AUDIT SCOTLAND

NHS Highland

2014/15 annual audit report for the Board of NHS Highland and the Auditor General for Scotland

June 2015

The Auditor General for Scotland appoints external auditors to NHS bodies in Scotland. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Auditor General has appointed Stephen Boyle as the external auditor of NHS Highland for the period 2013/14 to 2015/16.

This report has been prepared for the use of NHS Highland and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the health board. The information in this report may be used for Audit Scotland's annual overview report on the NHS in Scotland published on its website and presented to the Public Audit Committee of the Scottish Parliament.

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Key messages

Audit of financial statements	• The independent auditor's report on the 2014/15 financial statements is unqualified. • Audited financial statements were submitted to the Scottish Government by 30 June 2015.
Financial management and sustainability	• All financial targets in 2014/15 were met. • A surplus of £0.136 million was achieved against total Revenue Resource Limit (RRL). • Total savings of £22.415 million were achieved (£9 million on a recurrent basis) • £0.5 million of brokerage repaid. • Good progress in improving financial management arrangements.
Governance and transparency	• The board has effective overarching and supporting governance structures which provide an appropriate framework for organisational decision making. • Systems of internal control operated effectively during 2014/15. • The board has an effective internal audit function and robust anti-fraud arrangements. • The board participates in the NFI exercise and although missing its internal target the board is confident of completing its review of matches by September 2015. • Health and social care integration for the partnership between the board and Argyll & Bute Council is progressing. The Argyll and Bute Integrated Joint Board (IJB) was legally established on 27 June 2015 and will acquire responsibility for resources upon completion and approval of a strategic plan. The expected date for this is 1 April 2016.

Best Value	• The board has a well developed performance management framework in place. • The Improvement Committee receives regular updates on all aspects of performances and the actions being taken to improve performance. • The board improved its performance in relation to HEAT targets and standards (38% current year, 32% previous year) but further improvements are required.
Outlook	• In line with many boards NHS Highland is facing significant cost and demographic pressures (ageing population) at the same time as needing to make major changes to services resulting from reforms such as the Scottish Government's 2020 Vision and health and social care integration. Delivering the required level of recurring savings will be essential to the board delivering financial balance, within the context of tightening budgets, going forward. This will be supported by the planned development of a longer term financial plan. • The Public Audit Committee (PAC) *Report on NHS Highland 2013-14: Financial Management* published in June 2015 makes recommendations for the board and requests progress updates on NHS Highland's governance and decision making, financial management processes, including the Raigmore Hospital three year recovery plan and its use of additional NRAC funding from the Scottish Government. The PAC has asked the Auditor General for Scotland to report back on these matters by the end of 2015.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Highland Health Board, commonly known as NHS Highland. The report is divided into sections which reflect our public sector audit model.

2. The management of NHS Highland 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.

3. Our responsibility, as the external auditor of NHS Highland, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.

4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.

5. The significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements is set out in **appendix I.**

6. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.

7. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of 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 Highland understands its risks and has arrangements in place to manage these risks. The board should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.

8. 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.

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

Audit of the 2014/15 financial statements

Audit opinion	• We have completed our audit and issued an unqualified opinion that the financial statements of NHS Highland for 2014/15 give a true and fair view of the state of affairs of the Board and its group and of their net operating cost for the year.
Regularity of income and expenditure	• In our opinion, in all material respects the expenditure and income in the financial statements was incurred or applied in accordance with relevant legislation and guidance.
Other information	• We review and report on other information published with the financial statements, including the Management Commentary, Governance Statement and Remuneration Report. We have nothing to report in respect of these statements.
Consolidation template	• The board's consolidation template has been audited to confirm that the figures are consistent with the audited financial statements. The template and accompanying assurance statement was submitted to the Scottish Government by the 30 June 2015 deadline.

Submission of financial statements for audit

10. We received the unaudited financial statements on 5 May 2015, in accordance with the agreed timetable. The working papers were of a good standard and finance staff provided effective support to the audit team which assisted the delivery of the audit to the agreed deadline.

11. Finance staff have made a number of improvements to the quality of the annual accounts including the removal of superfluous information (e.g. number of rows and columns containing zeros). This is consistent with the good practice note issued by Audit Scotland in its publication *Improving the quality of NHS annual report and accounts (December 2014).* However, we think that there is scope to improve the arrangements for the preparation of the management commentary within the accounts. Although it presents a fair and balanced picture of NHS Highland, the commentary is long, contains some repetition and uses very NHS-specific language; which a reader from outside the NHS may find difficult to understand. The addition of a glossary of terms would help increase the accessibility of the management commentary and the annual accounts more widely

Recommendation 1

Overview of the scope of the audit of the financial statements

12. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 10 March 2015.

13. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

14. The concept of audit risk is of central importance to our audit approach. 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 audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

15. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

16. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial

statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

17. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

18. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of NHS Highland we set our planning materiality for 2014/15 at £8.062 million (1% of budgeted gross expenditure). We report all misstatements greater than £0.1 million. Performance materiality was calculated at £4.837 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

19. On receipt of the financial statements we reviewed our overall and performance materiality and adjusted these to £7.997 million and £3.999 million respectively. We concluded that our original audit approach remained appropriate.

Evaluation of misstatements

20. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit. There were no unadjusted misstatements identified during the audit, which exceeded our misstatement threshold.

21. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The adjustment made had no impact on either the net operating cost or the balance sheet. The total comprehensive expenditure increased by £3.7 million due to an adjustment to the actuarial cost arising from the board's membership of the Highland Council Pension Scheme. This adjustment did not impact on the board's revenue resource limit.

Significant findings from the audit

22. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:

- the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
- significant difficulties encountered during the audit
- significant matters arising from the audit that were discussed, or subject to correspondence with management
- written representations requested by the auditor
- other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

23. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you.

Significant findings from the audit

Issue	Resolution
Equal Pay: In previous years, we commented that the board, on advice from the Central Legal Office, was not able to provide any financial quantification of equal pay claims. Consequently, equal pay claims were disclosed as an unquantified contingent liability in the accounts. There have been significant developments in 2014/15 not least the offer for settlement in relation to certain claims. Based on this new information and advice received from the CLO, the Director: Health Finance, eHealth and analytics for the NHS in Scotland has advised that equal pay claims should now be included as a provision in the accounts of NHS boards. NHS Highland has been advised of the estimated value of the provision which is to be covered by AME (Annually Managed Expenditure) funding from the Scottish Government.	The provisions note in the board's accounts includes wording agreed with Audit Scotland, namely "other provisions include an amount of £22,200 in respect of the board's estimated liability arising from equal pay claims".

Issue	Resolution
CNORIS provision: Following an Audit Scotland review of consolidated accounting for CNORIS at Scottish Government level, guidance was issued to NHS boards by the Scottish Government confirming a change in the accounting treatment of CNORIS. The main change was that each board was required to create an additional provision in 2014/15 representing their share of the total liability of NHS Scotland in respect of CNORIS. Also, to ensure consistency of accounting treatment, NHS boards were asked to make equivalent adjustments to prior year figures in the accounts in order to comply with *IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors.*	A CNORIS provision of £14.051 million was included in the 2014/15 accounts representing the board's share of the total liability of NHS Scotland as at 31 March 2015. The board correctly processed opening balance and retrospective adjustments in line with International Accounting Standard 8 and as advised by the Scottish Government. The board has received AME funding to cover the accounting changes so that there is no impact on the board's outturn position.
Indexation: Valuations of all land and building assets are reassessed by valuers under a 5-year programme of professional valuations. In order to ensure that movements in prices are accounted for in the intervening periods, indexation is applied. In previous years the level of indexation was set by the SGHSCD, but the level is now recommended by the valuer. During audit testing we noted that the valuer had provided two different indexation percentages (5% and 5.5%), but the rate applied in the fixed asset system was 5.15%. Officers advised that limitations in the fixed asset system prevented them from using the valuer's indices and they therefore applied a close approximation. As a result the board's assets are potentially either overstated by £0.2 million or understated by £0.6 million.	The board's view is that the application of indexation is an estimate for the periods between valuations. Officers have agreed to liaise with the valuer to ensure that in future indexation is calculated in a way that is compatible with the board's fixed asset register. Neither amount is material and officers are not proposing to adjust the financial statements.

Future accounting and auditing developments

Revisions to the financial reporting manual

24. The financial statements of the board are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:
    - the adoption of IFRS 13 Fair value measurement
    - restructuring the annual report and accounts.

25. **(IFRS) 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. However, the 2015/16 FReM requires surplus assets to be measured at fair value in accordance with IFRS 13. The board will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.

26. **Restructuring of the annual report and accounts**: the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:
    - a performance report which will give a fair, balanced and understandable analysis of the board's performance and will include an overview section and a performance analysis section.
    - an accountability report incorporating the following three main sections:
        - corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
        - remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
        - parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.

Health and Social Care Integration

27. Integrated Joint Boards (IJBs) will be accountable for overseeing the provision of functions within the scope of health and social care integration on, or before, 1 April 2016.

28. IJBs will be required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the UK. These requirements will apply for the Argyll and Bute area for the financial year 2016/17, following the IJB acquiring responsibility for resources upon completion and approval of a strategic plan. The expected date for this is 1 April 2016.

Financial management and sustainability

Core revenue resource limit £610.646m	Non-core revenue resource limit £13.648m	Capital resource limit £16.243m	Total savings target £22.415m
Outturn CRRL £610.510m	Outturn NCRRL £13.648m	Outturn CRL £16.243m	Recurring savings £9.001m
Underspend CRRL £0.136m	Underspend NCRRL £0m	Underspend CRL £0m	Non-recurring savings £13.414m

Financial management

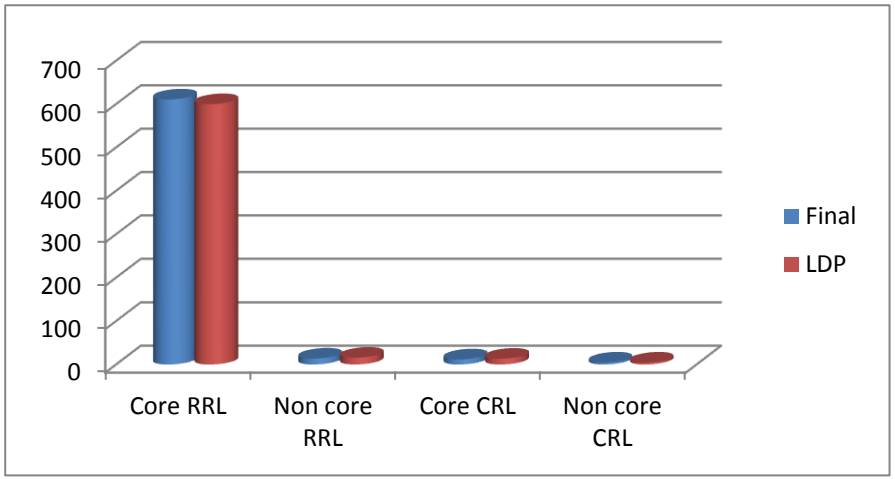
29. In this section we comment on NHS Highland's financial outcomes and assess the board's financial management arrangements.

30. Financial management is about explaining and accounting for what has happened in the past and forecasting income and expenditure in the future. The board sets an annual budget to meet its core and non core revenue resource spending requirements in the forthcoming financial year. Budget funding is agreed with the Scottish Government Health and Social Care Directorate (SGHSCD). It is a statutory requirement for the board to ensure expenditure is within the Revenue Resource Limit (RRL) and Capital Resource Limit (CRL) set by the SGHSCD. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

31. The local delivery plan for 2014/15, approved by the board on 1 April 2014, approved a revenue budget of £615.525 million, £599.871 million of which was core funding and £15.654 million non-core and a capital budget of £18.213 million with £13.808 million being core and £4.405 million relating to non core expenditure. During the course of the financial year, it received a further £8.8 million additional revenue allocations from the SGHSCD and adjustments to the capital allocation resulted in a reduction of £2 million. The RRL movements related to £3 million additional NRAC funding, along with 15 further allocation received in the year including, delayed discharges, waiting times funding, adult social care and new drugs. The board returned around £2 million CRL for slippage in the critical care programme which has been rephased into future years. The board's final RRL of £624.294 million (£610.646 million core and £13.648 million non-core) and CRL of £16.243 million (£11.749 million core and £4.494 non-core) were agreed with the SGHSCD on 29 April 2015.

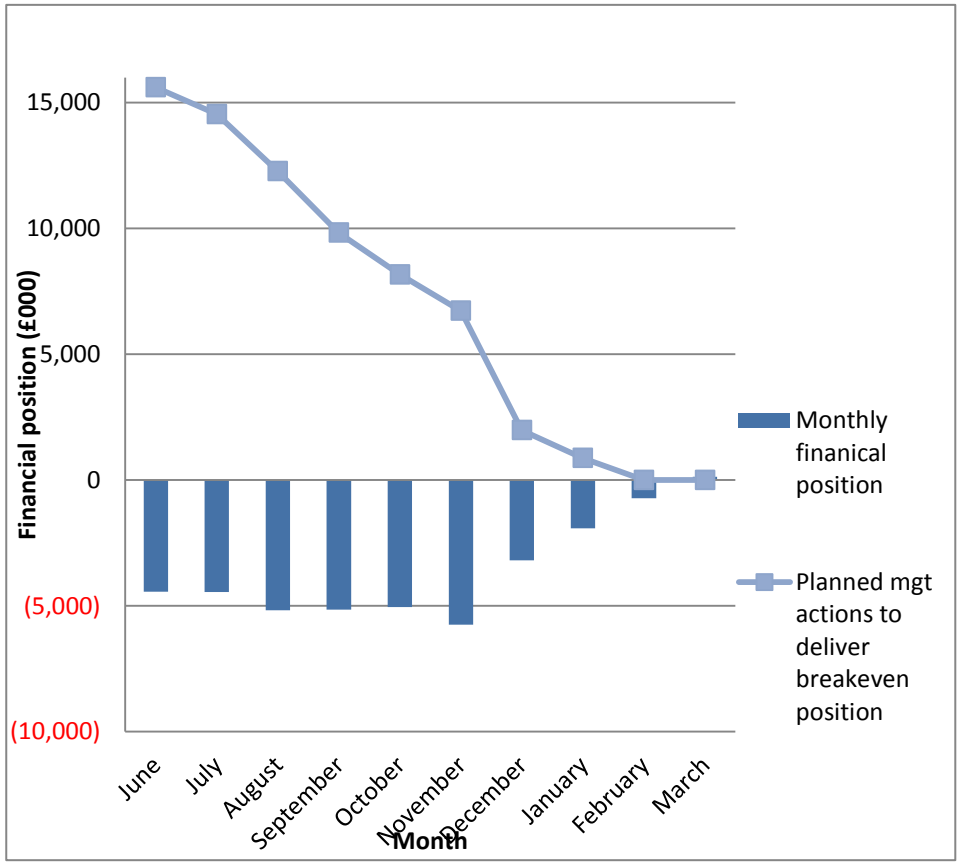
Exhibit 1: Comparison of final against original approved allocations per Local Delivery Plan (LDP) for 2014/15 (£m)



32. The board had budgeted to breakeven against its RRL in 2014/15. The actual out-turn position was a cumulative surplus of £0.136 million. Exhibit 2 shows the monthly outturn position and the level of management actions required each month to achieve the breakeven requirement. The board developed an in-year financial recovery plan in November 2014 which detailed how savings were expected

to be achieved to address the projected shortfall. The recovery plan was monitored by the Delivering Financial Balance Programme Board.

Exhibit 2: 2014/15 reported financial position



33. The Scottish Government announced additional funding for the NHS designed to move all boards to within 1% of parity with the NHSScotland Resource Allocation Committee (NRAC) formula in 2015/16. NRAC ran from 2005 to 2007 and was established to improve the Arbuthnott formula, which was the method used at the time to divide the NHS budget among Boards. The policy of the SGHSCD is to phase in the formula by way of 'differential growth' whereby all Boards would continue to enjoy real-terms growth in their allocations year-on-year, with those above parity (i.e. above their formula target share) receiving less growth than those below parity until the new distribution was achieved. NHS Highland is one of the boards that has been under parity and will receive an increase in NRAC funding in 2015/16 of £11.5 million. It was agreed with the Scottish Government in December 2014 to bring forward £3 million of this allocation to help it manage its financial position in 2014/15. This funding was received in January 2015 and is reflected in the February position in Exhibit 2.

34. The board achieved all of its financial targets in 2014/15 and delivered total efficiency savings of £22.415 million in line with planned efficiencies for 2014/15. As shown in table 1 below, 40% (£9 million) was achieved on a recurrent basis and 60% (£13.41 million) on a non-recurring basis. The board has struggled to deliver the majority of its required savings on a recurring basis for a number of years and the underlying recurring deficit has to be carried forward and added to the following year's savings requirement. Non-recurring savings therefore put pressure on future years' budgets and wherever practical all savings should be on a recurring basis.

Table 1: Saving achieved 2011-2015

Year	Total savings (£m)	Recurring savings (£m)	Non recurring savings (£m)	Underlying recurring deficit
2011/12	18.92	8.01	10.91	8.91
2012/13	23.74	9.90	13.84	7.28
2013/14	18.37	6.98	11.39	7.77
2014/15	22.42	9.00	13.41	5.62

35. During 2014/15, the Board sought to increase the proportion of its savings that are recurring in nature. The Chief Executive wrote to her senior officers in January 2015 reminding them of the need to reduce reliance on non-recurring savings and the Board's unaudited year end position shows unmet recurring savings to be carried forward were reduced to £5.6 million. This is £2.2 million lower than the previous year.

36. The majority of the non recurring savings converted to a recurring basis relate to employee costs. At the end of 2014/15 posts that had been vacant for 6 months or more were deleted from the establishment where it was agreed deletion of the post did not represent a risk to patient safety. However, this approach is not currently part of a formal workforce plan.

Recommendation 2

Capital expenditure 2014/15

37. The board remained within its revised CRL of £16.243 million and fully utilised its capital allocation. This was mainly spent on the new Tain Health Centre, medical equipment and Raigmore capital programmes (critical care theatres, Radiology equipment, biomass). Slippage in the critical care programme resulted in around £2 million CRL being rephrased into future years (*refer paragraph 31 above*)

Financial management arrangements

38. As auditors, we need to consider whether health bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the Director of Finance has sufficient status to be able to deliver good financial management
- standing financial instructions and standing orders are comprehensive, current and promoted within the board
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- non-executive directors provide a good level of challenge and question budget holders on financial results.

39. In 2013/14 we reported weaknesses in the board's financial management arrangements. We noted that monthly monitoring reports reported to the Board forecast a year end breakeven

position throughout 2013/14. However, the actual year to date outturn position showed significant overspends against the budget each month. Monthly monitoring packs prepared and issued to senior management and the SGHSCD reported that the deficit would be made up from 'management planned actions'; however no detailed actions were provided as to how the Board was planning to achieve the year end breakeven position. NHS Highland was unable to make all of the required savings and management actions which resulted in the need for brokerage from the SGHSCD. Following an overspend at Raigmore of almost £10 million, the board required brokerage from the Scottish Government of £2.5 million to breakeven. The need for brokerage was not formally reported to the board until April 2014. NHS Highland has also relied heavily on non recurring savings for a number of years and this approach is not sustainable in the long term (*refer paragraph 34 above*).

40. During 2014/15 we reviewed the progress the board had made to address the risks highlighted and concluded that the board had strengthened the financial management arrangements in place. Action taken included:

- close monitoring of progress on savings trajectories which led to the development of an in-year recovery plan to address the projected shortfall
- on-going monitoring of the savings charters and the recovery plan by the Delivering Financial Balance Programme Board
- inclusion of a savings table in financial reports showing projections by month along with actual savings achieved
- development of a training programme for budget holders at Raigmore
- more stringent controls over the use of locums across the operational units.

41. We reviewed the board's standing financial instructions and standing orders, which are updated annually, and concluded that they provide a clear framework for financial management, are comprehensive and current. The board's standing financial instructions and standing orders are also available to all staff on NHS Highland's intranet.

42. Financial monitoring reports (both revenue and capital) are submitted to all meetings of both the board and the Improvement Committee and tailored financial reports are also reported to a number of other committees. As part of their *Section 22 review*, internal audit recommended adopting an earlier closedown of the financial ledger to enable more timely monthly reporting and monitoring of the financial position and management agreed to review the feasibility of this change. The internal audit review also highlighted that the content of finance reports had been amended during 2014/15 to include more details on the risks involved in achieving savings or reducing the overspend along with a trajectory of savings. The following changes were also recommended to clarify the language used and to provide additional information:

- more detail on the key assumptions underpinning the plan
- more detail on the risks associated with particular savings targets/charters

- more information on action plans in place around savings
- analysis by type of spend as well as by operating unit
- details on savings targets and milestones
- forecast profile of expenditure over remaining months as well as year to date and year end forecasts.

43. Management has agreed to consider making the recommended changes to the financial reports and a review is currently underway. Amendments would be actioned from June 2015. It was also agreed that the dates of Board meetings would be moved from September 2015 to allow more timely financial reports to be presented.

44. As auditors we observed a number of board and committee meetings each year to inform our approach to the audit. During 2014/15 members challenged and questioned officers on significant variances and service performance issues.

Conclusion on financial management

45. We have concluded that the board has strengthened its financial management arrangements during 2014/15 to support its review and scrutiny of financial performance.

Financial sustainability

46. Financial sustainability is concerned with whether the board has the financial resources to meet the current and future healthcare needs of the communities it serves. In assessing financial sustainability we are concerned with the board's financial performance, financial planning, capital programmes and asset management and its workforce management.

Financial planning

47. The board is required to prepare a Local Delivery Plan (LDP) each year which aligns strategic priorities with financial plans, workforce plans and asset plans. The LDP recognises that the vast majority of resources are already committed on a recurring basis before the start of each year and there is limited flexibility available to the board in the event that unforeseen demands on its services arise during the course of the financial year.

48. The board's five year financial plan for the period 2015/16 to 2019/20 is a key element of the LDP. The plan has been compiled to reflect a breakeven position in each of the five years. The plan also draws attention to significant cost pressures facing the board notably staff pay costs, the growing costs of drugs and other new technologies and rising pension costs. It also highlights the expected service and financial impact of demographic pressures. All these pressures exacerbate an already challenging financial position. The board also agreed a 10 year plan in August 2015 *The Highland Care Strategy: NHS Highland's Improvement and Co-production Plan*. It was acknowledged at that stage that the financial implications of the plan had still to be quantified.

49. The board has recognised around £5-6 million of additional cost pressures which are not included in the 2015/16 plan and work is ongoing to mitigate this risk. The position in 2015/16 is challenging

but management are confident that the required savings will be achieved. The Board need to fully implement its plans to develop its financial planning arrangements, particularly the requirement for detailed proposals to support the amount of savings identified in years 2016/17 to 2019/20.

Recommendation 3

50. Whilst facing cost pressures the Board anticipates a funding uplift for 2015/6 of 1.8% although this excludes a wide range of other allocations such as primary care funding which are allocated separately (broadly in line with last year's allocation). The majority of this funding is to cover the integration fund, new drugs and delayed discharges. In each subsequent year the funding uplift is assumed to be a flat rate of 1.8%.

51. The need to make savings will remain part of the board's approach to financial planning over the next five years. Total savings of £92.205 million are required over this period, with £76.205 million (82.6%) on a recurring basis as shown in the table below.

Table 2: Saving required 2015-2020

Year	Total savings (£m)	Recurring savings (£m)	Non recurring savings (£m)
2015/16	16.044	12.044	4.000
2016/17	23.661	20.661	3.000
2017/18	18.363	15.363	3.000
2018/19	17.423	14.423	3.000
2019/20	16.714	13.714	3.000
	92.205	**76.205**	**16.000**

Source: 2015/16 NHS Highland Local Delivery Plan

52. The financial plan assumes a reduction on the board's reliance on non-recurring savings down to an annual expectation of £3 million, by 2016/17. The board acknowledges that service redesign will be essential to deliver on savings and in the short term it plans to focus on four transformational programmes (adult social care and flow; rural general hospitals (especially Caithness); out of hours and transformation of outpatients across Highland) although total savings to be achieved from these projects have yet to be quantified. The receipt of additional NRAC monies will support the board's achievement of its LDP but delivery of recurring savings in previous years has been consistently below target. As highlighted at paragraph 34, delivering recurring savings have been a challenge for the board and it now needs to develop a track record of consistently delivering recurring savings in line with its financial plans.

53. To date, seven initiatives have been agreed to deliver the required recurring savings of £12.04 million for 2015/16 (see table 3 below).

Table 3: 2015/16 Saving initiatives

Initiative	Expected saving (£m)	Focussed action planned
Drugs	1.50	Generic prescribing, waste and repeat prescribing
Procurement (non pay)	1.70	Implementing national and local contracts, better controls on ordering
Out of Hours (OOH)	0.40	Part of wider review of OOH and unscheduled care
Adult Social Care	1.00	Part of wider review including redesign of care at home, packages of care, care homes and block contracts
Corporate Services	1.20	On-going efficiencies
Workforce	5.50	Reducing supplementary staffing costs, tighter vacancy controls and service redesign
Travel & Subsistence	0.75	Target to reduce T&S by 50%

Source: NHS Highland 2015/16 LDP Section 5

Raigmore Hospital

54. The Raigmore Hospital had overspent against budget in each of the last five financial years as set out in Table 4. Management rebased the Hospital's budget in 2012/13. However, weaknesses in budgetary control contributed to it reporting a £9.65 million overspend in 2013/14 and, effective from 2014/15, a three year recovery plan was agreed to bring this operational unit into financial balance. Although the position improved in 2014/15 with an overspend of £6.9 million, this fell short of the £6 million target. This shortfall adds pressure to the board's savings target for 2015/16.

Table 4 Raigmore financial position

Financial year	Budget (£m)	Actual (£m)	Overspend (£m)
2010/11	130.0	130.6	0.6
2011/12	130.0	134.8	4.8
2012/13	135.8	137.7	1.9
2013/14	136.2	145.9	9.6
2014/15	138.9	145.8	6.9

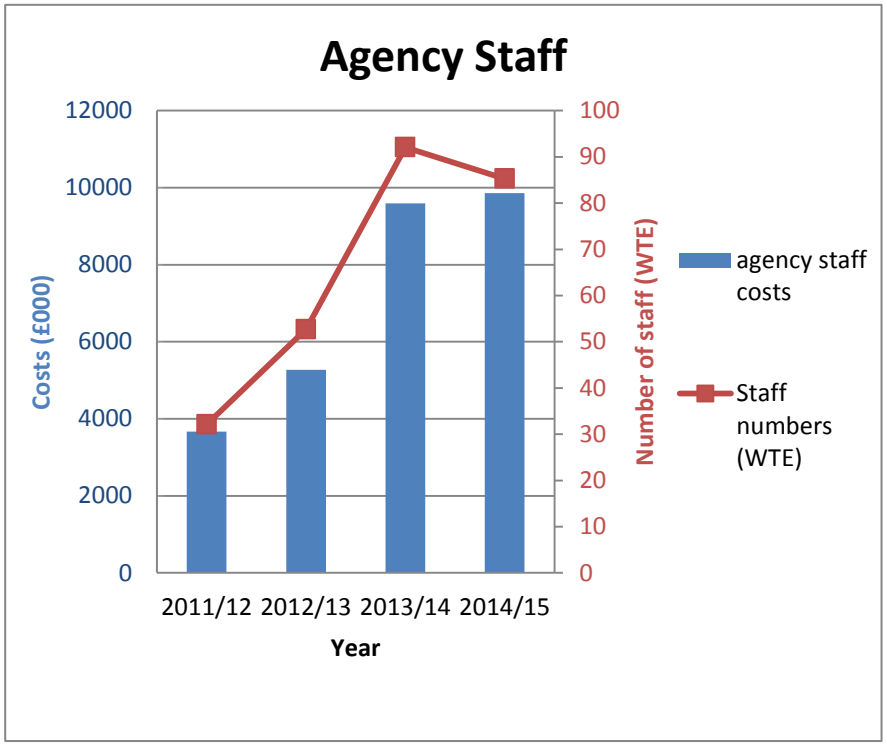
55. Management have advised that the new senior management team at Raigmore is developing a culture based on a greater focus on financial management and budgetary control. This approach will need to be maintained if the Raigmore delivery plan is to be achieved.

Workforce Management

56. Workforce planning is integral to the board's strategic planning process and is a key component needed for the effective delivery of its strategies. A workforce plan for 2014/15 was approved by the board in August 2014. This highlighted that it has an ageing workforce which will add to the on-going difficulty it has in recruiting staff to remote and rural areas in future years. We noted last year that the cost of recruiting locum staff had contributed to the board's financial position.

57. Spending on non-core staff costs (i.e. bank, agency, locum and overtime) in 2014/15 was £9.859 million compared to £9.593 million in 2013/14 (an increase of 2.8%). The use of bank, agency and locum staff, provides flexibility to cover for vacancies and staff absence, but they can be a more expensive way of providing services and reduce the level of continuity for patients and colleagues. As can be seen from Exhibit 3, agency costs had risen since 2011/12. The overall number of agency staff employed in 2014/15 fell slightly although the total cost increased. In order to strengthen controls around the use of locums at the board, the directors of operations are now responsible for approving locum requests. Local teams are required to cover staffing shortages wherever safe to do so to avoid incurring the significant cost of locum cover. As a result, Raigmore locum costs fell by 31% in the first 10 months of 2014/15 although this was subsumed by increased locum costs across other operational units. Recruitment of key medical staff in remote and rural areas continues to be a significant challenge for the Board.

Exhibit 3: Agency costs and staff numbers 2011-2015



58. The 5,600-patient Riverbank practice in Thurso was run by an independent contractor partnership which ended in 2012 and since December of that year NHS Highland has been running the practice using locum doctors. The board has tried over the intervening period to encourage another partnership to take over the Riverbank Practice as the use of long term locums can be disruptive to patients and incur higher costs. With effect from 1 April 2015 the board has appointed one full time and one part-time GP to run this practice,

both of whom had previously undertaken locum cover at the practice. This provides stability for the patients and the board will continue to look at further options to stabilise the position.

59. As with other health boards NHS Highland is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence. The reported sickness absence rate at 31 March 2015 was 4.9%, below the Scottish average of 5.14%, but it had increased slightly on the previous year rate of 4.8%. Long term sickness absence accounts for over 60% of the total and the board has appropriate on-going plans to address this.

Cost of pension provision

60. New career average revalued earnings (CARE) public service pension schemes are being created from 1 April 2015 for both of the schemes that the board's employees are members of: the local government pension scheme (Highland Council Pension Fund) and the NHS Scotland Pension Scheme.

61. A revaluation of the NHS pension scheme was carried out using pension scheme data as at 31 March 2012. This new valuation is being used to set a new employer contribution rate payable from 1 April 2015 to 31 March 2019. The new rate will be 14.9% of pensionable pay, compared to the rate of 13.5% which has been paid since 1 April 2009. The impact on employer's costs in 2015/16 has been quantified in NHS Highland at approximately £3.5 million recurring and has been reflected in the board's 2015/16 financial plan.

62. The board also participates in the Local Government Pension Scheme (LGPS) administered by The Highland Council as part of the terms and conditions of employment for staff transferred under the lead agency agreement. This is a multi-employer scheme in which it is possible for an employer to identify its share of the assets and liabilities on a consistent and reasonable basis. Employer's liabilities can be evaluated directly by the Actuary at any time on membership data.

63. Financial planning and accounting for the costs of LGPS pensions presents a difficult challenge. The amounts involved are large, the timescale is long and the estimation process is complex and involves many areas of uncertainty that are the subject of numerous assumptions. International Accounting Standard 19 'Employee Benefits' (IAS 19) requires employing organisations to account for post employment benefits in the period in which they are committed to give them, even if the actual payment of these benefits will be many years in the future. This requirement results in large future liabilities being recognised in the financial statements.

64. Highland Council recognises the pension liability for the transferred staff up to 31 March 2012. The board includes the deficit in the fund of £11.5 million as at 31 March 2015 (£4.9 million deficit 2013/14) in its own accounts. This is shown as a realised deficit of £6.4 million which is covered by funding from the Scottish Government and a £5.1 million unrealised deficit as a result of actuarial assumptions applied. A long term liability for this unrealised element is included in the balance sheet.

Public Finance Initiative (PFI) / Public Private Partnerships (PPP) costs

65. NHS Highland has four PFI/PPP projects, Easter Ross Primary Care Resource Centre, New Craigs Hospital, Mid Argyll Community Hospital and Integrated Care Centre and Tain Health Centre. These are disclosed in Note 23 of the accounts. The associated recurrent cost of these schemes is £7 million with a total future commitment recorded in the balance sheet of £37.1 million. The capital costs of these projects are included in the balance sheet with a combined value of £37.5 million.

Conclusion on financial sustainability

66. Overall, we concluded that the board's financial position is sustainable in the short term, but that it needs to build in a more robust longer term financial plan to support this in the future. The receipt of additional NRAC funding from the Scottish Government further supports its financial sustainability and provides a platform for the ongoing delivery of recurring savings and financial balance across the Board's operations.

Outlook

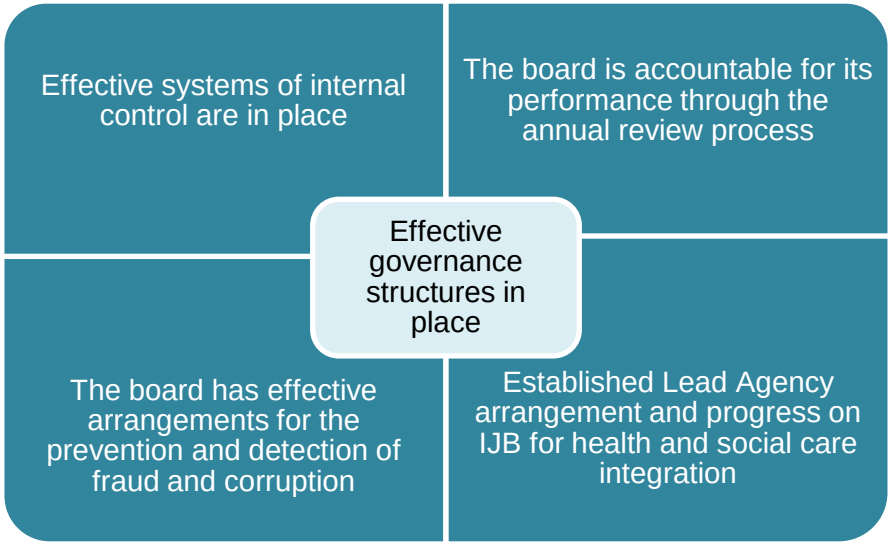
67. The board is predicting a balanced budget in each of the five years from 2015/16 to 2019/20, but this remains dependent on it achieving significant efficiency savings each year to bridge the gap between available funding from current sources and the cost of planned services.

68. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years and the board is looking at service redesign to enable it to deliver balanced budgets in future.

69. The board is also faced with significant challenges arising from increases to its cost base. From 2015/16 pension reform will increase employer contribution rates resulting in an additional £3.5 million to be funded by the board on a recurring basis, while from 2016/17 changes in national insurance will result in a further increase in the cost base amounting to £5.2 million per annum. In effect, the board will have to meet this recurring expenditure of £8.7 million without any additional funding from the Scottish Government.

70. At the same time there will be increasing cost pressures from the introduction of new drugs and technologies. Also, healthcare inflation in the UK is higher than general inflation. Over the last 20 years, general inflation in the UK averages just 2% a year while health service costs rose by 3.6% a year.

Governance and transparency



71. The board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHS Highland and for monitoring the adequacy of these arrangements.

72. NHS Highland is managed by a board of Executive and Non-Executive Directors and is accountable to the Scottish Government through the Cabinet Secretary for Health, Wellbeing and Sport. The board's Chair and Non-Executives are appointed by the Cabinet Secretary based on their skills and expertise and ability to contribute effectively to local strategic decision making processes. We note that, as the Chair has announced he will be leaving at the end of his current appointment, a new Chair is expected to be appointed for four years effective from 2016/17.

73. The board is responsible for the strategic leadership and governance of NHS Highland. It is supported in this role by a number of standing committees as illustrated below:

74. The standing committees meet on a regular basis throughout the year to consider relevant matters. We concluded that the board has

effective overarching and supporting governance structures which provide an appropriate framework for organisational decision making.

75. In June 2015 the Scottish Parliament's Public Audit Committee (PAC) published its report on the 2013/14 audit of NHS Highland, following two evidence sessions with officers and the chair of the Board. We note that their findings include references to the decision making processes around the receipt of brokerage from the Scottish Government in 2014, the Raigmore Hospital three year recovery plan and use of additional NRAC funding. They also recommend that the Board seek an external peer to evaluate its performance. The PAC has asked the Auditor General to report back on these matters by the end of 2015.

Transparency

76. Local residents should be able to hold the board to account for the services it provides. Transparency means that residents have access to understandable, relevant and timely information about how the board is taking decisions and how it is using its resources.

77. The performance of all NHS boards is subject to an annual review process, which aims to encourage dialogue and accountability between local communities and their Health Boards. The annual review for NHS Highland was held on the 9 June 2014 where the Minister for Public Health met with the Area Clinical Forum, Area Partnership Forum and the full board. There was also an open session where members of the public could share their experiences and raise issues with the Minister.

78. The Minister acknowledged that the board had good relationships with planning partners and was performing well against the majority of its performance targets.

79. Board and committee meetings that form part of the formal governance structure are formally minuted. Previously various informal meetings including board development sessions were not minuted and following an internal audit recommendation, the board has agreed to minute its development days, starting from March 2015. It is also more clearly recording communications with members' outwith the formal board meetings. We also note that a review of the board's governance and committee structure is currently underway and will be reported to the board in December 2015.

80. Members of the public can attend meetings of the Board and have ready access to board papers on the internet. This is supplemented by a live webcast of board meetings via the website. The board papers include assurance reports from the Improvement Committee where all aspects of performance are monitored including waiting times and access targets. The assurance reports include the measures being taken to address performance targets that are behind target.

81. In April 2015, the Head of Public Relations and Engagement presented a paper to the Board giving an update on the delivery of corporate communications and engagement over the past three

years. One of the workstreams reported on was the redesign of the NHS Highland internet (website, the search facility for which is poor and finding information on the board's activities is not straightforward) and intranet (internal website for NHS staff). Significant changes in the structure of the board as well as pressure on resources has meant that only a small number of improvements were successfully implemented, such as the updated homepage which is now more modern and current.

82. As a result of the update, the Board agreed to carry out further investigation into the strengths and weaknesses of the current website which is part of the National SHOW (Scotland's Health on the Web). A review by the SGHSCD on the Scottish Government's "Web Landscape" has recently commenced. The outcome of this review may impact on the actions that will be necessary locally.

Recommendation 4

83. Overall we concluded that the board is open and has taken steps to improve transparency during the year.

Internal control

84. As part of our audit we reviewed the high level controls within the general ledger, payroll, banking, trade receivables, trade payables and family health services (FHS) systems as these are fundamental to the preparation of the financial statements. Our objective was to obtain sufficient audit evidence to support our opinion on the board's financial statements.

85. No material weaknesses in these accounting and internal control systems were identified during the audit which could adversely affect the board's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

86. We reported our findings to the Director of Finance on 21 April 2015 and the Audit Committee on 12 May 2015.

Internal audit

87. Internal audit provides the board and Accountable Officer with independent assurance on the board's overall risk management, internal control and corporate governance processes. 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. To avoid duplication, we place reliance on internal audit work where possible.

88. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

89. The internal audit plan for 2014/15 was materially complete and we were able to place formal reliance on internal audit work on the payroll system.

ICT activities

90. Effective ICT arrangements are a key area of control because it underpins all systems used by the board. As part of our planning process we met with senior eHealth officers to discuss the ongoing challenge for eHealth to deliver efficient and effective services.

91. A new local eHealth Strategy is being prepared, which will form part of the eHealth local delivery plan. The new strategy will need to address both the requirements from the national eHealth strategy and meet the objectives of the local business plan. Tensions between local and national priorities may arise, particularly where funding is aligned to the national strategy.

92. Aside from Trak Care, the biggest investment for 2014/15 has been in the migration of personal computing equipment from Windows XP to Windows 7. At present, the project is around 20% complete, with full completion expected by March 2016. Capital funding of £411,000 has been partly spent in 2014/15 and additional revenue funding of £750,000 has been identified for 2015/16.

93. Overall, the board's ICT arrangements are generally satisfactory. Known problems with both the outputs from the Trak Care system (*refer paragraph 134*) and usability of the website (*refer paragraph 82*) are being investigated by officers.

Arrangements for the prevention and detection of fraud

94. We assessed the board's arrangements for the prevention and detection of fraud during the planning phase of our audit. This involved reviewing policies and procedures in a number of areas including whistleblowing and liaison with Counter Fraud Services (CFS). The chair of the Audit Committee is the counter fraud champion and reports back to the Audit Committee on any issues identified at national meetings.

95. The board's fraud liaison officer (FLO) works in partnership with CFS to promote anti-fraud activity and to advise members of current investigations within the NHS in Scotland.

96. We concluded that the board has put in place effective arrangements for the prevention and detection of fraud.

National Fraud Initiative in Scotland

97. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.

98. Auditors are required to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

99. As part of this year's NFI exercise the board submitted payroll and creditors data and the matching process identified 9343 records for investigation with 729 of these "recommended" for investigation. As at 28 May 2015 262 (2.8%) of the total matches have been investigated, 220 (30%) of these being recommended. No areas of concern have been identified from the investigations to date.

100. Whilst the board is participating in the NFI, progress in clearing recommended matches is slow with only 30% completed by the end of May 2015. The board had advised the Audit Committee in March 2015 that the majority of matches would be completed by the end of April.

Recommendation 5

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

101. The board has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for officers and members. Also, there are established procedures for preventing and detecting corruption including regular reviews of Standing Financial Instructions and Standing Orders.

102. Based on our review of the evidence we concluded that the board has appropriate arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

Freedom of Information requests

103. The board processed 82% of FOI requests within the statutory timescales. In discussions with officers we were advised that due to the complex nature of a number of requests received, the statutory time to reply was exceeded on occasion. Officers confirmed that requestors were advised of this at the time and responses were made as soon as the information became available. We have no significant concerns about the procedures followed by the board in processing FOI requests.

Vale of Leven Inquiry

104. The Vale of Leven Hospital Inquiry Report into the circumstances contributing to the high occurrence of C.difficile at the Vale of Leven Hospital was published in November 2014. Following publication of the report health boards were required to carry out a self-assessment of progress against the 65 recommendations directed at health boards.

105. NHS Highland performed a gap analysis and identified some areas for improvement. An action plan has been developed to address the gaps and progress will be monitored by the Control of Infection Committee.

106. The Healthcare Environment Inspection (HEI) process also provides assurance to the board on the effectiveness of infection control. The HEI carried out an announced inspection visit to Mid Argyll Community Hospital in July 2014 which resulted in three recommendations. There were also unannounced inspection visits

to Caithness Hospital (this noted improvements had been made since the 2013 inspection) and Raigmore. The second Raigmore inspection in January 2015 was a follow up to the July 2014 inspection which raised eight areas of concerns. The follow up review found the hospital was now complying with the majority of standards.

107. Overall the HEI inspections have found both strengths and weaknesses in the board and follow up reports have found good progress being made to address the areas of concern.

Health and Social Care Integration

108. 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.

109. Partnership arrangements between NHS Highland and The Highland Council to provide integrated health and social care services became operational on 1 April 2012, three years ahead of any other health board, and covered a five year period. Over 1600 staff transferred from the council to the board as a result of the partnership agreement and around 200 transferred from the board to the council.

110. The first two years of the partnership were financially challenging for both partners and a further financial settlement was reached during 2013/14 in an effort to get budgets on a sounder financial footing. The board anticipated that it would take up to five years to demonstrate efficiencies (based on the experience of similar integration models in England). The biggest challenge identified for the board in the short term will be in securing improvements to care home places which currently do not meet the board's required quality standard as this is impacting on its ability to discharge patients from the acute setting (*refer also paragraph 141 below*).

111. No structural changes will be required for the lead agency agreement as the arrangements put in place for management, leadership and governance in April 2012 will still apply. However, the partnership agreement will be replaced with a five year strategic scheme which has been submitted to Scottish Government for approval.

112. The board has agreed the alternative option of a body corporate arrangement with Argyll and Bute Council for services. The board and Argyll & Bute Council have submitted the integration scheme to Scottish Ministers for approval and once approved, an Order will be laid before the Scottish Parliament to create the Integration Joint Board (IJB).

113. A report is due to be provided to the board and Argyll & Bute Council on the assurance process carried out by both partners. Internal audit from both the board and the council will be undertaking this work which will focus on financial governance; and financial assurance and risk assessment for the delegated resources. The report is expected to be submitted to the audit committee by December 2015.

114. The Chief Officer for the IJB was appointed in October 2014 and further appointments, including a Chief Financial Officer, are

expected to be made imminently. The board anticipates that the IJB will go live from 1 April 2016.

115. Overall the board is making progress in developing its integration arrangements across the area.

2020 Vision

116. The Scottish Government's vision is that by 2020 everyone is able to live longer healthier lives at home, or in a homely setting. The board is addressing this challenging agenda through the Highland Care Strategy, developed as part of the Highland Quality Approach (HQA), which was approved in August 2015.

117. The board's view is that increasingly over the next 10 years, health care delivery will become less dependent on hospitals and institutional care. The focus will shift more to co-production and partnership with individuals and communities to support health and social care delivered in the home and local community settings. The strategy emphasises prevention and early intervention to maintain and improve people's health and independence with care becoming as patient-centred as possible focussing on responding to patient need as identified in self-management plans.

118. It sets out twelve general principles for the provision of health and social care and describes models of service provision that would enable the board to follow the principles and adapt to the changing needs of the population.

119. A number of major service redesign projects and initiatives are underway including out of hospital care, out of hours care and outpatient services. Each project will be managed by a project lead and plans will be monitored through existing structures, for example, the Improvement Committee, Clinical Governance Committee etc.

120. Health and social care integration is also a key part of the Scottish Governments strategy to enable people to live healthy lives in a community setting. As Highland is three years ahead of other areas in integrating health and social care it will be expected to deliver efficiencies sooner.

121. We have concluded that the board is proactive in planning to ensure that the population in the Highland area are able to live longer healthier lives at home as evidenced by the Care Strategy. However, significant challenges remain not least the need to evidence the impact of health and social care integration in Highland.

Outlook

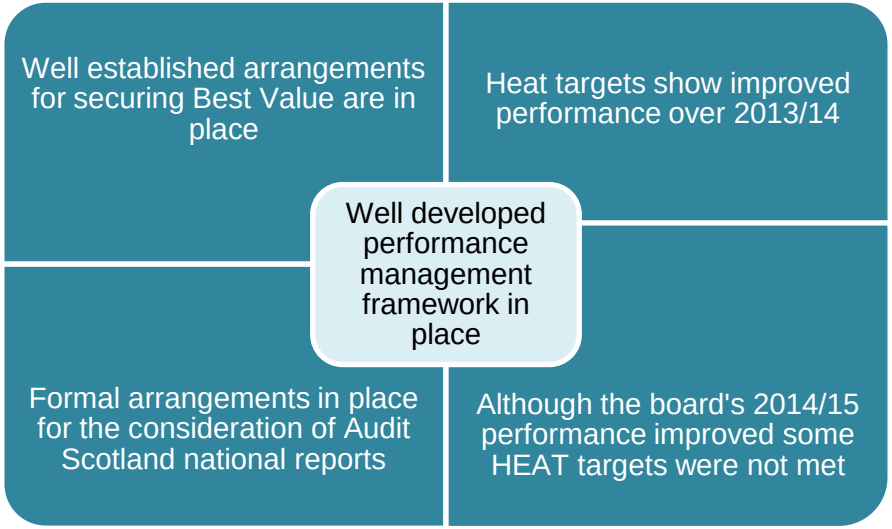
122. Changes in Scotland's population mean that demands for health and social care will increase significantly over the next 20 years, at the same time that budgets are tightening. The NHS will not be able to continue to provide services in the way that it currently does given the scale of changes required. It needs to do more to plan for how it will make the changes needed to provide sustainable care for the future.

123. Increasing demand is already putting pressure on services. NHS boards need to better understand their demand, capacity and how patients move through the complex health and social care system so that they can match their capacity with current and future needs.

124. NHS Highland has recognised the importance of redesigning the way that care is provided for patients, particularly in the context of changing demography and increasing demand, and part of the strategy for dealing with this will be the four transformational projects. The overall aim is to ensure that services are provided in a way that ensures sustainable care for the future and meet the Scottish Government's aim of having people living longer and healthier lives at home or a homely setting (i.e. the 2020 Vision).

125. Health and social care integration is also an important element in supporting the delivery of the Scottish 2020 Vision. Nationally 2015/16 is a transitional year for health and social care integration and given both the established lead agency model in Highland and the progress to date with the IJB, the board and its council partners are well placed to successfully deliver on this important strand of the Scottish Government's reform agenda.

Best Value



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

Arrangements for securing Best Value

127. Best Value arrangements are part of business as usual within the board. They are embedded in its planning processes, governance arrangements and its performance management and quality improvement frameworks.

128. NHS Highland has an established best value assurance framework which maps activities and sources of assurance against the Scottish Government's best value themes of:

- Vision & leadership
- Effective partnerships
- Governance and accountability
- Use of resources
- Performance management
- Equality
- Sustainability.

129. We have reviewed evidence underpinning the board's Best Value arrangements including the Local Delivery Plan, performance management and reporting, committee papers, and savings charters. Work continues across NHS Highland in embedding the Highland Quality Approach (HQA) and a total of 14 process improvement workshops have taken place during 2014 aimed at improving service delivery. Over 3000 staff have attended introductory awareness sessions on lean training since 2012.

130. Overall, we concluded that the board has well-developed arrangements for securing Best Value and continuous improvement.

Performance management

131. The performance of NHS Highland is monitored by the Scottish Government against a number of HEAT targets and standards which support the delivery of the Scottish Government's national performance framework. These targets and their trajectories were set out in the board's 2014/15 Local Delivery Plan (LDP).

132. Performance against HEAT targets and standards is presented to each meeting of the board - via the Improvement Committee assurance report - in the form of a balanced scorecard. These performance reports also include progress against local performance indicators. Furthermore, performance is discussed at the Annual Review meeting held between the Scottish Government and the board.

133. More detailed scrutiny of performance takes place at the Improvement Committee where progress against targets is reviewed and discussed. The performance reports are accompanied by a narrative setting out actions being taken to support the achievement and sustainability of the HEAT targets and standards. In addition, separate reports on waiting times and financial performance are also submitted to the committee for review and scrutiny.

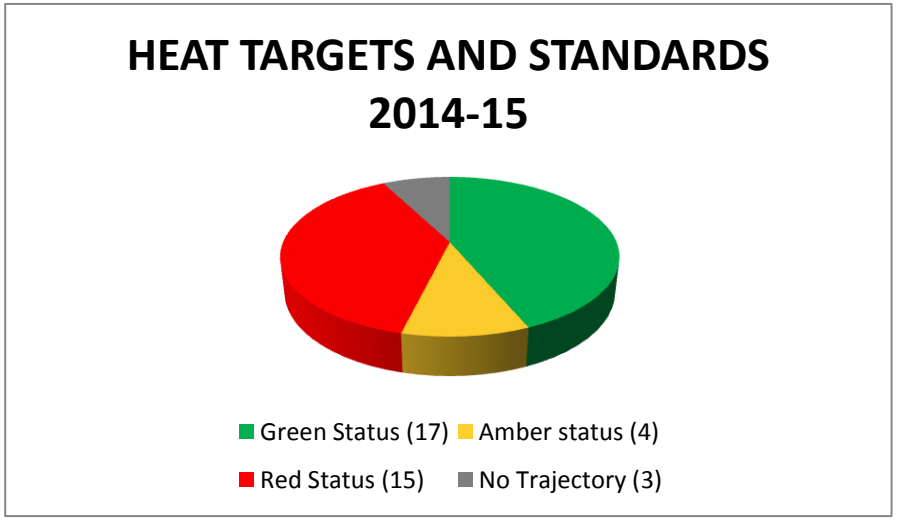
134. After the implementation of the new patient management system Trak Care at the end of 2013/14, problems were discovered with the quality of the data held in the system. At the end of April 2015, these problems had not been resolved, and reports for investigation have been sent to operational units to address the issues identified. The issues affect both reporting of operational matters and returns to the Information Services Department of NHS National Services Scotland. In the meantime, planning for phase 2 of the system is in progress.

Recommendation 6

135. We concluded that the board had a well established performance management framework in place during 2014/15. This was supported by good performance monitoring. However, the issues identified with data quality in the Trak Care system need to be addressed as a matter of urgency.

Overview of performance targets in 2014/15

136. The board's performance against its 39 HEAT targets and standards as reported in the 2014/15 annual accounts, and based on the most up to date data available regarding the position at the end of March 2015, is summarised in the diagram below.



137. Of the 39 measures, 17 were categorised as green, four amber and 15 red, where:

- Green means meeting or better than trajectory (plan)

- Amber means within 5% of trajectory (plan)
- Red means outwith 5% of meeting trajectory (plan)

138. The “no trajectory” categories relate to areas where data sources are being developed e.g. reduce IVF waiting time.

139. Those HEAT standards and targets currently being met (green status) by the board include the 4 hour A & E wait, access to antenatal care and treatment of patients with suspicion of cancer within 62 days.

140. In some areas performance is slightly behind target (amber status) including the 18 week referral to treatment time guarantee, SMR return rates, financial performance and detecting cancer early.

141. 15 targets were not achieved (red status) including delayed discharges (*refer paragraph 110 above*), sickness absence and 12 week treatment time guarantee. However, overall the board’s performance this year has improved with around 38% of targets/standards either on or ahead of trajectory compared with 32% in 2013/14. The board is continuing to take measures to address all targets and standards that are behind trajectory and the Improvement Committee will monitor progress.

National performance audit reports

142. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the Board. These are outlined in appendix III.

143. As reported in previous years, NHS Highland has processes in place to ensure that all national performance reports and their impact on the board are considered by the Audit Committee and other governance committees, as appropriate.

144. From our attendance at Audit Committees we concluded that the arrangements for considering national performance audit reports are consistent with good practice.

Equalities

145. The Equality Act 2010 introduced a new public sector ‘general duty’ which encourages equality to be mainstreamed into public bodies’ core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

146. The Board has worked to ensure that the duties under the Equality Act have been used to further the Highland Quality Approach's aim of Better Health, Better Care and Better Value. The Board's Mainstreaming Equality (published April 2013) sets out the progress and plans made by the Board in meeting the requirements of integrating equality.

147. We have concluded that the Board is committed to implementing the requirements of the Equality Act 2010 and has made good progress in mainstreaming equality and diversity within the organisation

Outlook

148. Audit Scotland in its annual overview of the NHS in Scotland highlighted that there are increasing signs of pressure on NHS boards' ability to meet demanding performance targets. The strong focus, particularly in relation to waiting times targets, may not be sustainable when combined with the additional pressures of increasing demand related to demographic changes and the overall NHS budget starting to decrease in real terms.

149. The effort that NHS boards are putting in to meeting challenging financial and performance targets each year makes it more difficult for them to focus on long-term planning required to achieve the 2020 Vision.

Appendix I – Significant audit risks

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

Audit Risk	Assurance procedure	Results and conclusions
Audit risk of material misstatement in financial statements		
Income: NHS Highland receives around £6.5 million income from care home activities in addition to funding from Scottish Government and The Highland Council. The complexity of income from care homes means there is an inherent risk of fraud.	• Detailed testing of revenue transactions focusing on the areas considered to be of greatest risk	• Focused testing on 20% of the £5.5 million income received in 2014/15 was undertaken and no issues were found • Audit testing confirmed that income was properly accounted for in the financial year.
Accounts timetable: We did not receive a complete set of unaudited accounts until two weeks after the agreed date for delivery in 2013/14. There is a risk that the Board's accounts will not be audited by the 30th June deadline if the unaudited accounts are not provided timeously	• Early and ongoing discussion between finance staff and the audit team.	• Complete set of accounts including full narrative disclosures were received on 5 May 2015 as agreed.

Audit Risk	Assurance procedure	Results and conclusions
Financial Position: In common with other health boards, NHS Highland has a statutory requirement to breakeven. The Board's forecast year end position as at January 2015 was breakeven, but identified the need to achieve £0.9 million of savings in the final two months of the year in order to do so. The majority of this is attributed to adult social care costs, and cost pressures at Raigmore Hospital. There remains a risk that the anticipated savings will not be achieved. The Board recognises that level of non-recurring savings required to achieve breakeven is not sustainable.	• Monitor monthly financial reports presented to the Board • Review controls in key financial systems to ensure operating effectively	• Audit work was carried out to review actions to address the financial management issues raised in our 2013/14 annual audit report. We found that good progress had been made in addressing the points (*refer paragraph 40 above*). The board was able to deliver the required savings for 2014/15 and managed to increase the level of recurring savings achieved in the year. It also received additional NRAC funding in the year which helped it deliver its breakeven target. This afforded the board the option of not implementing some of the more challenging areas to deliver savings that could have had a more direct impact on patient services. The board's in year recovery plan targets were re-profiled following receipt of this further funding. • We reviewed the key controls in place within the main financial systems and found that overall these were operating effectively. A few areas for further improvement were reported to the board in May 2015.

Audit Risk	Assurance procedure	Results and conclusions
Management override of controls: ISA 240 highlights the unique position of management to influence the financial statements by overriding controls that otherwise operate effectively. The ability to override these controls exists in all entities and therefore represents a significant financial statements risk due to fraud. We will undertake focused substantive testing of journal entries, accounting estimates and significant transactions outside the course of normal business.	• Extended testing of year-end procedures • Analytical review procedures to detect unusual trends or variances • Test the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. • Review accounting estimates for biases and omission.	• Satisfactory explanations for variances between income and expenditure headings noted were provided by officers. No outstanding issues. • All journal adjustments above our performance materiality level (£3.999 million) were subject to specific testing and no issues were found. Random testing of lower value journals across various sections of the accounts was also undertaken and no indications of management override of controls were found. • Judgements and estimations applied in 2014/15 relating to clinical medical negligence claims, holiday pay accrual, leases and pensions were tested to confirm they were appropriate and reasonable. Figures used were agreed to supporting documentation provided by Central Legal Office, payroll, lease agreements and actuarial reports and no issues with the amounts applied were found.

Audit Risk	Assurance procedure	Results and conclusions
Pension liability: The Board has a pension liability for adult social care staff who remained members of the Highland Council Pension fund on integration. The NHS accounts template does not cater for such entries and the Board had to include reconciliation in the 2013/14 accounts to show how the appropriate entries are reflected in the accounts. There is a risk that the Board's accounts do not clearly reflect its additional pension liability as a member of the Highland Council Pension Fund and therefore do not fully comply with IAS19.	• Review accounting treatment and disclosures in the financial statements. • Report as required in our annual audit report	• Testing of the disclosures in the accounts was undertaken. The word version of the accounts includes detailed narrative and figures for the board's LGPS commitment and these have been agreed to information prepared by the scheme's actuary.

Audit Risk	Assurance procedure	Results and conclusions
Audit risk from wider responsibilities under Audit Scotland's Code of Audit Practice		
Financial Management and reporting: A number of weakness' relating to the Board's approach to financial management and reporting were identified in the 2013/14 annual audit report and subsequently in a Section 22 report by the Auditor General for Scotland. An internal audit review reported to the Board in February 2015 made recommendations to improve financial management and reporting at the Board. There is a risk that the Board's financial position and operational performance is adversely affected by weaknesses in financial management and reporting	• Monitor the Board's progress in implementing Internal Audit's recommendations. • Review of budget monitoring and finance reporting to the Board • Financial Management Report	• Our follow up report on financial management found that the board was making progress in implementing Internal Audit recommendations although a number were yet to be completed. This is being monitored by the Audit Committee via the internal audit tracker. • Some changes have been made to the budget monitoring and finance reports to the board to clarify the language and more clearly focus on the savings position. Further recommendations for improvement are being considered and any changes agreed will be actioned in June 2015.

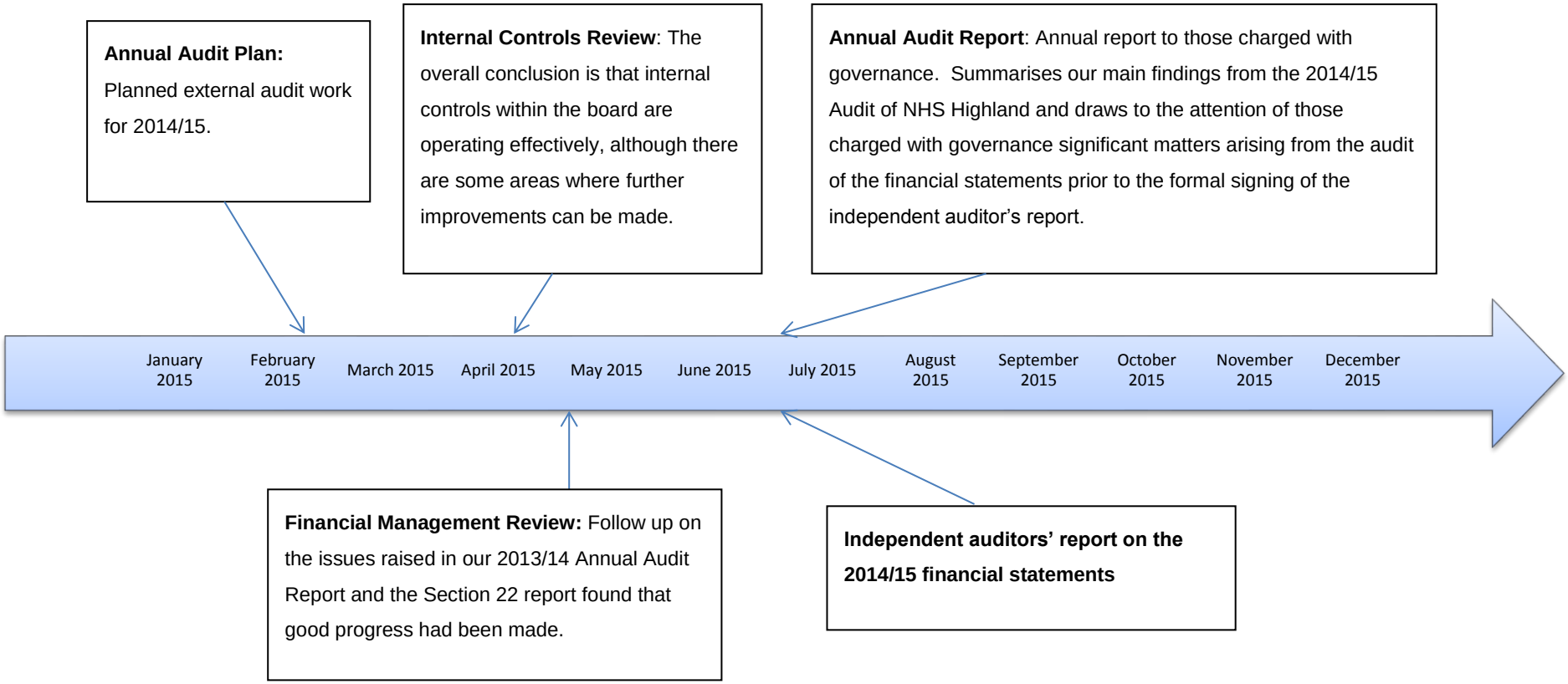
Audit Risk	Assurance procedure	Results and conclusions
Health and social care integration: The integration of health and social care services in Scotland requires to be implemented fully by 1 April 2016. The Board has still to integrate health and social care services for the Argyll and Bute area. The challenge for NHS Highland will be evidencing the success of integration with the Highland Council against the objectives of the partnership agreement, and its contribution to delivering quality services whilst making the required efficiency savings. The first two years of the partnership have been financially challenging for both partners and a further financial settlement was reached during 2013/14 to get budgets on a sounder financial footing. There is a risk that integration may not deliver the efficiencies expected and there may be an adverse impact on the quality of service delivery either through the lead agency or the integrated joint board approach taken across the Highland and Argyll and Bute areas.	• Review the financial monitoring reports submitted to the Board. • Review of progress in demonstrating efficiencies. • Support Care Inspectorate during review of Adult Social Care • Report as appropriate in the Annual Audit Report	• The year end financial report to the board in June 2015 showed a small overspend of £0.5 million for adult social care which indicates the funding has been on a sounder footing this year. • The Adult Social Care scorecard is reviewed bi-monthly by the Improvement Committee and action monitored as necessary. • In discussions with officers we noted that the budget setting process for 2015/16 applied a lower “average cost per care package” although no specific monitoring or reporting of these efficiencies is undertaken and further work to develop improved reporting of integration savings is being considered. • The fieldwork for the Care Inspectorate’s review of adult social care was undertaken in March 2015 and a report is expected to be issued later in the year.

Audit Risk	Assurance procedure	Results and conclusions
Use of Locums: NHS Highland experiences significant challenges in recruiting medical staff in rural and remote areas. Whilst the use of agency/bank staff provides flexibility to the care system and temporary cover for vacancies and staff absence, continued reliance on locum/agency will have a significant impact on the Board's ability to achieve the savings required for longer term sustainability.	• Review of financial monitoring reports submitted to the Board. • Report as appropriate in the Annual Audit Report.	• Controls around the use of locums have been tightened with Directors of Operations taking responsibility for approving locum requests. Local teams are required to cover staffing shortages wherever safe to do so to avoid incurring the significant cost of locum cover. As a result Raigmore locum costs fell by 31% in the first 10 months of 2014/15 although this was subsumed by increased locum costs across other operational units. Recruitment of key medical staff in remote and rural areas continues to be a significant challenge for the Board. • Overall total agency costs rose by 3% in 2014/15.
Sickness Absence: The national sickness absence target of 4% continues to present a challenge to NHS Highland. Sickness absence rate in 2013/14 was 4.8%. Failure to meet the sickness absence target may impact on the Board's ability to achieve its financial and non financial performance targets.	• Review of progress through Board reports. • Report as appropriate in the Annual Audit Report.	• The Board's sickness absence rate at the end of 2014/15 had increased slightly to 4.9%. This continues to be a challenging area for the Board and this will need to be actively managed if the national target is to be achieved.

Audit Risk	Assurance procedure	Results and conclusions
Performance management: Many of the HEAT targets continue to be challenging for NHS Highland. It is likely that these will become more challenging going forward as resources continue to be squeezed.	• Monitor HEAT targets, plans and reporting through the appropriate committee minutes. • Report as appropriate in the Annual Audit Report.	• Overall the board's performance this year has improved with around 38% of targets/standards either on or ahead of trajectory compared with 32% in 2013/14. The board is continuing to take measures to address all targets and standards that are behind trajectory and the Improvement Committee will monitor progress.

Appendix II

Summary of NHS Highland local audit reports 2014/15



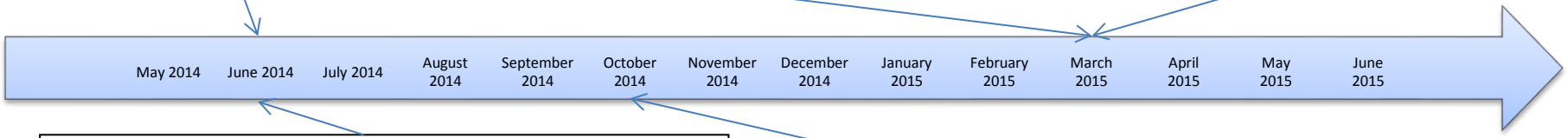
Appendix III

Summary of Audit Scotland national reports 2014/15

Health inequalities in Scotland – Impact report: summarises the impact made by the joint Accounts Commission / Auditor General for Scotland performance audit *Health inequalities in Scotland* published on 13 December

Community planning: Turning ambition into action – Many Community Planning Partnerships are still not clear about what they are expected to achieve. Local data should be used to help set relevant, targeted priorities for improvement that will address inequalities within specific communities.

Update on developing financial reporting -Following the Smith Commission the framework for Scotland's public finances is undergoing fundamental change. The Scottish Parliament will have enhanced financial powers from April 2015. The report emphasises the importance of comprehensive, transparent and reliable financial reporting for accountability and decision-making. The report also notes that while the audited accounts of public bodies across Scotland provide a sound base for financial reporting and scrutiny, there is no single complete picture of the devolved public sector's finances.



Scotland's public finances - a follow up: Progress in meeting the challenges – Leaders and managers must produce balanced budgets and hold people in their organisations to account for how the money is used and what is achieved. Board members have an important role in ensuring that approved budgets are used to best effect. To do this they need good quality and timely financial information. They need to take a longer-term view on: options available for services; services standards and affordability; and the sustainability of financial plans.

NHS in Scotland 2013/14 - comments on the performance of the NHS in 2013/14 and on its future plans.

Appendix IV

Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 **8/11**	**Issue:** The board's Management Commentary is prepared in sections by various officers and although this presented a fair and balanced picture of NHS Highland the commentary is long, contains some repetition and uses very NHS-specific language. **Risk:** A reader from outside the NHS may find the narrative difficult to understand and therefore reduce the transparency of its reporting. **Recommendation:** A glossary of terms should be added to the Annual Report and Accounts to make it easier for a reader to understand the terms used, and increase the accessibility of the commentary. Repetition within the commentary should be removed when drafting the text, using cross references where appropriate. It should also be subject to early review by senior management prior to its submission to external audit.	The management commentary will be reviewed at an earlier stage in future and prior to submission to audit.	Director of Finance	March 2016.

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 **17/36**	**Issue:** At the end of 2014/15 posts that had been vacant for 6 months or more were deleted from the establishment where it was agreed deletion of the post did not represent a risk to patient safety. However, this approach is not currently part of a formal workforce plan. **Risk:** The board's workforce plan and financial plans are not aligned and therefore staffing levels are not properly funded. **Recommendation:** Removal of posts from establishment should be undertaken as part of a formal workforce plan.	Within the board, workforce establishments are continually under review in order to meet care demands and staff availability. The board develops workforce projections on an annual basis, every June, based on operation unit Delivery Plans and aligned to the LDP, service redesign and financial plans across the board. A Workforce Plan is published every August and will include all the changes in 2014/15.	Director of Human Resources	August 2015

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
3 **20/49**	**Issue**: Over the next five years the board needs to achieve savings of £92.2 million. The required savings target for 2015/16 is £16 million. In addition to this the board has identified a further £5-6 million cost pressures for 2015/16 that are not included in the savings target. Any slippage in achieving the savings or managing the cost pressures will add to the financial pressures going forward. **Risk**: Savings targets in 2015/16 may not be achieved and this will increase the financial pressures going forward. **Recommendation**: The board should fully implement its plans to develop its financial planning arrangements, particularly the requirement for detailed proposals to support the amount of savings identified in years 2016/17 to 2019/20	Agreed. Clearly the detail contained within financial plans will vary according to the time horizon. It is always likely to be the case that the plans for the coming year will be more detailed than those for future years. There will also be inevitably less certainty regarding future years and therefore more assumptions are required.	Director of Finance	On-going

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
4 **27/82**	**Issue**: The search facility for the board's website is poor and finding information on the board's activities is not straightforward. Significant changes in the structure of the board as well as pressure on resources has meant that only a small number of improvements have been successfully implemented, such as the updated homepage which is now more modern and current. Further investigation into the strengths and weaknesses of the current website which is part of the National SHOW (Scotland's Health on the Web) are being undertaken by the board and a review by the SGHSCD on the Scottish Government's "Web Landscape" has recently commenced. **Risk**: Patients and other users are presented with inaccurate or incomplete information on board services, leading them to make inappropriate choices, causing unnecessary interactions and inefficiency. **Recommendation:** The difficulties with searching and retrieving information from the website needs to be addressed to ensure users of the board's services have access to accurate and complete information and thereby reduce inefficiencies.	There is an ongoing programme of work to continue to systematically review and improve the content of the internet site. This has also been prioritised to ensure that sections such as major service change, news, views and events feed-back, board and recruitment are up to date. A new section on social work and adult social care will be prepared. The wider review around content management and supporting platform will be considered alongside the National SHOW review and reported back to senior management team and board at the appropriate time	Content – Maimie Thompson IT – Iain Ross	December 2015

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
5 **28/100**	**Issue:** Whilst the board is participating in the NFI, progress in clearing recommended matches is slow with only 30% done so far. The board had advised the Audit Committee in March 2015 that the majority of matches would be completed by the end of April. **Risk:** Potential frauds resulting from the NFI exercise are not identified timeously and recoveries are not appropriately actioned. **Recommendation:** NFI matches classed as **"**recommended" should be investigated promptly to ensure any potential fraudulent activity identified is stopped as soon as possible and recovery action taken as appropriate.	The timetable from NFI for the initial review for reviewing the work to be done is 31st May 2015. This we achieved. The outcome of investigations and ensuring that we cover all types of matches is due for completion by 30th September 2015 and currently we are at 30%. We had hoped to be further on with this, as reported to the Audit Committee, but due to annual accounts priorities, we will progress this further after annual accounts completion	Fraud Liaison Officer	30 September 2015

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
6 **34/134**	**Issue**: After the implementation of the new patient management system Trak Care at the end of 2013/14, problems were discovered with the quality of the data held in the system. At the end of April 2015, these problems had not been resolved, and reports for investigation have been sent to operational units to address the issues identified. The issues affect both reporting of operational matters and returns to the Information Services Department of the Scottish Government. **Risk**: Issues relating to patient care are not identified and addressed and performance information reported to ISD is incomplete resulting in the board not meeting its performance targets. **Recommendation**: The issues with Trak Care should be addressed as a matter of urgency to ensure operational information is complete and accurate and performance information is properly identified.	Data quality has been identified as an area of improvement for NHS Highland and is being addressed through the Data Quality Group reporting to the PMS Management Group. An initial tranche of data quality items, mainly around the management of return patients, were identified with a plan for resolution by the end of June 2015. In addition an Investment and Benefits Plan has been drafted and discussed at Senior Management level which has resulted in approval to appoint a Business Process Manager and 4 data quality administrators (1 for each OU). These posts will accelerate the progress in our improvement programme. A position statement on the reports available has also been prepared to provide a timescale for the provision of timely and accurate data to ISD. Not all of the issues are to do with Trak Care e.g. the Backlog of Clinical Coding.	Head of Service Planning (who chairs the DQ Group)	June 2015 (initial returns data quality) Data Quality will be an on-going issue with continuous improvement plans.