
Western Isles Health Board

Annual Report to Board Members
and the Auditor General for Scotland

For the financial year ended 31
March 2013

25 June 2013

Draft for Risk Monitoring and Audit Committee
Discussion

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Section 1 Executive Summary

Financial Statements

The financial statements of Western Isles Health Board (the “Board”) for the year ended 31 March 2013 are **unqualified**.

As a result of our work, we proposed one adjustment with an immaterial net impact of £129,198. This adjustment has not been processed by management in the final version of the 2012/13 financial statements and therefore is contained within our summary of unadjusted misstatements. Further detail of this adjustment is documented in **Section 3**.

Financial Performance

Western Isles Health Board’s final revenue out-turn position for 2012/13 is a surplus of £0.1 million, and it has been agreed with Scottish Government Health and Social Care Directorate (SGHSCD) that this can be used to make an early repayment of brokerage.

The Board’s approved Financial Efficiency Plan (FEP) comprised 57 individual savings targets which totalled £2.2 million, as well as £0.3 million which remained unidentified during the year. Of the savings schemes identified, the Board achieved savings of £2.6 million, representing a significant overachievement of £0.3 million, principally due to additional prescribing savings, against the identified savings plans. Taking into account the £0.3 million of unidentified savings, the Board therefore achieved a net surplus of £0.1 million against the total target of £2.5 million.

Governance and Control

The SGHSCD has issued guidance on the information to be provided in the 2012/13 Governance Statement which goes further than previous disclosures required for Boards. This disclosure includes an overview of risk management, including the organisation’s risk profile and any significant control weaknesses or issues that have been identified.

We are satisfied that the Board’s Governance Statement complies with the current guidance and we do not disagree with the matters reported.

Performance

During the year, the Board’s internal audit review of waiting concluded that the scale of inappropriate use of unavailability codes reported in NHS Lothian was not evident in Western Isles Health Board during the period reviewed. The internal audit raised 5 recommendations, which included no major weaknesses but some scope for improvement.

A report received from Healthcare Improvement Scotland on the Management of Adverse Events highlighted areas for measureable improvement which relate to patient, family and staff engagement, risk-based decision-making and the sharing of wider learning. The Board has an action plan in place to enable continuous improvement in these areas.

Section 2 Introduction

Purpose of this report

Our Annual Audit Report sets out the scope, nature and extent of our audit, and summarises our audit opinion and conclusions on the issues arising. Specifically this report directs the Board's attention to matters of significance that have arisen out of the 2012/13 audit process and sets out what action is planned by management to address the matters identified for improvement.

This report is addressed to Board Members and the Auditor General for Scotland, in accordance with the Audit Scotland Code of Practice.

Scope, nature and extent of our audit

Our overall responsibility as external auditor of the Board is to undertake our audit in accordance with the Code of Audit Practice issued by Audit Scotland (May 2011).

The special accountabilities that attach to the conduct of public business, and the use of public money, means that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and use of resources in accordance with the principles of Best Value and 'value for money'.

This fuller responsibility is met by a range of audit services undertaken by Audit Scotland, including its appointment of PwC as external auditor.

In addition to this annual report, we have completed and reported the following matters to those charged with governance (the Risk Monitoring and Audit Committee) of the Board:

- Interim management letter
- Best Value follow up report on Community Engagement, using the Audit Scotland best value toolkit
- Report to those charged with Governance (ISA 260 Report)
- Follow up on Scotland's public finances: Addressing the challenges, to be reported in August 2013

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 (revised and re-drafted): "Communication with those charged with governance", we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This Annual Audit Report to Members and our separate ISA 260 report together with previous reports to the Risk Monitoring and Audit Committee throughout the year, discharges the requirements of ISA 260.

Acknowledgement

We would like to formally extend our thanks to the Board's senior managers and finance staff for the assistance they have given us during the audit process.

PricewaterhouseCoopers LLP
Glasgow
25 June 2013

Section 3 *Financial Statements*

Basis of Preparation

The financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2012/13 Government Financial Reporting Manual (the 2012/13 FReM).

Audit Approach

Our audit approach was set out in our External Audit Plan as presented to the Risk Monitoring and Audit Committee Members on 6 February 2013. We confirm that there has been no cause for us to vary the planned scope of our work.

As part of our audit planning work, and in line with International Standards on Auditing (UK and Ireland), we are required to review and identify (where relevant) significant risks which require a greater detail of audit testing for us to conclude on their truth and fairness in the financial statements. The following areas of significant risks were identified:

- Management override of controls
- Risk of fraud within revenue (non-Scottish Government funding) and expenditure recognition

Significant Matters and Unadjusted Misstatements

Under ISA 260 - "Communication of audit matters to those charged with governance", we are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those which we deem to be of a trivial nature.

As at 31 March 2013 there was approximately £129,198 of pharmacy stock which was recorded in the pharmacy stock system (Ascribe) but not reflected in the General Ledger. Overall expenditure per the financial statements is therefore overstated by £129,198.

Through discussions with Finance, it is noted that a routine reconciliation between the stock system (Ascribe) and the General Ledger should have been undertaken during the year but was overlooked.

During the course of our external audit visit Management have been actively investigating this difference, and are assured there is no fraudulent activity.

Going forward it is planned that regular reconciliations will be undertaken to allow any differences to be investigated on an ongoing basis and appropriate corrective action to be undertaken in a timely manner.

The Risk Monitoring and Audit Committee are requested formally to consider the listed uncorrected misstatement and determine whether the financial statements should be amended. If they are not corrected we will require a written representation from you explaining your reasons for not making the correction.

No	Description of misstatement Factual – F; Judgemental – J; and Projected - P		Statement of Comprehensive Net Expenditure [£]		Statement of Financial Position [£]	
			Dr	Cr	Dr	Cr
1	Expenditure	F		129,198		
	Inventory				129,198	
Total uncorrected misstatements				129,198	129,198	

There were no significant misstatements that were identified and subsequently corrected by Management. During the course of our audit we identified a number of disclosure adjustments which have been discussed and agreed with Management and processed in the final financial statements to be approved by the Board.

Audit Opinion

Our audit opinion concerns the true and fair statement of the Board's financial results for the year ended 31 March 2013 and the regularity of its income and expenditure for the year.

We are pleased to report that our opinion on the true and fair view on the financial statements and on the regularity of income and expenditure is **unqualified**.

We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the relevant aspect of the Remuneration Report is unqualified. Our audit opinion does not extend to any other part of the Directors' Report.

We have also reviewed the Board's Governance Statement to consider its compliance with guidance issued by the Scottish Government and consider if the contents are consistent with our audit findings. Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Approval

The Financial Statements will be submitted to the Board's Risk Monitoring and Audit Committee on the 25 June 2013 and are to be approved, adopted and signed at the Board meeting on 25 June 2013.

Other matters

Actuarial valuation

The Board participates in the National Health Service Superannuation Scheme for Scotland. The latest actuarial valuation for the scheme is dated 31 March 2004 (reported in 2008) and plans for future valuations have been put on hold following instruction of HM Treasury, due to changes that have taken place as a result of the move

from RPI to CPI inflation for the revaluation of liabilities, as well as plans for long term reform of public sector pension schemes.

While Western Isles Health Board has no direct influence over this, attention should be brought to the matter as it may have a future impact if increased employer's contributions are required when the valuation is updated.

The Board should ensure that the potential for increased employer's contributions in relation to the National Health Service Superannuation Scheme for Scotland is acknowledged/referenced in future financial plans to ensure the possibility of future potential resources remain on the financial planning agenda.

Action 1

Section 4 Financial Performance

Performance against Key Financial Targets

The Board has achieved its key financial targets for the 2012/13 financial year:

Table 1: Financial target summary 2012/13

	Limits set by SGHSCD £million	Actual Outturn £million	Under spend[Overspend] £million
Core Revenue Resource Limit (RRL)	69.578	69.490	0.88
Non Core Revenue Resource Limit	2.108	2.096	0.12
Core Capital Resource Limit (CRL)	1.693	1.693	0.00
Cash Requirement	76.000	75.477	0.523

The final revenue out-turn position for 2012/13 is a surplus of £0.1 million, and it has been agreed with Scottish Government Health and Social Care Directorate (SGHSCD) that this can be used to make an early repayment of brokerage due in 2013/14.

In addition to the savings identified the Board achieved a number of other variations from budget within the directorates. The key variances during the year were as follows:

More significant overspends:

- £0.75 million on the Hospital and Mental Health Medical budgets as a result of the need to employ locums to cover vacant posts and staff sickness;
- a net overspend of £0.2 million on SLA budgets, due mainly to increased activity with NHS Highland;
- £0.4 million on Extra-contractual Activity budgets, due mainly to the cost of Off Island Therapeutics (high-cost drugs) provided by other health organisations;
- £0.3 million on building and engineering budgets, mainly due to increased fuel costs;

More significant underspends:

- £0.5 million on GP Prescribing, due to both pricing reductions and efficient prescribing initiatives;
- net under spend of £0.2 million on community and acute nursing budgets, due to higher than expected vacancy levels, offset by overspending on theatre supplies as a result of changes to the orthopaedic service;
- a forecast under spend of £0.3 million on the Chief Executive's budget, mainly due to the vacant Director of Public Health post and a further reduction in the Board's contribution to the CNORIS scheme.

Financial Flexibility (brokerage)

The Board received brokerage of £3.1 million in 2008/09, with an agreed repayment schedule over the 6 year period from 2012/13.

In addition to the £0.1 million identified above, the Board was able to make a further repayment of brokerage amounting to £0.5 million during the year. This was largely because contingency funds were not required. The overall position with regard to the brokerage is as follows:

Table 2: Brokerage

£,m	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
Original Schedule		0.400	0.540	0.540	0.540	0.540	0.537	3.097
Early Repayment	0.631	0.600						1.231
Revised Schedule		0.085	0.161	0.540	0.540	0.540	0	1.866
Brokerage repayment	0.631	0.685	0.161	0.540	0.540	0.540	0	3.097

Capital

In terms of capital expenditure the Board achieved a break even position against its final Capital Resource Limit, spending £1.7million.

During the year the Board replaced radiography rooms at Western Isles Hospital and Uist & Barra Hospital. It started to implement an electronic patient record system, carried out backlog maintenance on the Laxdale Court residences and offices, and installed a CCTV system at Western Isles Hospital.

The remaining capital spend was used mainly to replace medical and other equipment. This is in line with the capital plan for 2012/13.

Efficiency Savings 2012/13

The Board's approved Financial Efficiency Plan (FEP) comprised 57 individual savings targets which were allocated to individual managers, totalling £2.230 million, as well as £0.255 million which were initially unidentified at the start of the year.

Of the savings schemes identified, the Board achieved savings of £2.573 million (i.e. 116% of the total), representing an over achievement of £0.343 million, principally due to additional prescribing savings, against the identified savings plans. Taking into account the £0.255 million of initially unidentified savings at the beginning of the year, the Board therefore achieved a net surplus of £0.088 million against the total target of £2.485 million.

Performance monitoring

Management receives detailed financial information to help manage performance against budgets and control expenditure. Detailed management accounts are prepared on a monthly basis, while management accountants liaise with senior management to analyse the management reports and understand key variances against budgets.

The outcomes of the monthly reviews are consolidated into financial monitoring reports for consideration by the Board and senior management. The information produced and frequency of reporting ensures decision makers have appropriate information on which to base decisions. Detailed monitoring of all the efficiency schemes is carried out on an ongoing basis, supported by the Senior Finance Team, to assess and highlight risks of delivery.

Financial planning – looking ahead

Table 3 below summarises the Board's 2013/14 projected outturn as per the Local Delivery Plan

Table 3: Financial target summary 2013/14

NHS board (2013/14)	£million
Recurring income	71.939
Recurring expenditure	73.546
Recurring savings	1.243
Underlying recurring surplus/(deficit)	(0.364)
Non-recurring income	0.949
Non-recurring expenditure	0.926
Non-recurring savings	0.341
Non-recurring surplus/(deficit)	0.364

The Scottish Government's draft budget was announced in September 2012 and was approved in early 2013. The budget confirms that the resource allocation for Territorial Boards will increase by £256.000 million and £247.400 million over 2013/14 and 2014/15 resulting in a 3.3% and 3.1% increase respectively. The baseline Revenue Allocation uplift for 2013/14 has been confirmed in the Scottish Government budget at £1.629 million (2.8%).

Western Isles Health Board has in place a five year plan as part of the LDP, which forecasts a breakeven position in each of the five years to 2017-18. This includes an efficiency programme for 2013/14 which is expected to deliver £1.751 million recurrent savings (of which £1.343 million cash releasing) and £342k non recurrent savings (all cash releasing). Some of these savings remain unidentified and will require attention from Management to ensure that the savings targets for the year are met.

2013/14 Summary Revenue Budget

The summary position is as shown below:

	£ million
Anticipated Resource Allocation	77.886
Draft Expenditure Budget	79.571
Initial Gap	1.685

The table above shows that the efficiency savings required to achieve break even are £1.685 million.

Efficiency Savings 2013/14

The Scottish Government's expectation is that Boards will achieve 3% efficiency savings, which can be either cash-releasing or productivity efficiency savings. The 3% target for NHS Western Isles is £1.8 million, and so savings above those required to break even are now required, on the basis that they will be re-invested locally.

The Board is working to identify sufficient productivity savings to achieve the 3% target. The initial funding gap has been partially closed through identification of savings as summarised in the chart below:

Diagram 1: Savings Identified in 2013/14



Key Risks to Achieving Financial Balance

The challenges posed by the Financial Efficiency Plan are significant, and the proposed savings may not be achieved in their entirety. To aid monitoring of identified risks, management has prepared a financial plan risk matrix which provides an overall assessment (low, medium, high) of each individual risk together with identified risk mitigation actions and controls.

The key risks can be summarised as:-

- Of the cash releasing savings required to break even, £0.170 million are still in the process of being identified which the Board expects to identify in the near future.
- The time required to effect service change may hinder the delivery of identified efficiency savings. Unaddressed the potential impact in 2013/14 is £0.5 million (and significantly more in future years). Addressed this risk is rated as medium.
- The use of high cost therapeutic drugs may continue to increase. The likely impact is £0.25 million and this risk is rated as medium.

- The Promoting Attendance Task Force is supporting managers in managing sickness absence and this is proving effective in reducing sickness absence rates. Unaddressed the potential impact is £0.5 million in terms of providing backfill for absent staff. Addressed this risk is rated as low.
- Consultant medical staff providing inadequate notice of absence to allow cross-cover or NHS locums to be identified may incur expensive non NHS locum costs. Unaddressed the potential impact is £0.3 million. Addressed this risk is rated as medium due to the possibility of sickness absence occurring.
- Inability to recruit to critical posts e.g. Consultant Physician; Consultant Radiologist may necessitate expensive locum cover. Should posts remain vacant then NHS locums will be sought in the first instance. Unaddressed the potential impact is £0.25 million. Addressed this risk is rated as medium, reflecting the recruitment difficulties experienced in the recent past.
- Inflationary assumptions may be incorrect, although benchmarking with other Boards by management indicates that the assumptions are broadly consistent. The potential impact is £0.2 million and this risk is rated as low.
- High levels of nursing bank and excess hours may be experienced if not controlled. Bank and excess hours usage is closely managed by the Assistant Chief Operating Officer and performance is scrutinised at Executive level on a monthly basis. Unaddressed the potential impact is £0.2 million. Addressed this risk is rated as low.
- High levels of high cost off island unplanned procedures may be experienced. The potential impact is £0.5 million and is rated as medium due to the difficulties in predicting relevant activity.
- Unforeseen cost pressures may arise such as fuel inflation. Energy efficiency drives assist in reducing consumption. Unaddressed the potential impact is £0.2 million. Addressed this risk is rated as medium reflecting the relative lack of control over energy prices (and although consumption can be minimised, severe winter weather could increase consumption).
- Auto-enrolment for existing employees may be implemented from the staging date for new starts, i.e. October 2013. The potential impact is £0.075 million assuming 60% of staff subsequently opt out, and the risk is rated as medium whilst staff are consulted.
- Equal pay claims – the Board have a small number of equal pay claims and await SGHSCD guidance. This is not yet possible to quantify and will remain as a contingent liability until the legal position is resolved.

All the risks associated with the financial plan are continuing to be reviewed by relevant management, which will identify where the risk profile has changed and inform the Boards financial estimates and assumptions going forward.

Achievement of the target 2013-14 financial position will require tight budgetary control and staff engagement at all levels within the Board

Section 5 Governance and Control

Governance Statement

The SGHSCD has issued guidance on the information to be provided in the 2012/13 Governance Statement which goes further than previous disclosures required for Boards. This disclosure includes an overview of risk management, including the organisation's risk profile and any significant control weaknesses or issues identified.

We are satisfied that the Board's Governance Statement complies with the current guidance and we do not disagree with the matters reported.

However, the processes in place to produce the governance statement could be made more effective as the governance statement was received late in the audit process. Management should introduce a more formal process for capturing Director's responses to link to the Governance Statement and support the Accountable Officer in signing the statement.

Given the delay in the finalising of the Corporate Governance Statement, Management should seek to formalise the Directorate returns process to allow the Corporate Governance Statement to be drafted in a timely and efficient manner. This process should include key deadlines.

Action Point 2

Systems of Internal Control

The results of our work on systems of internal control were communicated to the Risk Monitoring and Audit Committee in our Interim Management Letter dated March 2013. The report contained one new low risk recommendation to improve controls and followed up on two previously raised recommendations. These will be followed up with Management later during the planning stages of our 2013/14 audit work.

We have also reported an additional recommendation in relation to the reconciling of the general ledger and pharmacy stock system.

Management should reconcile the difference between the pharmacy stock system and the general ledger. This reconciliation should then be undertaken on a regular basis to allow any differences to be investigated and appropriate corrective action to be undertaken in a timely manner.

Action Point 3

Risk Management

NHS Western Isles has a Risk Management Strategy in place. This was reviewed and updated during 2011/12 and is accompanied by an action plan which is monitored by the Risk Action Team and the Risk Monitoring and Audit Committee.

Information incidents are reported through Datix reporting system to the Information Governance manager and all incidents are investigated as per local policy.

Risks are recorded on Risk Registers and are in place at Corporate, Single Operating Division and service level and managed at the relevant level depending on their severity. The Risk Action Team monitors the implementation of the Risk Management Strategy by ensuring risk assessments are completed.

Governance Structure

The established Committee framework at the Board remains in place, incorporating Clinical Governance, Risk Monitoring and Audit, Staff Governance, Discipline (for primary care contractors) and Public Patient Involvement. Each of the Committees meets regularly (apart from the Discipline Committee which is only convened when required) and has at least one non-executive director present.

During the 2012/13 financial year the Risk Monitoring and Audit Committee met on six occasions. It considers risk management, general and financial corporate governance issues and is responsible for seeking appropriate assurances on behalf of the Board that an effective system of internal control is maintained to give reasonable assurance that assets are safeguarded, waste or inefficiency avoided, reliable financial information is produced, and that value for money is continuously sought.

The Board are currently trialling an amalgamated meeting between the Clinical Governance and Risk Monitoring and Audit Committees, the first of which was held in May 2013. This is in response to concerns initially expressed within the Board that there was a significant risk that either committee could assume the other was addressing a risk/issue with the result that neither did.

It is anticipated that the merged committee, will allow members to see the full range of issues that are discussed and obtain assurance that nothing is being overlooked.

The Board should ensure that a protocol for executive summaries is put in place to ensure that both executive and non executive members' attention is directed efficiently to the key points. The effectiveness of this arrangement should be reviewed as planned to ensure relevant risks are given sufficient air time and that scrutiny and governance is not adversely impacted.

Action Point 4

Internal Audit

The role of internal audit is determined by management and therefore its objectives differ from ours. During 2012/13, the Board continued to have an outsourced internal audit function.

Internal audit have completed 13 reviews within the year, all of which were within the original plan. There are no outstanding reviews to be completed in relation to 2012/13.

Part of our overall audit approach involves us gaining an understanding of the internal audit function to determine if it would be effective and efficient for us to use their work. Whilst we have not placed any reliance on the work of internal audit we have used their work to aid our identification of the areas of risk within the Board.

Prevention and detection of fraud and irregularity

The National Fraud Initiative (NFI) brings together data from health bodies, councils, police and fire rescue bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.

The Board chose to investigate all matches rather than focusing on recommended matches or a particular type of match only. All matches have been reviewed to determine a suitable course of action and to investigate and conclude on the reason for the match. This includes reviewing payroll records, liaising with the Human Resources Department or other Boards and Local Authorities.

The majority of the matches Western Isles Health Board received related to employees working on multiple contracts. As at 31 May 2013 no frauds have been identified through the 2012/13 NFI exercise and the Board was continuing to carry out investigations into the matches identified.

The Board has in place a fraud and corruption policy and response plan. In addition, Western Isles encourages staff and others with serious concerns about any aspect of its work to come forward and voice those concerns without fear of reprisal. This is set out in the Board's whistle-blowing policy which makes it clear that staff can confidently raise concerns without the fear of victimisation, subsequent discrimination or disadvantage.

During the year the Board identified an isolated incidence of irregular payment to staff working specific additional lists at weekends. The value is small (less than £5,000) and will be written off by the Board as extra contractual payments (this value is within the Board's delegated limit). Steps have been taken to ensure that there will be no recurrence of such an incident.

Section 6 Performance

Scotland's public finances: Addressing the challenges

Scotland's public finances: Addressing the challenges was the performance audit report to be selected for targeted follow-up in 2012/13.

The report provided an overview of the scale of budget cuts expected to be faced by the Scottish public sector in the period 2010/11 to 2014/15, and how public bodies were beginning to respond to the challenges of reducing expenditure. In particular, the report highlighted some of the main cost pressures facing public bodies and emphasised the importance of them achieving long-term financial sustainability.

We undertook a follow-up of the actions identified in the original report, posing two key questions to Western Isles:

1. Do public bodies have sustainable financial plans that reflect a strategic approach to cost reduction?
2. Do senior officials, elected members and non-executive directors demonstrate ownership of financial plans and are they subject to sufficient scrutiny before approval?

In accordance with Audit Scotland's request we are in the process of agreeing our reporting on this area and will report separately both to the Board's Risk Monitoring and Audit Committee and Audit Scotland.

National Waiting Times

Audit Scotland published a report on the "Management of patients on NHS waiting lists" on behalf of the Auditor General for Scotland in February 2013. The audit involved a detailed review of NHS Board's electronic waiting list systems and analysis of the application of waiting list codes in patients' records between April and December 2011, to identify whether NHS Lothian's manipulation of waiting lists in 2011 was an isolated incident or whether the issue was more widespread across the NHS.

Whilst the scale of the problem at NHS Lothian was not found elsewhere, the report raised a number of recommendations to tighten the control around the management of waiting lists.

During the 2012/13 year the SGHSCD required an audit of Waiting Times arrangements and processes to be undertaken. A report was presented to the Risk Monitoring and Audit Committee in November 2012 which identified no evidence at NHS Western Isles of systematic and deliberate mis-recording or mis-reporting of waiting times and did not identify any areas of significant concern.

The Report concluded that the scale of inappropriate use of unavailability codes reported in NHS Lothian was not evident in Western Isles Health Board during the period reviewed. The internal audit raised 5 recommendations, which included no major weaknesses but some scope for improvement.

In testing of 10 patient suspensions, 5 cases were noted where there was insufficient evidence to explain why the period of unavailability had been created or amended. It was recommended that staff should be reminded that they should record sufficient and appropriate details of why the patient is unavailable, to support any recorded period of unavailability. If the patient is unwilling or unable to provide a reason this should be recorded.

In order to address this finding, the Board organised training sessions for staff responsible for recording unavailability and recording of unavailability was made a standing item on Medical Records staff meetings. As things currently stand, Boards have been asked (per the NHS Scotland Chief Executives' letter of April 2013) to allocate Internal Audit time to a follow up of previous recommendations made in December 2013. However, the Parliamentary Audit Committee of May 2013 mandated a number of other actions for both the Scottish Government and individual Boards around Waiting Times which are currently under consideration and will be subject to forthcoming guidance.

While there will be ongoing external reporting requirements in respect of waiting times, the Board must ensure that internal controls developed over the management and reporting of key

targets (including waiting times) are robust and provide the ongoing assurance required out with these one-off inspections.

Action 5

Best Value Toolkit

Audit Scotland continues to develop its approach to the audit of Best Value in the NHS. For 2012/13 auditors are required to be aware of the Best Value Toolkits developed by Audit Scotland, and use one or more toolkit(s) as appropriate in agreement with the Board as set out in Audit Scotland's planning guidance.

In consultation with management, as part of our 2012/13 external audit we agreed to undertake a follow up of our 2011/12 review of Community Engagement, which was undertaken using the Audit Scotland Best Value toolkit.

Our findings on the toolkit selected, *Community Engagement follow up*, was reported in April 2013. Our review was based on interviews with management to consider their assessment of performance to date and validating this to supporting evidence on a sample basis where appropriate.

In four of the five areas of the Best Value toolkit Western Isles was classified as performing at a *Better* level of performance, with one section classified as *Advanced*. This represents a slight improvement on the previous year where, all five areas were classified as a *Better* level of performance. (*Better level is defined as minimum acceptable standards, which would be sufficient to allow an organisation to demonstrate a sound performance*)

Healthcare Improvement Scotland – Adverse Events

In June 2012, Healthcare Improvement Scotland (HIS) published a report called: *The Management of Significant Adverse Events in NHS Ayrshire & Arran (2012)*. The report provided an in-depth analysis of NHS Ayrshire & Arran's adverse event management system and outlined a number of recommendations and issues that the NHS board should act on. The report also contains recommendations for other NHS boards in Scotland and learning points for NHS Scotland as a whole.

Immediately following the publication of the report, the Cabinet Secretary for Health, Wellbeing and Cities Strategy asked Healthcare Improvement Scotland to carry out a rolling programme of reviews across NHS boards starting in autumn 2012. This included Western Isles Health Board.

Following the review, the following areas of good practice were noted within Western Isles Health Board:

- a wide range of staff recording adverse events on the electronic reporting system (Datix), including GPs and practice staff
- examples of mental health staff involving carers in investigations, which has resulted in service improvement
- an example of maternity staff involving the family in the adverse event management process and informing them of outcomes, and
- senior managers committed to improving the adverse event management process across the organisation.

However, the review did identify a number of weaknesses in the management of significant adverse events. Many of the shortfalls relate to patient, family and staff engagement, risk-based decision-making and the sharing of wider learning.

It identified areas that Western Isles should improve to ensure arrangements in practice match the board's existing adverse event management policies and procedures. It also concluded that Western Isles' adverse incident management and learning policy is not reliably or consistently applied across the board.

Management should seek to improve on the findings of the HIS Report and implement the recommendations as identified through an agreed action plan.

Action Point 6

Appendices

Action plan

Finding	Management Response
<p>1. Financial planning for pension actuarial valuation</p>	<p>Agreed. This will be recorded as a potential risk in future financial plans. (Director of Finance)</p>
<p>The Board should ensure that the potential for increased employer's contributions in relation to the National Health Service Superannuation Scheme for Scotland is acknowledged/referenced in future financial plans to ensure the possibility of future potential resources remain on the financial planning agenda.</p>	
<p>2 Governance Statement</p>	<p>Agreed. The process will be reviewed for 2013/14 to ensure that the Governance Statement is available at the beginning of the annual audit. (Executive Team)</p>
<p>Given the delay in the finalising of the Corporate Governance Statement, Management should seek to formalise the Directorate returns process to allow the Corporate Governance Statement to be drafted in a timely and efficient manner. This process should include key deadlines which are to be met.</p>	
<p>3 Inventory Reconciliation</p>	<p>Agreed. We will ensure that this is performed on a regular basis throughout the year and reviewed quarterly by the Director of Finance.</p>
<p>Management should reconcile the difference between the pharmacy stock system and the general ledger. This reconciliation should then be undertaken on a regular basis to allow any differences to be investigated and appropriate corrective action to be undertaken in a timely manner.</p>	
<p>4. Governance Structure</p>	<p>Agreed. This has been put in place.</p>
<p>The Board should ensure that a protocol for executive summaries is put in place to ensure that both executive and non executive members' attention is directed efficiently to the key points.</p>	
<p>5. Waiting Times</p>	<p>Agreed. We are currently working with health intelligence colleagues to develop production and application of real time electronic management information in respect of waiting time and other performance indicators. We have invested in software to facilitate this. (Chief Operating Officer)</p>
<p>While there will be ongoing external reporting requirements in respect of waiting times, the Board must ensure that internal controls developed over the management and reporting of key targets (including waiting times) are robust and provide the ongoing assurance required out with these one-off inspections.</p>	
<p>6. Adverse Events</p>	<p>Agreed. The Board has an agreed action plan in place which is being progressed. (Medical Director)</p>
<p>Management should seek to improve on the findings of the HIS Report and implement the recommendations as identified through an agreed</p>	

Finding	Management Response
action plan.	

Responsibilities

Management responsibility

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made there under. This means:

- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements timeously which give a true and fair view of the financial position of the Board and its expenditure and income for the period ended 31 March 2013; and
- preparing a Directors' Report, an Operating and Financial Review, a Governance Statement and a Remuneration Report

Auditor's responsibilities

We audit the financial statements and the part of the Remuneration Report to be audited and give an opinion on:

- whether they give a true and fair view of the financial position of the Board and its expenditure and income for the financial year ended 31 March 2013;
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
- whether the information which comprises the Directors' report, and Operating and Financial review included with the financial statements is consistent with the financial statements; and
- whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).

We also review the Board's Governance Statement by considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control.

The matters raised in this and other reports that flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all matters arising and in particular we cannot be held responsible for reporting all risks in your business. This report has been prepared for and only for Western Isles Health Board in accordance with the terms of our engagement letter with Audit Scotland and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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