
NHS Western Isles

Annual report to Members and the Auditor General for Scotland

FINAL

Year ended 31 March 2014

June 2014

141 Bothwell Street
Glasgow
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The Audit Committee
NHS Western Isles
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24 June 2014

Dear Sirs

We are pleased to enclose our report to the Audit Committee in respect of our audit for the year ended 31 March 2014. The primary purpose of this report is to communicate the significant findings arising from our audit that we believe are relevant to those charged with governance.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit Committee in November 2013. We have subsequently reviewed our audit plan and we have updated our risk assessment in one area as set out on page 3. The procedures we have performed in response to our assessment of significant audit risks are detailed in Section 2.

We have completed our audit work and are able to issue an unqualified audit opinion on the financial statements on 24 June 2014.

We look forward to discussing our report with you on 24 June 2014. Attending the meeting from PwC will be Matthew Swann.

Yours faithfully

PricewaterhouseCoopers LLP

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Section 1. Executive summary

Financial Statements

We set out in this report our significant findings from our audit of Western Isles Health Board (“the Board”) for 2013/14, together with those matters which auditing standards require us to report to you as “those charged with governance” of the Board.

We carried out our audit work in line with our 2013/14 audit plan that we presented to you on 13 November 2013. Our audit is not designed to identify all matters that may be relevant to you. Accordingly, the audit does not identify all such matters.

As a result of our work, we proposed a number of audit adjustments to the draft financial statements. There are no unadjusted misstatements at the conclusion of our audit, as these have been resolved and accepted by management.

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 year ending 31 March 2014; and
- Preparing an Operating and Financial Review (comprising a Directors’ Report and Strategic Review), a Governance Statement and a Remuneration Report.

Auditors’ responsibilities

Our responsibilities in accordance with the Code of Audit Practice are to provide you with an audit report stating whether, in our opinion, the financial statements and the part of the Remuneration Report to be audited give a true and fair view 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 year;
- Whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
- Whether the information which comprises the annual report included within 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 are also required to review and report as necessary on other information published with the financial statements, including the Operating and Financial Report (consisting of a directors' report and strategic report), annual governance statement and the remuneration report.

Summary of the Audit

We carried out our audit work in line with our 2013/14 audit plan that we presented to you in November 2013 except in one area. In our presented audit plan we included the following risk as an elevated risk:

- Risk of material error in first year of consolidation of endowments.

Following a discussion with management and review of the 2012/13 endowment fund financial statements it was determined that the endowment funds would not be consolidated due to their size being immaterial to the financial statements of the Western Isles Health Board. As such this risk is no longer in scope for the purposes of our audit. This decision not to consolidate the accounts is in line with IFRS 10 – Consolidated Financial Statements which supersedes IAS 27 for financial years commencing on or after 1 January 2013.

In all other matters we carried out our work in line with our 2013/14 audit plan. Our audit is not designed to identify all matters that may be relevant to you. Accordingly, the audit does not identify all such matters.

Communication by auditors of matters arising from the audit of the financial statement or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

There are no unadjusted misstatements at the conclusion of our audit. We have agreed a number of minor amendments to disclosure with management and these have been fully reflected in the financial statements.

Financial performance

The Board's key financial performance for the period was as follows:

- The final outturn was £74.682m against a Revenue Resource Limit of £74.685m, resulting in a saving of £3,000.
- Capital expenditure in the period was £1.593m which was within the Core Capital Resource Limit of £1.596m.
- The budget for 2014/15 forecasts a Revenue Resource Limit of £75.848 which is an increase of £1.163m on 2013/14 (£74.685m). We have not identified any key indicators or been made aware of any factors that would suggest that the Board will struggle to meet its financial targets in 2014/15.
- The target for cash releasing efficiency savings for the financial year 2013/14 was £1.684m of which £1.664m has been achieved. Whilst this represents an underachievement of £24k, this has been offset by underspending elsewhere. £408k of productivity (non-cash) efficiency savings were delivered in full.

Please note that copies of this report will be sent to the Audit Scotland in accordance with their requirements.

We thank the management and staff of the Board for their co-operation and assistance during the course of our work.

Section 2: Significant audit and accounting matters

We have set out in this section the significant matters arising from our audit.

Note that in our audit plan we had included the following risk as an elevated risk:

- The risk of material error in first year of consolidation of endowments.

However, it was subsequently determined that given the size of the endowment funds, consolidation was not required under IFRS 10 – Consolidated Financial Statements which supersedes IAS 27 for financial years commencing on or after 1 January 2013.

Matters identified in our audit plan

Set out below is a summary of our response to matters identified in our audit plan:

Matter arising	Audit response
<p><i>Fraud and management override of controls</i> ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p>In any organisation, management may be in a position to override the financial controls that you have in place. The current economic conditions may also increase fraud risk.</p>	<p>We performed procedures to:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries; • review accounting estimates for bias and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; and • bring an element of ‘unpredictability’ into our work. <p>We did not identify any issues to report to you as a result of our work.</p>

Matter arising	Audit response
<p><i>Recognition of income and expenditure</i> Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. There is a risk that the Board could adopt accounting policies or treat income transactions in such a way as to lead to material misstatement in the reported revenue position.</p> <p>Due to the majority of revenue being received directly from Scottish Government we extend this presumption to the recognition of expenditure in the NHS.</p>	<p>We obtained an understanding of key revenue and expenditure controls.</p> <p>We evaluated and tested the accounting policy for income and expenditure recognition to ensure that it is consistent with the requirements of the International Financial Reporting Standards (IFRSs), as adopted by the European Union, and as interpreted and adapted by the 2013/14 Government Financial Reporting Manual (FReM).</p> <p>We reviewed intra NHS confirmations of balances and disputed amounts to consider the implications on our audit.</p> <p>We performed detailed testing of revenue and expenditure transactions, including deferred revenue, focussing on the areas of greatest risk.</p> <p>We reviewed significant accounting estimates and judgements for indicators of management bias.</p> <p>We did not identify any issues to report to you as a result of our work.</p>

Misstatements and significant audit adjustments

We report to you all misstatements that we have found during the course of our audit, other than those of a trivial nature, which have not been corrected by management in the financial statements. We do not consider it necessary to bring to your attention misstatements which management have corrected as these are not deemed to be material in value or in nature.

Qualitative aspects of accounting practices

Financial statement disclosures

As part of our audit work we have reviewed, and tested, the material disclosures in the financial statements. We identified no significant issues as part of this work.

Annual Governance Statement

You are required to produce an Annual Governance Statement (“AGS”) for inclusion in the Annual Report and Accounts. The aim of the AGS is to give a sense of how successfully the Board has coped with the challenges it faces and of how vulnerable the organisation’s performance is, or might be, drawing on evidence on governance, risk management and controls.

We reviewed the AGS and considered whether it complied with relevant guidance and whether it was misleading or inconsistent with what we know about the Board. We found no areas of concern to report in this context.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

Whilst we have no matters to report in relation to the accounting and disclosure of related party transactions in respect of 2013/14 we have identified areas for improvement in relation to the process of identifying related party transactions.

The Board maintains a ‘Register of Interests’ for each of the board members and this is reviewed during the preparation of the accounts to identify any related party transactions. However, the register of interests forms do not explicitly ask about close family members, defined as being spouses or partners, children or dependents. In order to ensure the completeness of the related party listings register of interest forms should be updated to include reference to close family members and directors should be requested to provide and update these details on an annual basis.

Action 1

Other matters

During the year there were two changes in senior management, as follows:

- Nigel Hobson was replaced as Nurse Director/Chief Operating Officer by Alexander Brown; and
- James Ward was replaced as Medical Director by Angus McKellar.

Alexander Brown and Angus McKellar were in post as at 31 March 2014.

Section 3. Financial performance

Financial targets

The Board's performance against its three financial targets for financial year 2013/14 is set out below:

Table 1: Financial targets summary 2013/14

	Limit as agreed by SGHSCD £ million	Actual Outturn £ million	Underspend/ (Overspend) £ million
Revenue Resource Limit (RRL)	£74.685	£74.682	£0.003
Capital Resource Limit (CRL)	£1.596	£1.593	£0.003
Cash Requirement	£79.000	£78.172	£0.828

The underspend for the year 13/14 is £0.003m against the limit agreed by the Scottish Government Health and Social Care Directorate (SGHSCD). The key variances during the year were as follows:

- Year-end overspend on Medical budgets of £383k;
- Year-end overspend of £283k on theatre budgets due to a higher than expected orthopaedic activity and increased activity on Ear, Nose and Throat (ENT) and Urology clinics; and
- Year-end overspend on High Cost Drugs, UNPACS and ECRs of £571k.

The Board was able to apply a contingency budget to offset these pressures.

During the year a capital to revenue transfer of £176k was approved by the Scottish Government specifically to address backlog maintenance.

During the year, the Board's three most significant capital programme schemes (Harris Hub, St Brendan's and Western Isles Hospital reconfiguration) have not required their allocations. An agreement was made with SGHSCD to allow a £400k carry forward into 2014/15. The Capital Resource Limit has therefore been fully utilised, other than the £3k underspend.

Efficiency savings

The Board has achieved £2.068m of efficiency savings in 2013/14 against a target of £2.072m per the NHS Scotland Efficient Government efficiency savings target. The sources through which the Board has achieved these efficiencies are set out below:

Table 4: Efficiency savings 2013/14

Source	Savings £ million	% of total
Clinical Productivity and Workforce	£1.131	54.7%
Drugs and Prescribing	£0.148	7.2%
Procurement, Support Services and Estates and Facilities	£0.216	10.4%
Other	£0.573	27.7%
Total reported	£2,068	100%

An underachievement of cash savings of £24k took place during the year although this was offset by underspending elsewhere.

Performance management

The Board has in place a Local Delivery Plan (LDP) for each financial year, which acts as a performance contract between the Scottish Government and the Board. The LDP for 2014/15 focuses on the priorities for the NHS in Scotland and supports the delivery of the Scottish Government's national performance framework, the Health and Social Care outcomes that are being developed in partnership with Local Authority and Third Sector. The LDP also focuses on the 2020 vision for high quality and sustainable health and social care. Included within the LDP are the HEAT Targets deliver trajectories, setting out the planned performance against National Heat Targets within the categories of Health Improvement, Efficiency, Access and Treatment. Also included within the LDP is the Board's strategic assessment against 'Route Map to the 2020 Vision for Health and Social Care'.

Performance is monitored at both a departmental and Board level on the measures outlined above.

Financial sustainability

The Financial Plan for 2014/15 identifies the following key areas of income and expenditure, recurring and non-recurring:

Table 5: 2014/15 Financial Plan*

Western Isles Health Board	2014/15 Projected £ million
Recurring income	£73.432
Recurring expenditure	£75.739
Recurring savings	£1.963
Underlying recurring (deficit)/surplus	(£0.344)
Non-recurring income	£0.830
Non-recurring expenditure	£0.662
Non-recurring savings	£0.176
Non-recurring (deficit)/surplus	£0.344
Financial (deficit)/surplus	£0.000
Recurring deficit as percentage of recurring income	(0.5%)

*The values noted in the table above are based on the assessment of management and have not been subject to audit.

Underlying recurring deficit

The financial plan shows recurring funding increasing from £71.802m to £73.432m and an increase in recurring expenditure from £73.244m to £75.739m.

The Board has not planned any underspends, with a break even position forecast for the next 5 years. The plan assumes that net reliance on non-recurring funding sources to cover recurring expenditure in 2014/15 will be around £0.344m which is envisaged to continue over the next 5 years to 2018/19.

Future Efficiency Savings

Western Isles Health Board has identified that it is required to achieve efficiency savings of £2.139m in 2014/15 in order to reach a break even position. The Scottish Government's expectation is that Boards will achieve 3% efficiency savings. The 3% target for Western Isles Health Board is £1.87m and as such no further savings are required other than those which are necessary to achieve a break even position.

Efficiencies have been identified in the areas of service productivity, drugs and prescribing, procurement, estates and facilities, support services and workforce, however, there are still £189k of unidentified savings. The current efficiency programme for 2014/15 is expected to deliver £1.963m recurrent cash releasing savings and £176k non-recurrent savings.

Health and social care integration

The Public Bodies (Joint Working) (Scotland) Bill was passed on 25th February 2014, and will be followed by secondary legislation to further support the integration of health and social care. The bill provides two options through which the integration of health and social care may be delivered. Local Authorities and Health Boards should decide which is most suitable based on local needs. The two options are:

- Delivery of integrated care through a newly established Integration Joint Board, which would assume ultimate responsibility for planning, resourcing and delivery of the new model; or
- Either the Local Authority or Health Board assume full responsibility for the provision of health and social care, and the associated responsibilities.

Whilst these developments have provided greater clarity on what the delivery model may look like, there remains significant uncertainty in relation to the funding arrangements for the Board. The Board has not considered the impact of health and social care integration in its future financial plans.

As at the time of our report an agreement has not yet been reached between Western Isles Health Board and the Local Authority Comhairle nan Eilean Siar as to the option through which the integration of health and social care will be delivered.

Best Value Audit

During the 2013/14 financial year it was agreed with the Audit Committee that we would undertake a Best Value Audit, it was agreed with management that this would be in the area of Customer Focus through application of the Audit Scotland Best Value Toolkit. Work is currently ongoing in relation to the agreed toolkit and will be reported to a subsequent meeting of the Audit Committee.

Section 4. Governance and internal control

Governance structure

We have assessed the Board's overall governance arrangements including a review of Board and key Committee structures and minutes, financial reporting to the Board, and risk management. We have also considered key areas of risk to the Body including partnership working; service sustainability; performance management; and people management. Appropriate evidence of activity has been provided by the Board.

The Board reports on its Financial Performance on a monthly basis. This report is presented to:

- The Executive team;
- The Corporate Management team;
- Healthcare Governance Committee; and
- The Board.

The Code of Audit Practice requires us to review and report on the Board's Annual Governance Statement. The Board has used the appropriate format for its Statement and has outlined the processes it had employed to identify and evaluate risks. In addition, key elements of the Board's control framework have been highlighted.

Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

We consider that appropriate governance arrangements and reporting are in place.

System of internal control

The Chief Executive Officer in conjunction with management and the Audit Committee is responsible for developing and implementing systems of internal financial control and having in place proper arrangements to monitor their adequacy and effectiveness in practice.

We review these arrangements for the purposes of our audit of the financial statements and for our review of the annual governance statement and report to you any significant deficiencies in internal control that we find during our audit.

We did not identify any significant matters that, in our professional judgement, we believe we should bring to your attention.

We did note one minor control point that, in our professional judgement, we believe we should bring to your attention. This is in relation to related parties and has been set out within section 2.

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist.

Based on audit work performed we consider the systems of internal control in place appropriate for the needs of Western Isles Health Board.

Risk management

As part of the audit process we reviewed the Body's operational and corporate risk registers. From our review of the risk registers and the processes in place we consider that the Body takes a pro-active approach to managing risk.

Internal Audit

The role of internal audit is determined by management and therefore its objectives differ from ours. Part of our overall audit approach involves gaining an understanding of the internal audit function to determine if it would be effective and efficient to use their work.

During 2013/14, the Board continued to have an outsourced internal audit function provided by Scott Moncrieff.

We have used the work of Internal Audit to gain an understanding of the controls in place within the Board that are relevant to our External Audit.

Based on audit work performed we consider the Internal Audit function within Western Isles Health Board to be appropriate for the needs of the Board.

Waiting Times

In December 2013, Audit Scotland published results of an audit update performed following their February 2013 report 'Management of patients on NHS waiting lists' on behalf of the Auditor General for Scotland. The update involved review of the progress made by the NHS in improving audit trails and monitoring how they manage waiting lists.

The Senior Management Team receives a monthly report on waiting list code usage and a live automated report with a drill-down facility has been identified for use in monthly audits.

Local response to National Performance Reports

On a periodic basis, Audit Scotland publishes National Performance Audit Reports on subject areas of relevance to Scottish Health Boards. We have a duty to follow up with Boards on the extent to which they have considered and responded to relevant reports. Whilst some recommendations have a national application, there are many which can be implemented at a Board level.

As part of our 2013/14 audit procedures we have reviewed the Board's response to the following reports:

- Health inequalities in Scotland (December 2012); and
- Prescribing in general practice in Scotland (January 2013).

The health inequalities in Scotland report was formally considered by the Audit Committee and it was identified that through joint liaison and planning arrangements with the council, Western Isles Health Board intends to consider how they identify spend on reducing health inequalities. It was noted that within the Board area there is a limited ability to identify people areas with respect to their relative deprivation which creates difficulties for Western Isles with respect to their measures of deprivation both in relation to other Board Areas and in relation to different communities within the Western Isles.

The GP prescribing report was formally considered by the Audit Committee and there was an acknowledgement of the work which the prescribing support team had achieved with a low level of resources. As a result of this the time funded by the Board for the GP prescribing lead was increased and it was discussed how a clinical pharmacist could be employed to assist with a prescribing review in practices.

Section 5. Fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors’ responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management’s responsibility

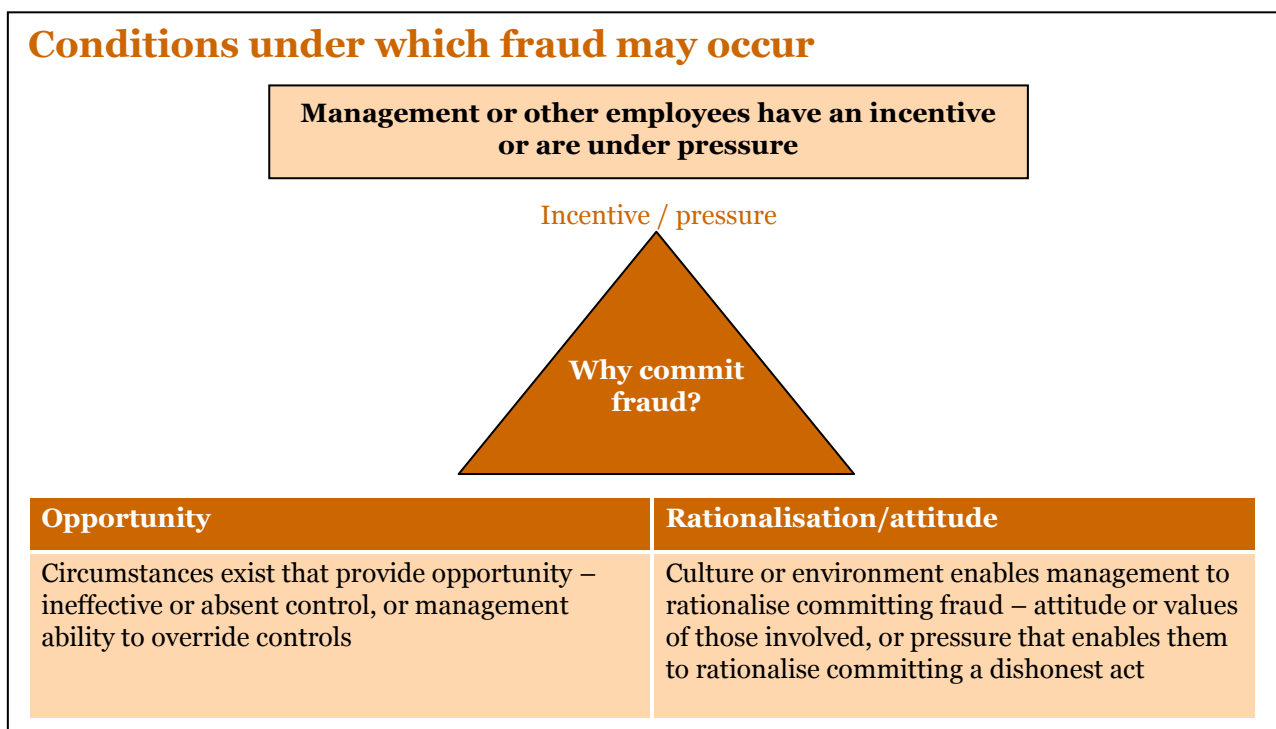
Management’s responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity’s culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

- to evaluate management’s identification of fraud risk, implementation of anti-fraud measures and creation of appropriate “tone at the top”; and
- to investigate any alleged or suspected instances of fraud brought to your attention.



Your views on fraud

In our audit plan presented to the Audit Committee in November 2013 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

We ask that the Audit Committee considers these questions again and lets us know if there is anything that has come to attention since the presentation of our audit plan of which we should be aware.

Prevention and detection of fraud and corruption

Based on audit work performed we consider controls in place to prevent and detect fraud or corruption to be suitable for the operations of Western Isles Health Board. Western Isles Health Board has in place an appropriate code of conduct and whistleblowing policy.

Western Isles Health Board have participated in the 2013/14 National Fraud Initiative program and have taken action to follow up identified matches on a timely basis.

Section 6. Independence

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters.

There are no matters which we perceive may impact our independence and objectivity of the audit team.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Board, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Appendix 1: Action plan

Finding

1) Related party transactions process

The Board maintains a 'Register of Interests' for each of the board members and this is reviewed during the preparation of the accounts to identify any related party transactions. However, the register of interests forms do not explicitly ask about close family members, defined as being spouses or partners, children or dependents.

In order to ensure the completeness of the related party listings register of interest forms should be updated to include reference to close family members and directors should be requested to provide and update these details on an annual basis.

Management response

The Board will update the forms used for gathering declarations for the register of interests to include reference to close family members immediately.

All Board members will be asked to provide and update these details on an annual basis.

In the event that, pursuant to a request which Western Isles Health Board has received under the Freedom of Information Scotland Act 2002, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Western Isles Health Board agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Western Isles Health Board shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Western Isles Health Board discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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