



NHS SHETLAND

Annual report on the 2013/14 audit

Prepared for the Board of NHS Shetland and the
Auditor General for Scotland

July 2014



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Key messages

Financial statements

- Unqualified auditor's report on the 2013/14 financial statements
- Audited financial statements submitted to Scottish Government by 30 June 2014

Financial position

- All financial targets in 2013/14 met:
- Surplus against total RRL of £0.088 million
- Recurrent savings of £1.274 million against total planned savings of £2.559 million

Governance & accountability

- The Board's governance arrangements in place are satisfactory
- The Board has an effective internal audit function and satisfactory anti-fraud arrangements

Best Value, use of resources & performance

- The Board has a developed framework in place for monitoring and reporting performance
- In 2013/14 the Board met or exceeded 67% of its performance measures

Outlook

- A breakeven position in each of the next five financial years is forecast
This will only be achieved if efficiency savings are realised to bridge the funding gap

Financial Statements

We have given an unqualified audit opinion on the financial statements of NHS Shetland for 2013/14.

The Board achieved all of its financial targets in 2013/14 and returned a surplus against its total Revenue Resource Limit of £88,000.

The Board's overall savings target in 2013/14 was £2,559k, however only £1,274k was achieved on a recurrent basis, representing 57% of the target.

Financial management and budget setting processes remain adequate, however there is scope for improving the level of detail in budget reports which would support appropriate decision making by Members. There also could be more evidence of challenge by Members in agreeing and monitoring the financial position of the board.

Financial position

Although currently essential for delivery of an in-year breakeven position, there remains an overreliance on savings that are non-recurrent in nature. The board's 2014/15 financial plan requires cost savings of £2.5 million to be generated, only £1.5 million of which is planned from recurring sources. The 5 year financial plan gives indicative savings figures for the following 4 years suggesting that further recurring savings of around £1.2 million in each of these years will be required. The Board will need to have well developed plans in place to deliver these savings.

The Board recognises the difficult operating environment beyond 2014/15 and the challenges facing it including reduced annual funding uplifts, pension and national insurance changes and the normal pressures of pay, prices and prescribing. This, together with the ongoing challenges relating to the remote and rural nature of Shetland, and the range of services provided, may impact on the board's ability to deliver its clinical strategy and progress its Efficiency and Redesign programme.

With the implementation of Health and Social Care Integration from April 2015, there are challenges of achieving and sustaining performance targets, technology advances and major organisational changes.

Governance and accountability

In 2013/14, the Board had satisfactory governance arrangements in place which included a number of standing committees overseeing key aspects of governance. The Board also had an effective internal audit function and sound anti-fraud arrangements.

Audit Scotland's national report on the management of patients on NHS waiting lists found limitations in the systems used to provide an audit trail on how waiting lists were managed. A local review in NHS Shetland of waiting times carried out by internal audit identified some areas for improvement. The Board has provided written assurance to the Scottish Government that improvement actions identified by internal audit have either been implemented or are in progress.

The integration of health and social care is a complex and

challenging process and progress to date has been slow. The Board will need to continue to engage at the highest level with Shetland Islands Council to ensure that the unified service is in place by the statutory date of 1 April 2015.

Best Value, use of resources and performance

The Board's Strategy & Redesign Committee has responsibility for reviewing financial performance and ensuring that the 2013/14 financial plan was achieved. The Board has an established Best Value framework in place and this is supported by well-developed performance management and reporting arrangements. The board receives regular performance reports from the Director of Public Health and Planning on progress towards achieving the key performance targets set by the Scottish Government (HEAT targets and standards) and local targets. The board has achieved satisfactory performance levels by either meeting or exceeding its targets in a number of areas. However, some targets, such as those relating to complaints processes, a number of waiting times targets and the Knowledge and Skills (eKSF) Framework target were not fully achieved on a consistent basis throughout the year.

The Board has arrangements in place to consider national performance reports issued by Audit Scotland, whereby local performance is assessed against national findings and improvement actions identified. These actions are monitored by the Audit Committee to confirm implementation.

Our review of the arrangements for achieving best value in 'Sustainability' concluded that, overall, NHS Shetland has

demonstrated basic practice, with some evidence of moving towards better practice.

Outlook

The Board is predicting a balanced budget position in each of the years from 2014/15 to 2018/19. However, this is dependent on the delivery of efficiency savings each year to compensate for the gap between available funding and the cost of services. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. Achieving sustainability in the medium term will require innovation and vision to design and deliver the services needed to serve the future needs of citizens.

Introduction

This report is a summary of our findings arising from the 2013/14 audit of NHS Shetland. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.

Our responsibility, as the external auditor of NHS Shetland, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The management of NHS Shetland is responsible for:

- preparing financial statements which give a true and fair view
- implementing appropriate internal control systems
- putting in place proper arrangements for the conduct of its affairs
- ensuring that the financial position is soundly based.

This report is addressed to the Board and the Auditor General for Scotland and should form the basis of discussions with the Audit Committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public

reporting.

This report will be published on our website after it has been considered by the Board. The information in this report may be used for the Auditor General's annual overview of NHS financial performance. The overview report will be published and presented to the Public Audit Committee of the Scottish Parliament later this year.

A number of local and national reports have been issued during the course of the year. These reports (**Appendix I**) include recommendations for improvements. 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 NHS Shetland.

The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plan the related sources of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix II** sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Appendix III is an action plan setting out the issues, risks and recommendations arising from the audit. Officers have considered the issues and agreed to take the specific steps in the column

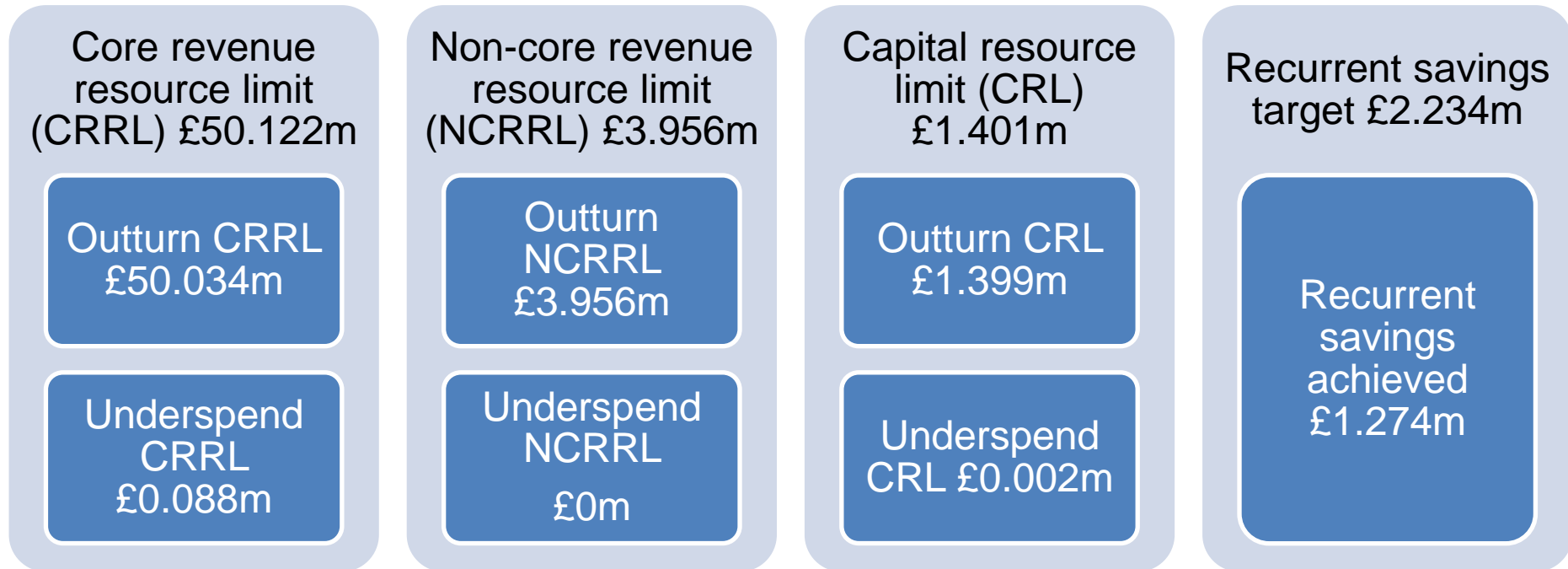
headed "Management action/response".

We recognise that not all risks can be eliminated or even minimised. What is important is that NHS Shetland understands its risks and has arrangements in place to manage these risks. The Board and Accountable Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements



Audit opinion

We have given an unqualified opinion that the financial statements of NHS Shetland for 2013/14 give a true and fair view of the state of its affairs and of its net operating cost for the year.

Other information published with the financial statements

Auditors review and report on other information published with the financial statements, including the Directors' Report, Governance Statement and the Remuneration Report. We have nothing to report in respect of these statements.

Regularity

The Public Finance and Accountability (Scotland) Act 2000 requires auditors to certify that, in all material respects, the expenditure and income shown in the accounts was incurred or applied in accordance with relevant legislation and guidance issued by Scottish Ministers. We addressed the requirements of the Act through a range of procedures, including obtaining written assurances from the Accountable Officer. No issues require to be reported.

Accounting issues arising

A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. Adjustments were required to correct errors in the receivables balance and also to accurately account for finance lease movements. This resulted in a £16k reduction in the savings against the Core Revenue Resource Limit and a decrease in net assets of £16k.

In addition, a small number of other unadjusted errors (totalling around £6k) were identified during the course of the audit, where if adjustments had been made would have reduced the savings by £6k.

Report to those charged with governance

On 17 June 2014, we presented our report to those charged with governance (ISA 260) to the Audit Committee. The primary purpose of this report is to communicate the significant findings arising from

our audit prior to finalisation of the independent auditor's report.

The main points are set out in the following paragraphs:

Endowment Funds

The 2013/14 accounts manual, requires host Boards, to consolidate into their accounts, where material, the financial results of endowment funds established by the National Health Service (Scotland) Act 1978.

The Shetland Health Board Endowment Funds were not material to the results of the board however management took the decision to consolidate the figures into NHS Shetland's financial statements for 2013/14. The basis of consolidation was merger accounting with intra-group transactions between NHS Shetland and the Endowment Funds eliminated on consolidation. The consolidation required the restatement of prior year comparatives and the inclusion of a consolidated opening balance sheet at 1 April 2012. The Board did not satisfactorily complete the consolidation process and no working papers detailing the accounting adjustments were made available to audit. This led to additional input being required from the audit team. A number of errors were identified in the consolidated financial statements some of which were corrected during the course of the audit. Errors however remained, specifically in the disclosure of endowment fund realised and unrealised gains and losses. Although not material, the effect of these errors was that there remain misstatements in the group statements and related notes. **(Risk Area 1)**

Pension costs

Note 24 (pension costs) in the annual accounts complies with the NHS Manual of Accounts. However, due to a moratorium on actuarial pension valuations, the figures are based on the last valuation of the NHS Superannuation Scheme which was for the year ended 31 March 2004 and published in 2008. An updated actuarial valuation has now been carried out. The results are awaited and will be reflected in the 2014/15 accounts.

Outlook

The financial statements of the Board are prepared in accordance with the Government financial reporting manual (the FReM). The main new standards to be adopted in 2014/15 are:

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosures of interests in other entities

Compliance with the FReM is mandatory; however, the impact of the adoption of the new standards is unlikely to be significant to the financial statements of NHS Shetland.

Financial position

NHS Shetland is required to work within the resource limits and cash requirement set by the SGHSCD. Final RRL and CRL were agreed with SGHSCD on 25 April 2014. The Board achieved all of its financial targets in 2013/14.

The Board had budgeted to break-even against its Revenue Resource Limit in 2013/14; a cumulative surplus of £0.088 million was reported for the financial year. Despite the surplus, in 2013/14 the Board recorded an underlying deficit of £0.624 million, which represented the excess of recurring expenditure commitments over recurring funding and savings, carried forward into 2014/15. 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.

For a significant part of the financial year the financial plan trajectory highlighted an adverse variance against the planned position. A revised plan indicated a breakeven position and this position was reached by 31 March 2014. The favourable movement towards the end of the year was primarily as a result of planned non-recurrent measures undertaken by the board together with energy costs being lower than anticipated. Although the board members were kept updated on progress against the financial plan,

it is essential that the board continues to ensure that financial reports contain a sufficient level of detail to support decision making. (*Risk Area 2*)

Capital expenditure

The Board spent a total of £1.399 million on capital projects during 2013/14. This amount was within its total Capital Resource Limit (CRL) of £1.401 million.

Financial sustainability

As boards continue to rely on a level of non-recurring funding to achieve financial targets, there is a risk that overreliance on this element of funding to achieve financial balance will become unsustainable. Longer term financial plans should be based upon recurring expenditure streams as a basis for reviewing and redesigning models for service delivery. Reliance on non-recurrent savings is identified within the early years of the board's five year financial plans with more reliance planned for later years.

The Board's Local Delivery Plan (LDP) for 2014/15 aligns the corporate objectives with its financial and workforce plans and asset management strategy. The Board's financial planning arrangements include regular monitoring, reporting and updating of financial information to ensure that focus is maintained on financial performance and that action is taken on any emerging issues. A Finance Monitoring Report is produced by the Director of Finance on a monthly basis and is presented to either the Strategy & Redesign Committee or the Board. The reports provide a summary of the financial position at the end of each month including

progress against the savings plans.

The Board's five year financial plan indicates a break-even position in each of the five years. The plan assumes efficiency savings of £2.5 million in 2014/15, and £1.2 million in each year thereafter, with anticipated future funding uplifts of 2.6% in 2014/15, 2.2% in 2015/16 and 1.8% thereafter. The Board's savings target for 2014/15 includes a shortfall in recurrent savings achieved brought forward from 2013/14 of £624k. The savings plan for 2014/15 is to be achieved from a mix of recurring and non-recurring actions with the level of non recurring savings estimated at £961k, approximately 38% of the overall total target required. The delivery of these savings plans will be primarily through the Board's Efficiency and Redesign programme, and whilst the Board is confident that it will be able to achieve these savings during 2014/15, there remains the risk of over reliance on savings that are non-recurrent in nature. The delivery of the cost savings plan will be challenging; failure to achieve the planned cost savings will impact on the board's ability to achieve a breakeven position. **(Risk area 3)**

Workforce planning

The May 2014 National Records of Scotland report indicated that there will be significant growth in the population of those past retirement age, with only a modest increase of 0.4% in the working population of Shetland. The 2013/14 updated workforce plan highlighted the key workforce risks and challenges facing NHS Shetland. These included the remote and rural issues which impact on services and also the size of the board. Some services are very small with some comprising of single practitioners only, thereby

limiting the scope for efficiencies. There are also challenges in terms of recruitment and succession planning for medical staff. During 2013/14 the Board incurred significant costs in relation to agency staff. Costs increased from £1.1 million in 2012/13 to £1.6 million in 2013/14, an increase of 45%. Agency staff are required for a variety of reasons including cover for senior vacant posts. Whilst the use of such staff provides flexibility to the care system and provides temporary cover for vacancies and staff absences, continued reliance on agency workers to this extent may have a significant impact on the Board's plans to achieve financial balance. **(Risk area 4)**

Cost of pension provision

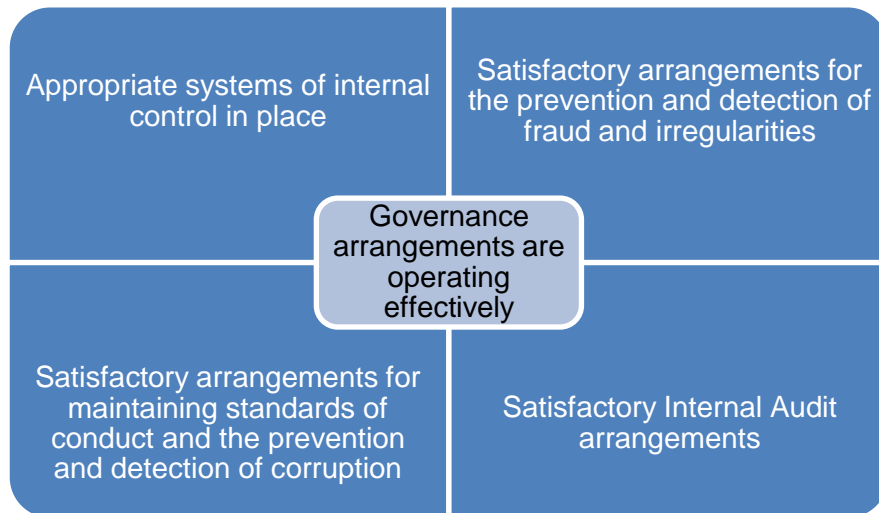
Following the advice of the Scottish Government, Note 24 in the financial statements for 2013/14 "Pension Costs" reflects a net liability of £370 million for the NHS Superannuation Scheme arising from the most recent actuarial valuation. This figure is based on the last quinquennial actuarial valuation on the NHS Superannuation Scheme which was for the year ended 31 March 2004. While there was a more recent actuarial valuation carried out at 31 March 2008, the publication of this valuation has been postponed by HM Treasury pending the outcome of public sector pension reforms. Given that periodic actuarial valuations are key to determining the adequacy of employer and employee contributions to the scheme, publication of the latest actuarial valuation will bring clarity as to the adequacy of current contributions to meet the future commitments of the scheme. Future, potentially increased, contribution rates will need to be managed as part of the cost base.

Changes in pension legislation came into force in 2012 requiring that all eligible employees must be automatically enrolled into a workplace pension scheme. All employees between 22 and state pension age who earn more than the earnings trigger will be automatically enrolled in either the NHS Pension Scheme or another qualifying scheme. In addition, employers' pension contributions will increase from April 2015. The Board's five year financial plan allows for this increase but there is a risk that the increase could be as high as 4%. Changes also mean that any significant increases in employee earnings in the last three years will be capped from a pension contribution perspective with the employer required to fund the balance (**Risk area 5**).

Outlook

The Board is predicting a balanced budget position in each of the years from 2014/15 to 2018/19. However, this is dependent on the delivery of efficiency savings each year to compensate for the gap between available funding from current sources and the cost of services. The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. The cost of pension provision and other cost pressures are issues which will impact on the future financial position of the Board.

Governance and accountability



The Board and accountable officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHS Shetland and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

The corporate governance framework within NHS Shetland is centred on the Board which is supported by a number of standing committees.



Based on our observations and audit work, our overall conclusion is that the governance arrangements within NHS Shetland are operating effectively.

Internal control

As part of our audit we reviewed the high level controls in a number of NHS Shetland systems that impact on the financial statements. This audit work covered trade receivables, trade payables, Family Health Service, ICT and also included a follow up of those issues highlighted in our review of internal control systems in 2012/13. We noted that some areas identified in 2012/13 had yet to be fully resolved by management, however our overall conclusion was that NHS Shetland had adequate systems of internal control in place during 2013/14.

Internal audit

Internal audit provides the Board and accountable officer with independent assurance on the overall risk management, internal control and corporate governance processes. In addition, in an effort to avoid duplication, we place reliance on internal audit work where appropriate. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work.

The review of internal audit was carried out in November 2013 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.

Arrangements for the prevention and detection of fraud

The Board's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

NHS Shetland participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that the Board has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

The arrangements for the prevention and detection of corruption in NHS Shetland are satisfactory and we are not aware of any specific issues that we need to record in this report.

Integration of adult health and social care

The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. The Act offers some flexibility on the partnership arrangements for the governance and oversight of integrated health and social care services. The integration will be complex and challenging and the Board will need to engage at the highest level with the council to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose. This will require:

- The establishment of a local integrated partnership and related governance arrangements
- Integrated budgets for health and social care
- Joint responsibility for strategic and locality planning in the area served.

A Director of Health & Social Care was appointed during 2013/14 to oversee the further integration of health and social care services in Shetland. While good progress had been made previously in

developing an integrated approach to services, recent progress to put in place the integrated governance required as part of the new Act has taken longer than initially planned. However, an options appraisal on the preferred integration model for Shetland was supported at a joint meeting of the council's Social Services Committee and CHCP in June and the Board and Council in early July. The preferred model will be worked up in detail over the next 6 months and will be set out in Shetland's Joint Commissioning Strategy and Integration Plan 2014-2017. This will replace Shetland's CHCP Agreement. (**Risk area 6**)

Equality Act 2010

The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. To allow the public to assess an organisation's performance on equality, the Act requires publication of information on actions taken and the progress made to achieve equality outcomes. The Board must review its outcomes and publish a review by April 2015.

NHS Shetland's Equalities Mainstreaming Report & Equality Outcomes 2013-17 was approved by the Board in April 2013. Since then, some significant progress has been made as follows:

- Publication of updated policy on Embracing Equality, Diversity and Human Rights
- Developing partnership working arrangements with local agencies to deliver information and events
- Introducing revised policy and support in briefings and

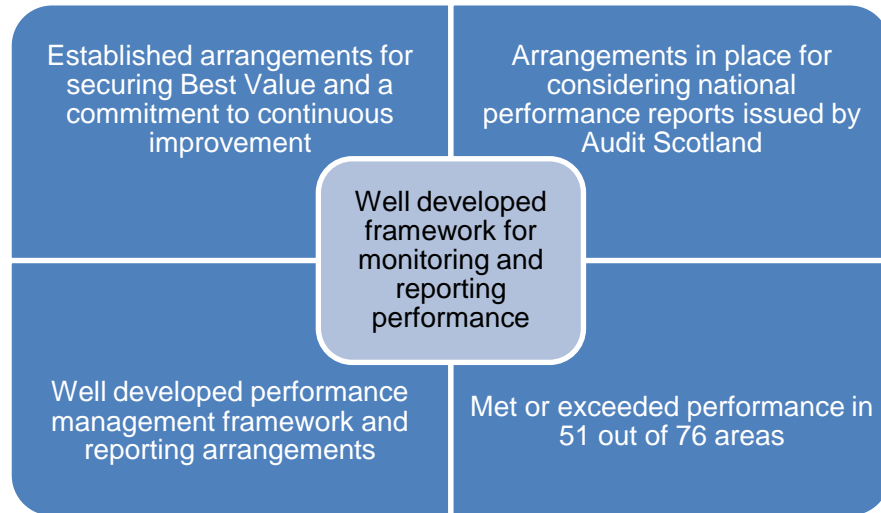
communications for a variety of cultural events.

Following the publication of national and direct feedback from the Quality and Human Rights Commission, the Board has revised its outcomes implementation plan, and, in line with the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012 NHS Shetland has gathered information on the composition of the board's workforce. The data gathered allows the board to move towards improving performance in terms of its general equality duty. Overall the board is progressing well in this area, working jointly with its equality partners across Shetland to deliver and enable the equalities outcomes to be realised.

Outlook

Integration of health and social care is a complex and challenging process and the Board will need to continue to engage at the highest level with Shetland Islands Council to ensure that the unified service is in place by the statutory date of 1 April 2015. The Scottish Government has opened a two part consultation on regulations and guidance to be issued by Ministers under the Public Bodies (Joint Working) (Scotland) Act 2014. The consultation will inform the approach to matters relating to the integration scheme, delegated functions and the national health and wellbeing outcomes.

Best Value, use of resources and performance



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

Arrangements for securing Best Value

The Board has established arrangements for securing Best Value (BV) and ensuring commitment to continuous improvement. An annual report is presented to the joint meeting of the Clinical Governance and Audit Committees in May of each year setting out the evidence which demonstrates the Board's approach to the key

BV themes of:

- Vision and leadership;
- Effective partnerships;
- Governance and accountability;
- Use of resources, and
- Performance management.

In addition, this Best Value framework covers cross-cutting themes of Equality and Sustainability.

During the course of our audit work we have considered and reviewed the evidence supporting the Board's BV framework. This included a review of committee minutes and supporting papers.

We are satisfied that the Board can demonstrate commitment to Best Value and continuous improvement.

During 2013/14 we reviewed the arrangements for achieving best value in 'Sustainability' and concluded that, overall, NHS Shetland has demonstrated basic practice, with some evidence of moving towards better practice. The board however will have to develop its strategies and processes further to ensure sustainability is fully embedded across all areas of the board's service delivery. A number of areas for improvement were identified and these were brought to the attention of management who have prepared an action plan to address the issues.

Use of resources: workforce planning

Workforce planning forms one of the strategic arms of the corporate planning process which supports the Local Delivery Plan. The Board agreed a workforce plan covering the period 2012-15, with a more recent update in 2013/14. The National Records of Scotland population projections report in May 2014 forecast only a modest increase of 0.4% in the working age population. Recruitment difficulties are already being experienced in Shetland and the board recognises that a significant level of workforce change and redesign will be needed to achieve financial balance and increase efficiency.

Service redesign

The remote and rural nature of Shetland's location continues to be one of the board's biggest challenges in delivering services. There are also challenges due to the range of services available with small teams required to provide a wide range of services to communities. Service redesign, therefore, is essential to ensure that services meet the needs of Shetland's local population, together with the standards and requirements laid out in national policy and guidance.

Service redesign is driven by NHS Shetland's clinical strategy 'Creating Sustainability, Ensuring Resilience, Securing the Future 2011-2014'. The Efficiency & Redesign programme, developed in 2012/13, provides the board with a clear methodology to identify, develop and deliver service redesign.

A number of key redesign projects, including clinical staffing, inpatient capacity and demand and Grampian Pathways have been

progressed during 2013/14. These projects are essential to help NHS Shetland deliver its key service redesign and financial targets and to continue to provide clinical services in line with its vision and strategic goals. The progress and impact of all service developments need to be reviewed regularly by the board to ensure that they contribute to improving the patient experience whilst delivering Best Value.

Performance management

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.

We are satisfied that appropriate performance management arrangements were in place within NHS Shetland for 2013/14.

National performance audit reports

During 2013/14 the Board has developed arrangements to consider national performance reports issued by Audit Scotland, whereby local performance is assessed against national findings and improvement actions identified. These actions are monitored by the Audit Committee to confirm implementation. A summary of national performance audit reports is included in appendix I.

Management of patients on NHS waiting lists

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

A follow-up review was published in December 2013. The review found that the trend of reducing the use of unavailability codes noted in the original report continued during 2012 and 2013. The review also noted that Boards were improving controls and audit trails in the systems used to manage waiting lists. In particular, there is a stronger focus on how boards record and monitor the reasons for patient unavailability.

In November 2013, Internal Audit followed up progress made by NHS Shetland in implementing the actions in the Audit Scotland report. NHS Shetland had developed appropriate action plans and had made good progress in implementing the recommendations of the report, with all actions completed by the end of September 2013. The Board has appropriate plans and processes in place to comply with the recommendations regarding the Scottish Government's waiting times guidance, specifically, the Board has processes in place to mitigate against the risk of using unavailability codes inappropriately.

Management of patients on NHS waiting lists- audit update , December 2013

Boards should:

- ensure their management of waiting lists includes scrutinising how they use all waiting list codes, not just unavailability codes
- implement the national controls framework to assess whether they have all the necessary controls in place to manage waiting lists, and address the gaps they need to fill
- implement our previous recommendation about making sure boards identify patients with additional support needs and provide the required support
- ensure letters to patients about the treatment time guarantee provide clear and detailed information
- use the new codes to monitor unavailability due to patient choice reasons as part of their overall capacity planning
- use the tool being developed by ISD Scotland to monitor indicators for the management of waiting lists and benchmark their performance against other boards.

Overview of performance targets in 2013/14

The Board receives regular performance reports from the Director of Public Health on progress towards achieving the key performance targets set by the Scottish Government (HEAT targets and standards) and local targets.

The board, in general, has achieved satisfactory performance levels by either meeting or exceeding its targets in a number of areas. These included alcohol brief interventions, reduction in mortality rates from coronary heart disease, the number of patients referred urgently for cancer treatment and delayed discharge rates.

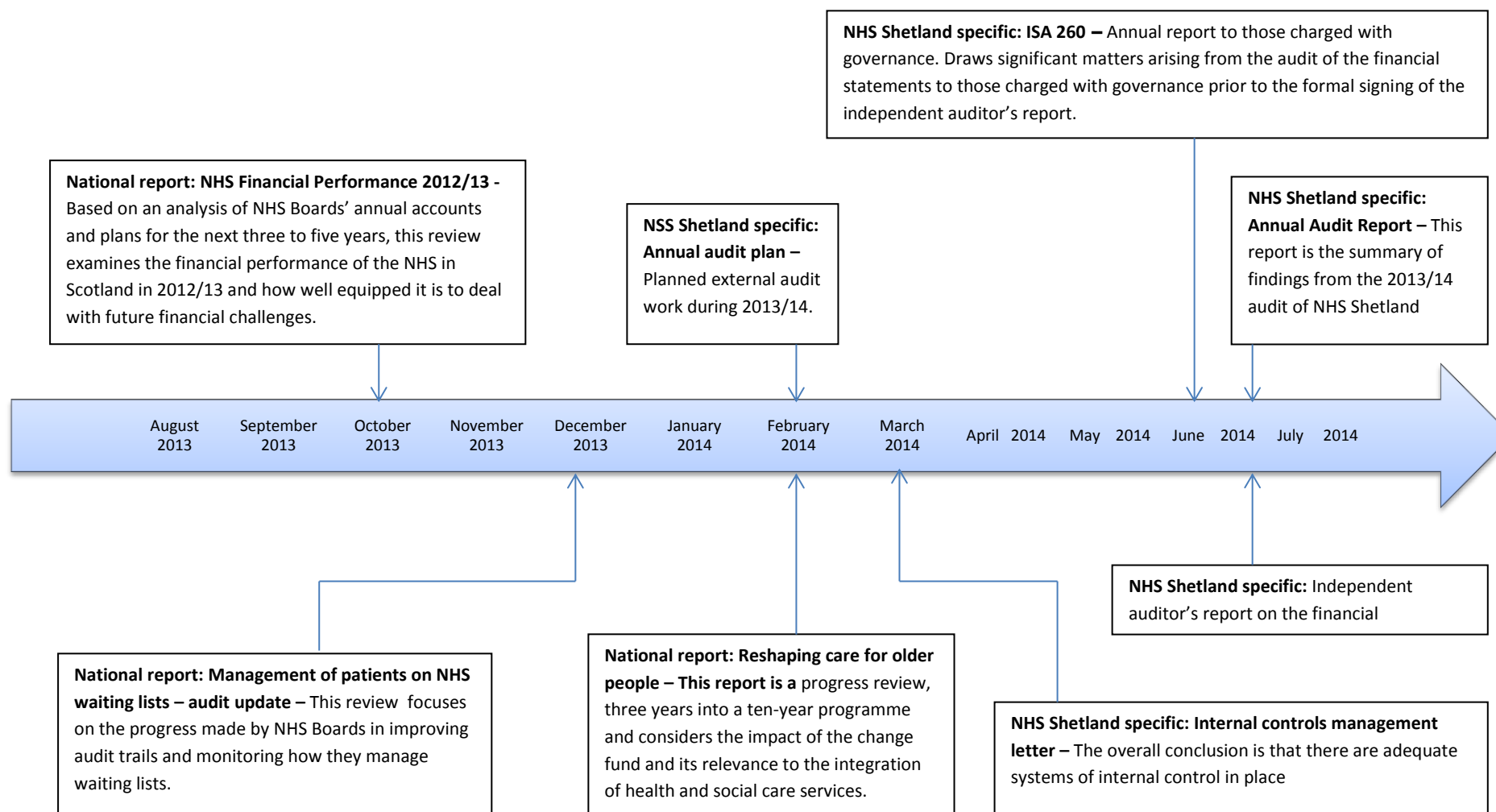
However, some targets, such as those relating to complaints processes, the Knowledge and Skills (eKSF) Framework and sickness absence rates were not fully achieved on a consistent basis throughout the year. Also, due to some ongoing short and medium term pressures, some access targets were not achieved consistently. Maintaining and sustaining these waiting times targets is challenging, particularly at a time when the board requires to achieve significant savings on a recurrent basis. The board needs to balance achievement of performance targets against reducing funding levels and other competing service priorities. **(Risk Area 7)**

Outlook

In common with other NHS Boards, NHS Shetland faces continued demand for increased and improved services arising from changing demographics, lifestyles, health inequalities, increasing public

expectations, the availability of new drugs, treatments and technologies, and the impact of health service specific inflation. As demand and the consequent cost of healthcare continue to grow, the Board will struggle to deliver at current funding levels. The scope of what can be done to respond to tough financial pressures is limited. Services will need to be transformed to improve quality, while also making them more efficient and sustainable.

Appendix I – Summary of Audit Scotland reports 2013/14



Appendix II - Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
<p>Financial Statement Audit Process - The processes in place for updating the accounts to a final version by the agreed date require to be improved. If improvements are not in place 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.</p>	<ul style="list-style-type: none"> • Confirmation by Director of Finance that a review of the process for completing the draft accounts for 2013-14 had been performed which identified learning action points to implement into the 2013-14 annual accounts planning cycle and timetable to address the issues that arose in 2012/13. • Ongoing discussions with Director of Finance. • Attendance at Audit Committee meetings.
<p>Endowments - Endowment balances may be material and will require to be consolidated into the NHS Shetland accounts. This is a new accounts area and there is a risk of misstatement.</p>	<ul style="list-style-type: none"> • Discussions with Director of Finance during the year regarding the proposed consolidation process. • In advance of the NHS Shetland financial statements audit, draft accounts of the Endowment Funds were provided. • The Shetland Health Board Endowment Funds were consolidated into NHS Shetland's financial statements for 2013/14 in accordance with the health accounts manual. • The endowment funds auditors completed their audit, and confirmed that there were no changes required to the draft account figures, and that an unqualified opinion would be issued.

Audit Risk	Assurance procedure
<p>Cost pressures - NHS Shetland continues to face a number of financial pressures, particularly across the clinical services directorate and these have to be managed within current resources. The main pressures include the 1% pay award, increases in hospital medical staff pay costs, and also the increased costs in primary care medical staff costs and locum costs required to maintain essential services. There is a risk that these cost pressures could significantly affect NHS Shetland's ability to meet its projected year end breakeven position.</p>	<ul style="list-style-type: none"> • Review of committee minutes and reports monitoring the financial position through the year. • Concluding that the financial and budgetary reporting processes were adequate to ensure a breakeven position was reached. • Overall NHS Shetland reported a small surplus.

Audit Risk	Assurance procedure
<p>Savings plans – As at the end of September, the savings made totalled only £733k, against planned savings for the year of £2.558 million. Some of the planned savings schemes had not been implemented or had a confirmed start date. There was also still an overreliance on savings that are non-recurrent in nature. The delivery of the cost savings plan will be challenging as in recent years, and there is a risk that the programme is not achieved leading to a failure to reach a breakeven position.</p>	<ul style="list-style-type: none"> • Review of committee minutes and reports monitoring the financial position through the year. • NHS Shetland recorded an underlying deficit of £0.624m which represents the excess of recurring expenditure commitments over recurring funding and savings. This has been carried forward into 2014/15.

Audit Risk	Assurance procedure
<p>Financial plan - The financial plan trajectory for the year highlights a significant adverse variance against the planned position. A revised plan has also been outlined which demonstrates clearly that the financial position will be rectified by 31 March 2014. However, the revised plan provides insufficient detail to support these amended figures.</p> <p>In the absence of a robust and formal revised financial plan the forecast breakeven position is at risk.</p>	<ul style="list-style-type: none"> • Review of committee minutes and reports monitoring the financial position through the year. • Concluding that the financial and budgetary reporting processes were adequate to ensure a break even position was reached. • Overall NHS Shetland reported a small surplus.

Appendix III – Action plan

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/9	<p>Endowment Funds Consolidation</p> <p>The Board did not satisfactorily complete the consolidation process of the endowment funds and no working papers detailing the accounting adjustments were made available to audit. This led to additional input being required from the audit team. Non-material errors remain in the financial statements and notes, specifically in the disclosure of endowment fund realised and unrealised gains and losses.</p> <p>Risk</p> <p>There is a risk that the sign-off deadline for the accounts is missed if consolidation processes are not properly in place.</p> <p>Recommendation</p> <p>The process used for completing the consolidation of the endowment funds accounts requires to be reviewed to address the issues arising during the 2013/14 audit.</p>	<p>The process in 2013-14 of consolidating the Endowment Accounts into the Board's primary accounts was a learning event for the staff involved in understanding many factors including the technical differences OSCR requires to that in Board's accounts.</p> <p>The lessons learned from the experience will be built in to the work schedule for 2014-15.</p> <p>As the 2013-14 Endowment Final Accounts were shared with their Auditors before the Board's draft final accounts were shared with External Audit all the issues raised can be address to include these within the draft accounts submission.</p>	Director of Finance	April 2015

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
2/11	<p>Financial plans</p> <p>For a significant part of the financial year the financial plan trajectory highlighted an adverse variance against the planned position. A revised plan indicated a break-even position which was reached by 31 March 2014. Although board members were kept updated in progress against the financial plan, it is essential that the board continues to ensure that financial reports contain a sufficient level of detail to support decision making.</p> <p>Risk</p> <p>Inappropriate decisions may be taken if financial reporting processes do not contain sufficient levels of detail.</p> <p>Recommendation</p> <p>The board should review its financial reporting processes to ensure that adequately detailed, up to date information is provided to Members.</p>	<p>The financial planning and reporting on financial information is under a continual review cycle and has been evolving over the last 30 months to present information and explain emerging issues in a more transparent and timely manner.</p> <p>The revised plan was first presented to Strategy and Redesign Committee in November 2013 and a more detailed review and discussion took place at the Board Development Day the following month.</p>	Director of Finance	Continuous

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
3/12	<p>Savings Targets</p> <p>The delivery of the cost savings plan for 2014/15 and subsequent years will continue to remain challenging. The savings plan for 2014/15 will be achieved from a mix of recurring and non recurring actions with the level of non recurring savings estimated at £961k, approximately 38% of the overall total target required.</p> <p>Risk</p> <p>Whilst the Board is confident that it will be able to achieve these savings during 2014/15, there remains the risk of over reliance on savings that are non recurrent in nature and difficult to sustain.</p> <p>Recommendation</p> <p>The Board should continue to develop its Efficiency and Redesign Programme to find further savings of a recurrent nature.</p>	<p>The Board recognises that reliance on non recurring savings is not sustainable in the longer term. However in the medium term financial plan the Board recognises that short term savings scheme aid in filling the “ gap” whilst longer term service redesign is appropriately reviewed and worked through to the implementation stage.</p> <p>The Board has outlined a number of schemes with varying lead in implementation plans and based upon this identified timing gaps that require to be addressed by non recurring savings schemes.</p> <p>Strategy and Redesign committee has the Corporate Governance role to monitor the plan and discuss in detail each major redesign project fits with the Corporate Objectives.</p>	Chief Executive	Continuous

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
4/12	<p>Agency Staff</p> <p>The spending on agency staff increased from £1.1m in 2012/13 to £1.6m in 2013/14.</p> <p>Risk</p> <p>Continued reliance on agency staff to this extent could have a significant impact on the Board's plans to achieve financial balance.</p> <p>Recommendation</p> <p>The Board should ensure that trends and patterns of agency staff are managed and monitored closely with a view to reducing costs.</p>	<p>The increase in locum costs in 2013-14 was partly planned in secondary care where £0.325m was non-recurrently provided for whilst the reviewing of the Acute Medical staffing strategy was completed. This was approved at the April 2014 Board Meeting.</p> <p>A Primary Care strategy is currently under development. It seeks to create a sustainable service model and tackle issues with GP recruitment and retention.</p> <p>The number of salaried practices directly managed increased by 50%, 2/3rds of these are single handed.</p> <p>The Board inherited a single handed practice in April as the provider of last. Whilst actively recruiting, essential primary medical services still required to be provided.</p>	Medical Director and Director of Community Health and Social Care	December 2014

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
5/13	<p>Cost of Pension Provision</p> <p>Changes in pension legislation and increases in pension contributions from 1 April 2015 will put pressure on boards. NHS Shetland's 5 year financial plan allows for a moderate increase in costs but there is a risk that the increase could be as high as 4%. Changes also mean that any significant increases in employee earnings in the last 3 years will be capped from a pension contribution perspective with the employer required to fund the balance.</p> <p>Risk</p> <p>There is a risk that these cost pressures could significantly affect NHS Shetland's ability to meet its 5 year financial plan projections.</p> <p>Recommendation</p> <p>The cost of pension provision and other cost pressures may impact on the future financial position of the Board. The board needs to ensure it has robust long term financial and efficiency plans in place.</p>	<p>The Board's financial planning assumption in respect of possible changes to the Employers' contribution rate in 2015-16 is based upon the feedback and guidance that has been received.</p> <p>The out-come of the review is expected in the summer or early autumn 2014 and the implications will be reflected in the Board's revised financial plans.</p> <p>Senior Management Team and the Board will be advised about any changes this will have upon the current plans.</p> <p>There are a number of risks factors that will be reviewed as part of the annual planning process. The Board is working to a planning deadline of December to agree 2015-16 financial plan.</p>	Director of Finance	September 2014

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
6/16	<p>Health and Social Care Integration</p> <p>The integration of health and social care services in Scotland requires to be implemented from 1 April 2015.</p> <p>Risk</p> <p>There is a risk that the Board and Shetland Islands Council will not be fully prepared for the integration of health and social care from 1 April 2015. This could adversely impact on the effectiveness of service delivery.</p> <p>Recommendation</p> <p>The Board requires to continue working closely with the Council to prepare for and manage this significant framework for health and social care services.</p>	<p>The Board and Shetland Island Council has established project groups covering the main strands of work required to ensure that both are fully prepared for the integration of health and social care from 1 April 2015.</p> <p>A joint appointment has been made to the Director of Community Health and Social Care, who will be the lead accountable officer for the Partnership Board.</p> <p>The financial planning process of both organisations for 2015-16 has been aligned to agree these by the end of December 2014.</p>	Chief Executive	December 2014

Action plan point/ page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
7/20	<p>Performance against HEAT targets and standards</p> <p>Some of the board's performance targets were not fully achieved on a consistent basis throughout the year, particularly some of the access targets.</p> <p>Risk</p> <p>In a climate of reducing funding, performance targets may not be achieved and the delivery of quality affordable services may not be sustainable.</p> <p>Recommendation</p> <p>The Board needs to balance achievement of performance targets against reducing funding levels and continue to develop and monitor new initiatives aimed at improving services.</p>	<p>The Board is currently reviewing planning strategies in a number of areas in addition to the delivery of service redesigns projects in place that plan to maintain or improve the quality of service provision.</p> <p>All of these will be rigorously reviewed by the Strategy and Redesign Committee to ensure that they comply with the local 2020 vision and also meet the Board's statutory financial obligations.</p> <p>All schemes will be priorities as part of the annual and on-going management review and planning cycle to ensure local delivery meets local needs whilst fulfilling organisations overall objectives.</p>	Chief Executive	December 2014

