well established. In addition, a formal partnership agreement is in place with NHS Grampian to deliver a wide range of clinical and non-clinical services.

50. The Community Health and Care Partnership (CHCP) supports the development of Shetland's Public Partnership Forum (PPF). The PPF is a network of local individuals and organisations and 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 note, as in previous years, that there continue to be difficulties in recruiting office bearers to the PPF since its establishment in 2010.

51. The main focus of the board's partnership arrangements is to drive forward the health and social care integration agenda consistent with Scottish Government Policy, and to lead the development of new models of care to deliver improved outcomes and more efficient and effective services for the people of Shetland. A Health & Social Care Integration Project Board has been set up which meets regularly to take forward this challenging agenda.

Internal control

52. 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. The extent of this work is informed by their assessment of risk and the activities of internal audit.

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 2012/13 Scott Moncrieff, the board's internal auditors, provided their opinion that the board

has a framework of controls in place which provides reasonable assurance regarding the effective and efficient achievement of the organisation's objectives and the management of key risks. Appropriate arrangements are in place, in the areas they reviewed, to promote value for money, deliver best value and secure regularity and propriety in the administration and operation of the organisation.

54. 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 cash income and banking, general ledger, capital accounting, family health services and trade payables/procurement. Based on our review and testing of the main financial systems, our overall conclusion is that NHS Shetland has adequate systems of internal control. We identified some areas where controls could be strengthened, and agreed an action plan of improvements with management. This will be followed up during 2013/14 to confirm that improvements have been made.

Internal Audit

55. 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). The review of internal audit was carried out in December 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.

56. To avoid duplication of effort, and to enable us to focus on other areas of risk we plan, on an annual basis, to place formal reliance on the work of internal audit. For the purposes of the financial statements audit for 2012/13, however, we obtained the required levels of assurance from our work, as the Internal Audit work plan did not cover the board's main financial systems.

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 processes by which the accountable officer obtains assurances over the adequacy and effectiveness of the system of internal control. Additionally, the governance statement includes the requirement for an overt assurance that arrangements have been made to ensure best value.

58. 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.

Prevention and detection of fraud and irregularities

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

60. 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 Board Members, and a number of other policies that are available to staff via the intranet including a grievance and whistleblowing policy/ procedure. The board has a formal partnership agreement with NHS Scotland Counter Fraud Services (CFS), and a Fraud Liaison Officer is in place to ensure reports are circulated to appropriate managers and to the Audit Committee.

61. 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. In addition, the board has agreed a formal protocol covering a programme of payment verification checks within the Practitioner Services division of NHS National Services Scotland.

62. 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

63. Shetland Health Board participates in the National Fraud Initiative (NFI). The NFI 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. The most recent data matching exercise collected data from participants in October 2012 with matches identified for follow-up in February 2013. The data provided to the board highlighted matches in both the creditors and payroll systems. All of the recommended matches have been investigated, and no instances of fraud have been identified.

66. In addition, the board completed a self-appraisal checklist which accompanied the national report on NFI (published in May 2012). This exercise highlighted that the board is proactive in investigating and following-up data matches. In addition, the Audit Committee receives regular reports on anti-fraud activities including NFI updates.

67. Overall, we concluded that the board has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

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.

69. The board has a Code of Conduct for Board Members that is based on the Ethical Standards in Public Life etc. (Scotland) Act 2000. This includes a register of interests. The board also has a Code of Conduct for Staff and this applies to all employees. Although the Codes of Conduct are in place and available via the Intranet, we noted that the formal reviews planned for January 2012 have not yet taken place.

Risk Area 5

70. From our review of the board's governance and accountability arrangements we concluded that overall the arrangements appear soundly based. The board should continue to ensure that non-executive members receive adequate levels of training to help them perform their scrutiny roles. A further area of improvement would be to arrange the appointment to the audit committee of a non-executive member with recent, relevant financial experience.

Risk Area 6

Equality Act 2010

71. 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 of everyday business. Lead responsibility for mainstreaming equality and diversity rests with the Director of HR & Shared Services.

72. In terms of the Equality legislation, boards are required to publish information about their Equality outcomes, the actions taken by the board and the progress made to achieve them. This is to allow the public to assess the organisation's performance on equality. Consequently, the board must publish a report on the progress made no later than 30 April 2013. NHS Shetland's Equalities Mainstreaming Report & Equality Outcomes 2013-2017 was approved by the Board in April 2013. The report offers Shetland's Community Planning Partners an opportunity to present a detailed overview of its work on equality, focussing on compliance, accountability and reducing significant inequalities.

Outlook

Partnership Working

73. Between 2011/12 and 2014/15 the Scottish Government's spending will fall by 5.5% (£1.5 billion) allowing for inflation. Reductions of this scale are a significant challenge for the Scottish public sector. The Christie Commission report on the future of public services (June 2011) highlighted the need for a new, more radical, collaborative culture throughout Scotland's public services with a much stronger emphasis on tackling deep-rooted and persistent social problems in communities.

74. The Scottish Government is developing its approach to the integration of Adult Health and Social Care, with publication of the Public Bodies (Joint Working) (Scotland) Bill in May 2013,

which will have organisational and operational impacts for all NHS Boards. There is also now a renewed focus on partnership working focused on community planning. Audit Scotland's recent report on Improving community planning in Scotland (March 2013) highlighted that community planning has had little influence over mainstream public sector budgets and other resources used to date. The Scottish Government has re-emphasised the central role that community planning should play in driving the reform of public services. Indeed, the 'Statement of Ambition' published by the Scottish Government and the Convention of Scottish Local Authorities sets out high expectations of community planning and puts the community planning process at the core of public service reform by providing the foundation for effective partnership working, within which wider reform initiatives will happen.

75. The increasing importance of partnership working within a community planning framework is still evolving and we will monitor progress in this area.

Best Value, use of resources and performance

76. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

77. As part of their statutory responsibilities, the Auditor General and the Accounts Commission procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports and guidance. Auditors are requested from time to time to participate in:
    - performance audits which may result in the publication of national reports
    - 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.

78. 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.

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

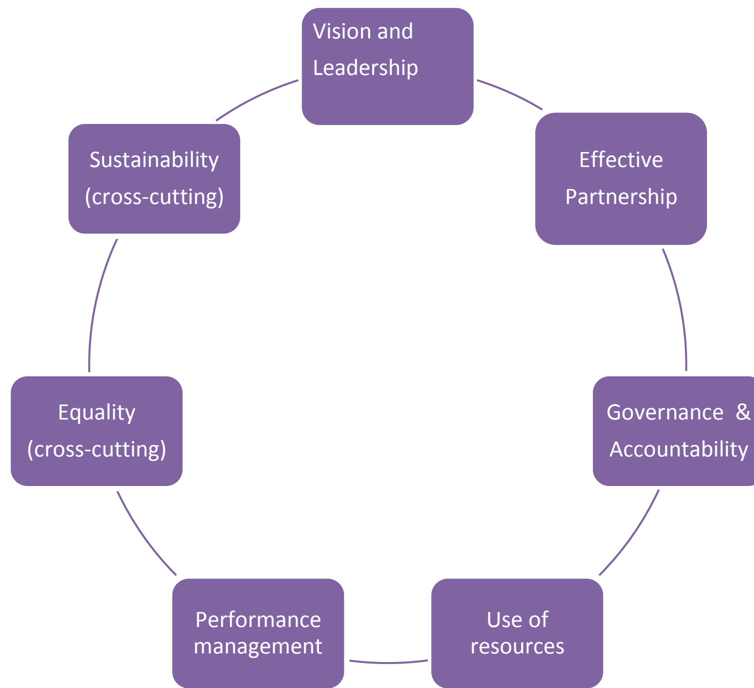
80. This section includes a commentary on the Best Value / efficiency processes within Shetland Health Board. We also note any headline performance outcomes / measures used by Shetland Health Board and comment on any relevant national reports and the board's response to these.

Management arrangements

Best Value

81. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. It required public bodies to take a systematic approach to self-evaluation and continuous improvement. Furthermore, the guidance identifies the seven themes which an organisation needs to focus on to deliver the duty of Best Value. It also 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:



83. Shetland Health Board is committed to the principles of Best Value and continuous improvement. In May 2012 the Chief Executive presented the Board with the final version of the Best Value Framework. During 2012/13 this framework has been adopted by individual standing committees, and incorporated into their work plans. The Chief Executive provided members of the Audit and Clinical Governance Committees with an update on Best Value at their joint meeting on 7 May 2013. The paper provided overt assurance to the Audit and Clinical Governance Committees in respect of Best Value compliance for 2012/13.

Service Redesign

84. Service redesign is driven by NHS Shetland's clinical strategy which was approved by the board in February 2011. The clinical strategy sets out how NHS Shetland's clinical services will be delivered in order to achieve its vision and strategic goals. The remote and rural nature of Shetland's location and landscape continues to be one of the board's biggest challenges in delivering services, and there are also challenges due to the range of services available. Very small teams or even single handed arrangements are required to provide a wide range of services to the communities. The skills required are often specialised and this can lead to difficulties in ensuring service continuity and sustainability.

85. The clinical strategy was designed to address these issues and ensure that future services would meet the needs of Shetland's local population and the standards and requirements laid out in national policy and guidance.

86. The Strategy & Redesign Committee has strategic oversight of the redesign of the Board's services. During the year, a number of key redesign projects were identified and agreed, and project initiation documents developed. These included the clinical staffing review, the

development of options for the future hospital inpatient and day case bed model and 'Integration', which is to progress joint working in clinical service delivery. These key projects have now been incorporated into an Efficiency & Redesign Programme. This is led by the Senior Management Team, under the oversight of the Strategy & Redesign Committee.

87. During 2012/13 the Board introduced, using non–recurring funding, a Service Improvement function and this has supported a number of projects. This has improved the quality of service and supported service redesign. Some of the small scale projects have now been incorporated into mainstream work.

88. The Board recognises that the delivery of savings will require more fundamental change and that there must be a link between the redesign projects and the delivery of the required efficiency programme. The progress and impact of all service developments and capital projects is closely monitored by the board going forward to ensure that they contribute to improving the patient experience whilst delivering Best Value.

Performance management

89. The board has a well-developed Performance Management Framework in place for monitoring and reporting performance. Comprehensive reports detailing performance against national HEAT targets and local priorities are submitted to the Board meetings. The information reported and monitored focuses not only on the achievement of national HEAT targets, but also measures performance against other national policy guidance such as 'Better Together: Scotland's patient experience programme' and locally agreed measures.

Efficiency

90. A key element of Audit Scotland's approach to the audit of best value is the use of audit toolkits which cover the fundamental principles of best value. As part of our audit work for 2012/13, agreed with management, we applied a best value toolkit on efficiency. The toolkit covered five main areas:

- How well does the organisational culture support improved efficiency
- To what extent is improved efficiency incorporated into the board's vision
- Are the board's plans for measuring the scale of efficiencies achieved realistic
- How does the board gather the right information about efficiency plans to monitor progress
- How does the board use information on progress to ensure planned efficiencies are attained or adjusted

91. The toolkit takes the form of a series of questions based on identified best practice. For each question we discussed with senior management the arrangements in place within Shetland Health Board. We also sample checked evidence provided by management to ensure consistency with the answers, and this allowed us to form a view on the board's level of development.

92. We assessed the board's efficiency processes across the five main areas as mostly indicating 'better practice'. Overall the board demonstrates a clear commitment to continuous improvement and delivery of Best Value. While it has performed well in 2012/13 in delivering savings, the board has a challenging five-year financial plan in place. The key challenges for the board in the short term will be:

- focussing on the delivery of recurring savings
- ensuring the robustness and clarity of the measurement of saving schemes
- translating the information gathered through the various quality reviews into financial benefits to enable it to continue to deliver quality services with limited levels of funding.

Risk Area 4

Scotland's Public Finances – Addressing the challenges

93. In the current year, we are carrying out a focussed follow-up audit on *Scotland's public finances: addressing the challenges* report, originally published in August 2011. Follow-up audits are also being carried out in all health boards and councils in Scotland. In addition, follow-up audits are being carried out at 20 central government bodies, including the Scottish Government, Scottish Enterprise and Scottish Water.

94. The original report set out a number of key issues and risks expected to be faced by the public sector in the period 2010/11 to 2014/15. The main aim of the follow-up audit is to look at what action has been taken since the publication of the original report in August 2011 and what difference this has made. In particular, auditors were asked to consider two key questions:

- Does the health board have sustainable financial plans which reflect a strategic approach to cost reduction?
- Do senior officials and non-executives demonstrate ownership of financial plans and are they subject to scrutiny before approval?

95. The fieldwork on this study is nearing completion and we will report our findings to a future meeting of the Audit Committee.

Overview of performance targets in 2012/13

96. The board receives regular performance reports from The Director of Clinical Services on progress towards achieving the key performance targets set by the Scottish Government (HEAT targets and standards) and local targets.

97. The board has achieved good performance by either meeting or exceeding its targets in a number of areas. These include for example, immunisation uptake, alcohol brief interventions, reduction in mortality rates from coronary heart disease, the 4 hour Accident and Emergency waiting time target, and the number of patients referred urgently for cancer treatment.

98. Some targets however were not fully achieved on a consistent basis throughout the year. These included the Knowledge and Skills (e KSF) framework target and some delayed discharge targets.

99. The Patients Rights (Scotland) Act 2012 introduced a statutory 12 week treatment time guarantee for eligible patients. This became effective from 1 October 2012. The board did not achieve this target in a number of cases. Maintaining and sustaining access targets is resource intensive and costly. This increases the pressure on the board at a time when it is requires to achieve significant savings on a recurrent basis.

100. As with performance generally, there remains the challenge to balance achievement of performance targets against reducing funding levels and other competing service priorities.

Risk Area 7

National performance reports

101. 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.

102. The board does not have a robust process in place to ensure that the findings of all national reports relevant to the board are considered. A process should be developed whereby relevant reports are reviewed by management, discussed at Audit Committee, and where improvements are identified, actions agreed locally and progress then monitored.

Risk Area 8

103. Reports in the last year that may be of relevance to the board include:

Table 2: A selection of National performance reports 2012/13

- Management of patients on NHS waiting lists (February 2013)
- Prescribing in general practice in Scotland (January 2013)
- NHS Financial Performance 2011/12 (October 2012)

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Management of patients on NHS waiting lists

104. Audit Scotland carried out a review of waiting times across the health service in Scotland following NHS Lothian's reported misuse of patient unavailability codes. The review recognised the need for independent assurance on the management of waiting times to restore public confidence in the system.

105. In addition, NHS boards' internal auditors were requested by the SGHSCD to carry out a review of waiting times as part of their 2012/13 internal audit plans and to report their findings by 17 December 2012. Shortly after this date, the Cabinet Secretary for Health and Well Being reported to the parliament the findings from internal audits carried out across the NHS in Scotland. The main findings were:

- there is no evidence of wide scale manipulation of waiting times across the National Health Service in Scotland
- overall, the waiting times published by boards are reliable and accurate
- the principal shortcomings relate mostly to the capacity of some information technology systems, the consistent interpretation of guidance, and staff training
- there are specific, localised issues in board areas that need to be addressed.

106. The Cabinet Secretary also made clear that he expected NHS boards to have implemented all locally identified recommendations for improvement by March 2013.

107. The internal auditors for NHS Shetland reported their findings to the Audit Committee in November 2012. The report concluded that there was no evidence at NHS Shetland of systematic and deliberate mis-recording or mis-reporting of waiting times. No areas of any significant concern were noted. Some moderate to low risk areas were identified as not fully following the Waiting Times Recording Manual and New Ways Guidance.

108. Management agreed an action plan of improvements which was subsequently reviewed in more detail at the joint meeting of the Clinical Governance and Audit Committees in May 2013. As requested by the Cabinet Secretary, the Chair of the Audit Committee provided a letter of assurance to the Scottish Government's Health and Wellbeing Audit and Risk Committee that local improvements had been implemented or were in progress. The SGHSCD have requested that all boards undertake a follow-up audit on the management of waiting times to ensure that planned improvements have been made and are working effectively. We will monitor the position at a future date.

109. Audit Scotland's report on the Management of patients on NHS waiting lists published in February 2013 highlighted similar issues to those outlined above:

- The systems used to manage waiting lists have inadequate controls and audit trails, and the information recorded in patient records is limited.
- Most patients' records that were examined did not include enough information to verify that unavailability codes had been applied properly
- Audit Scotland identified a small number of instances in which unavailability codes were used inappropriately. The limitations of waiting list management systems and the lack of evidence in patient records mean that it is not possible to determine whether these instances were due to human error, inconsistent interpretation of the guidance, or deliberate manipulation of waiting lists.
- There was not enough scrutiny of the increasing number of patients recorded as unavailable.

Prescribing in general practice in Scotland

110. The overall aim of this national report was to examine prescribing in General Practices across NHS Scotland and identify the potential to improve prescribing economy, efficiency and effectiveness

111. The report highlighted that the NHS in Scotland spends almost £1.4 billion per year on drugs, of which almost £1 billion (70 per cent) is spent in general practice. Two territorial NHS boards spend about 10% of their budgets on GP prescriptions and boards continue to identify this as a significant cost pressure.

112. The report noted that NHS Scotland has improved its management of GP prescribing and family doctors are getting more support and guidance on their prescribing. The report however, indicated that there was further scope for improvements and the potential to save up to £26 million per annum without affecting patient care. The savings could mostly be achieved through reducing waste and cutting the use of less suitable medicines. Locally, the report highlighted that Shetland has slightly lower than average spending and prescribing per weighted head of population.

NHS Financial Performance 2011/12

113. The report provides an overview of the financial performance of the NHS in Scotland during financial year 2011/12. It also highlights the financial sustainability, challenges and cost pressures facing the NHS.

114. The report notes that after several years of growth in public finances following devolution, public sector budgets are now falling. This reinforces the need for sound financial management and clear financial reporting, underpinned by good information and strong governance and accountability.

115. In 2011/12, spending on health accounted for about a third of the total Scottish budget and amounted to around £11.7 billion. Although the overall health budget has continued to increase in cash terms, it has been decreasing in real terms since 2009/10 and is projected to decrease further in real terms for the next three years.

116. The Scottish Government allocates over 90 % of the total health budget to 23 NHS boards, with the remainder retained by the Scottish Government to spend on other areas of its Health and Wellbeing Portfolio. While the overall health budget is decreasing in real terms, the Scottish Government has protected the total amount allocated to territorial boards and this will increase slightly in real terms (1.3 %) over the next three years. However, budgets for special boards will fall by 5.6 % in real terms.

117. The national report noted that the NHS in Scotland continued to manage its finances within total budget. However, this does not reflect the pressures faced by boards and a number of them had to rely on non-recurring savings to achieve balance. Moreover, some other boards needed extra help from the Scottish Government to break-even in 2011/12.

118. Boards are increasingly reliant on achieving savings to meet their financial targets, yet across the NHS, 20% of savings plans are considered high risk although some boards are indicating that they will have to achieve savings in excess of this level.

Outlook

Performance

119. Over recent years, the board invested substantial resources, particularly in relation to access to services, to achieve challenging performance targets set by the Scottish Government. The significant financial targets that will be faced in 2013/14 and beyond make maintaining or improving performance even more challenging.

120. The Auditor General has been asked by the Public Audit Committee of the Scottish Parliament to provide an update on Audit Scotland's Management of patients on NHS waiting lists report later this year. The audit work will focus on progress made by the NHS in establishing clear information audit trails and on the management and monitoring of waiting lists. The fieldwork for the report will be carried out at NHS boards in September and October of 2013 with a report to the Public Audit Committee by the end of December 2013.

Appendix A: audit reports

External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	21 February 2013	26 March 2013
Internal Controls Management Letter	23 May 2013	18 June 2013
Best Value use of Resources - Efficiencies	30 May 2013	18 June 2013
Report to Audit Committee in terms of ISA 260	12 June 2013	18 June 2013
Independent auditor's report on the financial statements	12 June 2013	18 June 2013
Annual Report on the 2012/13 Audit	31 July 2013	19 September 2013

Appendix B: action plan

Key Risk Areas and Planned Management Action

A Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	14	**Quality of draft financial statements** The unaudited accounts contained a significant number of grammatical errors and typos and there was a large element of duplication in the narrative sections due to an insufficient editing process. **Risk:** there is a risk that deadlines will be missed as more time will be required by the board's finance staff and the audit team to ensure that the accounts are of the required quality.	The process for completing the draft accounts for 2013-14 will be reviewed to identify a full set of learning action points to implement into the 2013-14 annual accounts planning cycle and time table plan that will address the issues that arose. The Audit Committee will be advised the outcomes of this review.	Director of Finance	January 2014
2	15	**Post-audit amendments to financial statements** The processes in place for updating the accounts to a final version by the agreed date were not satisfactory, leading to an increased amount of audit time checking several versions of accounts. **Risk:** the sign-off deadline for the accounts may not be achieved due to the fact that processes are not in place to ensure that all	The process and system used for completing the finalised accounts for 2013-14 will be reviewed to identify a full set of learning action points to implement into the 2013-14 annual accounts planning cycle and time table plan that will address the issues that arose. The Audit Committee will be advised the outcomes of this review.	Director of Finance	January 2014

A Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		changes to the accounts are made in one version.			
3	28,38	**Financial Pressures** With tighter financial settlements and significant cost pressures the board faces a range of financial challenges in achieving financial balance whilst delivering and maintaining sustainable services. **Risk**: Services may not be sustainable if robust financial plans are not in place	The board has established an Efficiency and Redesign Committee that is taking forward 11 specific work streams to review both the efficiency of current service and the impact demographic changes will have on clinical pathways. Amongst these reviews there are projects targeted at identifying a sustainable Medical Staff model and future inpatient capacity demands. In addition there are workstreams looking at prescribing and reducing the need for Shetland residents to travel off island to receive care. Although the focus is on identifying and delivering recurrent savings there will be short-term actions in 2013-14 that are on a non--recurring basis to achieve the financial plans.	Chief Executive	March 2014
4	40,92	**2013/14 Savings Target** The delivery of the cost savings plan for 2013/14 will continue to remain challenging. The level of flexibility within expenditure budgets is	NHS Shetland has identified savings targets for the next 5 years as part of our overall financial plan. This has now been broken down into service area so that Directors are	Chief Executive	March 2014

A Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		considerably reduced by the release of cost savings in previous years. **Risk**: The board may not be able to achieve its savings targets in future years.	clear on their targets over this period. The Board has also agreed an overall Efficiency & Redesign programme focussing on key areas for Efficiencies. Progress of this programme is being monitored on a monthly basis through the Senior management team (SMT) and the Strategy & Redesign committee. In addition the Board is updated at each meeting on progress against savings targets.		
5	69	**Code of Conduct** The formal review of the Code of Conduct planned for January 2012 did not take place. **Risk**:There is an increased risk of events occurring which could lead to financial loss and damage to the Board's reputation if the Code of Conduct is not kept up to date.	Previous review did not take place because we were intending to include reference to the new Social Media policy. This did not progress as quickly as intended. The current Code of Conduct is still seen as appropriate and will be updated this year. The update will also include greater guidance on the updating of Register of Interests.	Chief Executive	March 2014
6	70	**Scrutiny & Governance** Our review of the board's governance and accountability arrangements highlighted	Training for Non Executives will be kept under review as part of the ongoing Board development work.	Chief Executive	Not Applicable

A Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		the importance of non-executive members receiving training to ensure they have necessary skills and expertise. Consideration should be given to ensuring that a member of the Audit Committee has recent relevant financial experience. **Risk:** There is a risk that scrutiny by non-executive board members is not appropriately focussed and robust.	It is felt that the most appropriately experienced Non Executives are already included within the Audit Committee membership and further changes to this would only be possible as part of the recruitment of new Non executives (no current vacancies on the Board) No further action proposed at this stage.		
7	100	**Performance targets** The board did not achieve all of its performance targets on a consistent basis throughout 2012/13. **Risk**: In a climate of reducing funding, performance targets may not be achieved and the delivery of quality affordable services is not sustained.	The performance management system in place gives early warning throughout the year where any particular target is not being met. The Board review the total out turn of performance delivery at each meeting. New balancing measures are being introduced to the performance report in 13/14 to better reflect the underlying drivers for the delivery of quality.	Director of Clinical Services	December 2013
8	102	**National Reports** The board does not have a robust process in place to ensure that the findings of all national reports relevant to the board are considered.	Current process: 1. Reports sent to members of the Audit Committee 2. Report and local action plan sent to the relevant manager	Director of Finance	November 2013

A Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		Risk: Improvements to service provision may not be implemented if the findings of national reports are not properly considered and appropriately actioned	3. Report and action plan reviewed by SMT 4. Local action plan tabled at Audit Committee for review and discussion by members Final step missing to complete the quality circle is a formal follow up review of progress made against action plan to reassess progress and report back to both SMT and Audit Committee.		