NHS SHETLAND

2014/15 Annual Audit Report

Prepared for the Board of NHS Shetland 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 David McConnell as the external auditor of NHS Shetland for the period 2011/12 to 2015/16.

This report has been prepared for the use of NHS Shetland 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	• Unqualified independent auditor's report on the 2014/15 financial statements.
Financial management and sustainability	• All financial targets in 2014/15 were met • A surplus of £44k was achieved against total Revenue Resource Limit (RRL) • Total savings of £2.511 million achieved (£1.55 million on a recurrent basis) • At 31 March 2015, the board carried an underlying deficit of £908k.
Governance and transparency	• The board has sound and well-established governance arrangements in place • Overall, systems of internal control operated effectively during 2014/15, however the Governance Statement discloses that there was a breach of Standing Financial Instructions during the year. • The board has an effective internal audit function and robust anti-fraud arrangements.

Best Value	• The board has a well developed performance management framework in place. • The Strategy and Redesign Committee receives regular updates on all aspects of performance and the actions being taken to improve performance. • The board maintained its comparatively strong performance on waiting times for inpatients and day cases • The board is making progress in addressing HEAT targets and standards.
Outlook	The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver a balanced budget at the same time as having to make major changes to service delivery such as the Scottish Government's 2020 Vision and health and social care integration. Achieving sustainability in the medium term will require innovation and vision to design and deliver the services needed to serve the future needs of citizens.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of NHS Shetland. The report is divided into sections which reflect our public sector audit model.

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

3. Our responsibility, as the external auditor of NHS Shetland, 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. 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.

6. **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 Shetland 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.

7. 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.

8. 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 Shetland for 2014/15 give a true and fair view of the state of its affairs and of its net operating costs 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.

Submission of financial statements for audit

9. We received the unaudited financial statements on 4 May 2015, in accordance with the agreed timetable. The working papers were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit to deadline.

10. We have reported in previous years that the narrative sections of the financial statements require to be improved. Although there is evidence that some improvements have been made, the audit team identified a large number of grammatical and spelling errors in the draft financial statements. It was disappointing to note that a large number of errors were still present in the narrative sections and that several of the issues that we had raised had not been addressed in later versions of the accounts. Checking numerous versions of the financial statements adds considerably to the time and cost of an audit and increases the risk of statutory deadlines being missed.
Recommendation 1

Overview of the scope of the audit of the financial statements

11. 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 20 January 2015.

12. 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.

13. 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.

14. 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

15. 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).

16. 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.

17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of NHS Shetland we set our planning materiality for 2014/15 at £525,000 (1% of gross expenditure). We report all misstatements greater than £5,000. Performance materiality was calculated at £260,000, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

18. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that performance materiality should be increased to £272,000.

Evaluation of misstatements

19. The audit process highlighted one potential adjustment which exceeded our misstatement threshold. This was due to a difference of £28,000 between the figure accrued for the March 2015 payroll costs and the actual payments made by the board. The board decided not to process this adjustment which is below the level of materiality. If the adjustment had been processed, the board's surplus would have reduced from £44,000 to £16,000.

20. A number of presentational and monetary adjustments were identified within the financial statements during the course of the audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The main audit adjustment was an amendment of £78,000 to increase the bad debt provision to provide against a number of overdue debts. There was no strong evidence presented to external audit to support the inclusion of a number of sales ledger balances and, due to the age of the debts, there is a considerable risk of non-payment.

Recommendation 2

Significant findings from the audit

21. International Standard on Auditing 260 requires us to communicate 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.

22. 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
Trade receivables: Trade receivables at 31 March 2015 included £125,000 of debts which had been outstanding for more than 6 months and a further £76,000 which was aged over 3 months. The majority of these balances were still outstanding at the end of May 2015. In particular, £50,000 of these balances related to amounts due from GPs in respect of electricity and laundry costs paid by the board on behalf of the practices. In 13/14 the equivalent figures for debts aged over 6 months and over 3 months were £55,000 and £8,000 respectively. In 2013/14, the board's bad debt provision was £26,000 and this had been increased to £31,000 at 31/3/15. The increase in the bad debt provision is not proportionate to the large rise in debtors and there is a significant risk that the bad debt provision is insufficient and the board's year-end surplus is overstated.	The board increased the bad debt provision by a further £78,000 to take account of a number of overdue balances where there was a lack of evidence to support the view that payment would be received.
CNORIS provision: Guidance issued to NHS boards by the SG confirming a change in the accounting treatment of CNORIS required boards to create an additional provision in the 2014/15 financial statements 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 to comply with *IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors.*	A CNORIS provision of £663,000 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 the 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.

Issue	Resolution
Group Accounts: Errors were made in consolidating the endowment funds figures into the board's accounts. Specifically, as in last year's accounts, further adjustment was required to account for realised and unrealised investment gains and to ensure that disclosure was in accordance with the Accounts Manual. In addition to this, there was a difference of £8k noted on the Consolidated Cash Flow Statement which the board was required to resolve.	The board amended the financial statements to disclose unrealised gains on investments as required by guidance. Further work was performed by the board to investigate the £8k difference on the Cash Flow Statement. The board provided evidence which showed that an error had been made in the previous year and this has been adjusted in the current year's accounts. As the error is below the level of materiality, the board's accounting treatment is accepted.
Financial statements preparation process: Although there were noticeable improvements in the quality of supporting working papers and there were few adjustments required to the figures in the accounts, there remains scope for improving the quality of the narrative sections of the financial statements. There were several spelling and grammatical errors and some sections included inaccuracies.	Additional input was required from the audit team to review the narrative sections, identify the errors and ensure that these had been corrected appropriately in the final version of the accounts.
Accruals: To facilitate the preparation of the financial statements, it is common for boards to estimate the final month's payroll costs. The board used the March 2014 figure as a basis for estimating the March 2015 figures. On comparing the estimate with actual costs, it was noted that there had been an underaccrual of £28,000.	The board decided not to process this adjustment due to the fact that it was below the level of materiality. If this adjustment had been processed, the board's surplus would have reduced from £44,000 to £16,000.

Future accounting and auditing developments

Revisions to the financial reporting manual

23. 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 audit report.

24. **(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.

25. **Restructuring of the annual report**: 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

26. 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.

27. IJBs will be required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the UK.

Financial management and sustainability

Core revenue resource limit £51.811m

Outturn £51.767m

Underspend £0.044m

Non-core revenue resource limit £1.504m

Outturn £1.504m

Underspend £0m

Capital resource limit

£0.759m

Outturn £0.756m

Underspend £0.003m

Total savings

£2.512m

Recurrent savings

£1.550m

Non-recurrent savings

£0.962m

Financial management

28. In this section, we comment on NHS Shetland's financial outcomes and assess the board's financial management arrangements.

29. 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

30. Health boards are required to work within the resource limits and cash requirements set by the SGHSCD. The board's final RRL (£53.315 million) and CRL (£0.759 million) were agreed with the SGHSCD on 29 April 2015.

31. The board achieved its financial targets in 2014/15 and delivered total savings of £2.512 million which exceeded the target of £2.499m.

32. The board had budgeted to break-even against its Revenue Resource Limit in 2014/15. The actual out-turn position was a cumulative surplus of £44,000.

33. The SGHSCD agreed that the board can carry forward the £44,000 surplus which has now been accounted for in the board's 2015/16 financial plan.

34. The board exceeded its savings target of £2.499 million in 2014/15: £1.55 million was achieved on a recurrent basis and £0.962 million achieved on a non-recurrent basis. Non-recurring savings put pressure on future years' budgets and wherever practicable, all savings should be on a recurrent basis.

Recommendation 3

Capital expenditure 2014/15

35. The board remained within its Capital Resource Limit (£759,000) and had a small underspend of £3,000. The allocation was mainly spent on x-ray equipment, an ultrasound scanner and an endoscopic washer.

Financial management arrangements

36. 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

- members provide a good level of challenge and question budget holders on significant variances.

37. We reviewed the board's standing financial instructions and standing orders, which are updated annually, and concluded that they are comprehensive and current. These documents are also available to all staff on NHS Shetland's intranet.

38. Financial monitoring reports (both revenue and capital) are submitted to meetings of both the board and the Strategy and Redesign Committee. The board continues to develop the financial monitoring reports to ensure that members are provided with all necessary information to support the decision-making process. We will continue to monitor developments in this area.

39. As auditors, we attend audit committee meetings throughout the year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.

Conclusion on financial management

40. We have concluded that the board has effective financial management arrangements that facilitate scrutiny of financial performance.

Financial sustainability

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

Financial planning

42. 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.

43. The board's five year plan for the period 2015/16 to 2019/20 is a key element of the LDP. The plan has been compiled to reflect a break-even position in each of the five years. The plan also recognises the significant cost pressures facing the board going forward, notably staff pay costs, expenditure on locums and the cost of treating patients away from the islands. These pressures exacerbate a tightening financial position.

44. While facing significant cost pressures, the Board will also have to deal with a tight funding environment over the period of the 5-year plan. The basic funding uplift for 2015/16 is 3.1%. In each subsequent year the funding uplift is assumed to be a flat rate of 1.8%.

45. Savings will therefore play a significant part in maintaining financial balance over the 5-year period. Total savings of £1.855 million are

required for 2015/16 of which £1.445 million is planned on a recurrent basis with the balance (£0.410 million) coming from non-recurrent sources.

46. To date, savings of £1.3 million have been identified for 2015/16 and detailed plans are in place to achieve these. There is still a further £0.145 million to be identified and work is ongoing to address this shortfall. The position in 2015/16 is challenging but management are confident that the required savings will be achieved.

47. The five-year financial plan, approved in April 2015, states that the board will achieve a fully balanced position which clears the underlying deficit by 2017/18. Thereafter, the board's financial plans assume an annual target of 3% efficiency savings. A large amount of savings have already been achieved in previous years and it will become progressively more challenging year on year to identify further areas of savings.

Workforce Management

48. Workforce planning is integral to the board's strategic planning process and is a key element of the Local Delivery Plan. Staff resourcing is an important factor in the board's capacity to provide patient care.

49. NHS Shetland serves, not only a local population on both mainland and outer isles, but also transient North Sea oil and gas workers. This has led to an increase in demand for services over recent years. The presence of the oil and gas industry in Shetland has also exacerbated recruitment problems due to the higher salary levels available outwith the health board. The board is looking at how to support more modern apprenticeships and is committed to SVQ development as a way of attracting staff.

50. The board continues to have difficulties in recruiting medical staff at both consultant and General Practitioner level and this has led to high locum costs. In 2014/15, £1.3 million was paid to locums to cover GP practices in Yell, Whalsay and Lerwick and a number of junior doctor and consultant vacancies. The board continues to monitor locum charges and is seeking innovative and longer-term sustainable solutions to address these issues.

Recommendation 4

51. As with other health boards, NHS Shetland is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence. The sickness absence rate at 31 March 2015 was 4.6% which is, however, better than the Scottish average of 5.14%. The board is committed to managing sickness absence downwards through a range of measures.

Recommendation 5

Cost of pension provision

52. The UK Government has been pursuing a programme of reform of public service pensions across the UK, including in Scotland. As a result, new Career Average public service pension schemes are being created from 1 April 2015.

53. A revaluation of the 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 Shetland at approximately £362,000 recurring and has been reflected in the board's 2015/16 financial plan.

54. The valuation also establishes a new employer cap that will apply from the next valuation, which will take place in 2017. This is required by the Public Service Pensions Act and is designed to enable future changes in cost above a certain threshold to be controlled by providing backstop protection for the taxpayer by ensuring that the risks associated with provision are shared with scheme members.

55. The employer contribution cost cap for the NHS pension scheme for Scotland is 11.5% of pensionable pay.

Cost of patient travel

56. In 2014/15 there was an increase of 10% in patient travel costs from £2,656,000 in 2013/14 to £2,923,000 in the current year. Similar increases going forward are unsustainable and the board should ensure that appropriate procedures are in place so that any increases are justified and included within budgets.

Recommendation 6

Conclusion on financial sustainability

57. Overall, we concluded that the board's financial position is sustainable currently and in the foreseeable future although significant challenges lie ahead.

Outlook

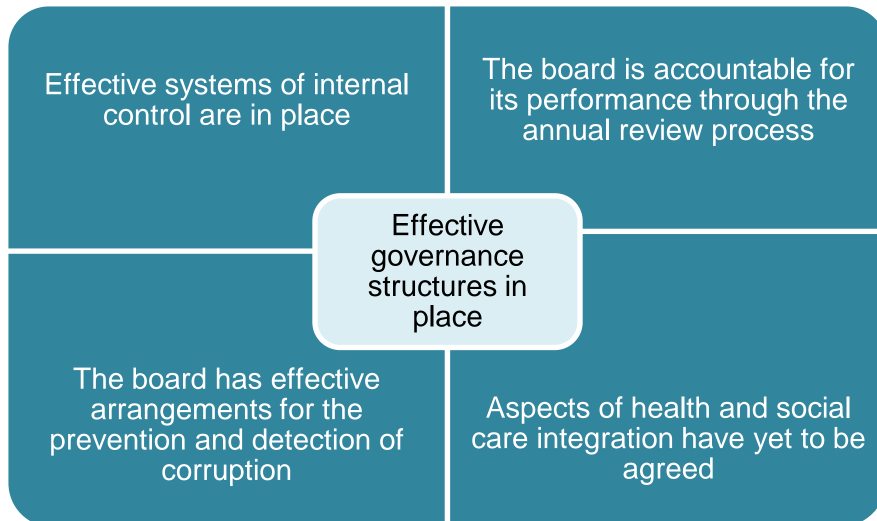
58. The board is predicting a balanced budget in each of the five years from 2015/16 to 2019/20. This is dependent on significant efficiency savings each year to bridge the gap between available funding from current sources and the cost of services. Also, the board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less.

59. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years and this makes it more challenging for the board to deliver balanced budgets in future.

60. 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 £362,000 to be funded by the board on a recurring basis and from 2016/17 changes in national insurance will result in a further increase in the cost base amounting to £425,000 per annum. In effect, the board will have to meet this recurrent expenditure of over £800,000 without any additional funding from the Scottish Government.

61. 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 averaged just 2% a year while health service costs rose by 3.6% a year.

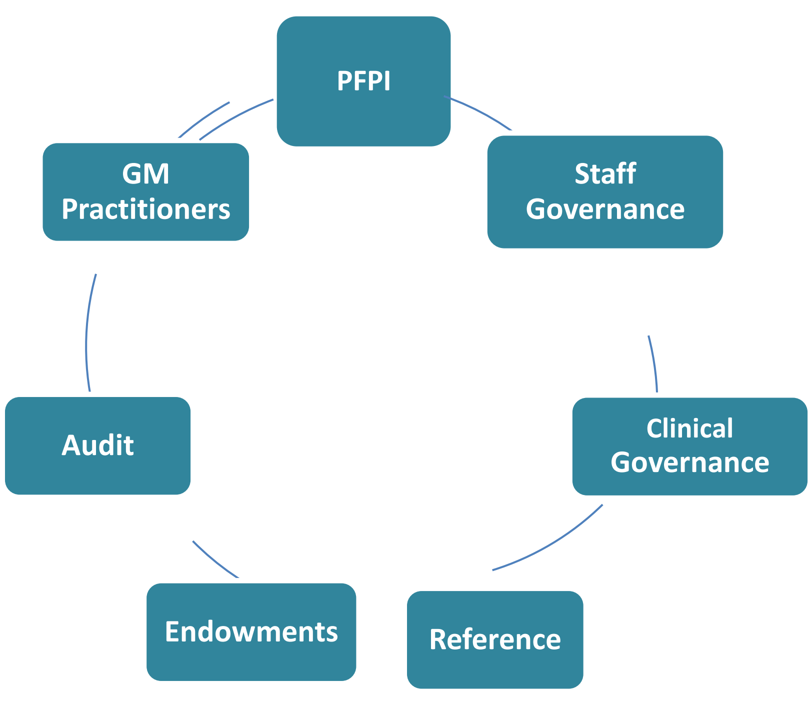
Governance and transparency



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

63. NHS Shetland is managed by a board of Executive and Non-Executive Directors and is accountable to the Scottish Government through the Cabinet Secretary for Health and Wellbeing. 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.

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



65. 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 arrangements which provide an appropriate framework for organisational decision making.

Transparency

66. 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.

67. The performance of all NHS boards is subject to an annual review process. The annual review aims to encourage dialogue and accountability between local communities and their health boards. The annual review for NHS Shetland was held on the 9 October 2014 and was attended by the Chief Executive, a Scottish Government Official and a board team led by the Chair. There was also an open session where members of the public could attend to ask questions of the Chief Executive and the board.

68. Members of the public have ready access to board papers on the internet. The board papers provide comprehensive information on all aspects of performance including waiting times and access targets and measures being taken to address them.

69. Overall, we concluded that the board is open and transparent although some committees (e.g. staff governance and clinical governance) are held in private because of the confidential and sensitive nature of their business.

Internal control

70. As part of our audit we reviewed the high level controls in a number of systems 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.

71. No material weaknesses in the 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.

72. We reported our findings to the Director of Finance on 12 May 2015 and the Audit Committee on 16 June 2015.

Internal audit

73. 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.

74. 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.

75. In 2014/15 we were able to place formal reliance on internal audit's financial systems healthcheck of the board in the areas of payroll, expenditure and payables and fixed assets.

ICT audit

76. ICT is a key area of control because it underpins all systems used by the board. As part of our planning process we carried a high level review of ICT provision in the health board.

77. Overall, we concluded that the board's ICT arrangements are satisfactory and we are not aware of any specific issues that require to be brought to the attention of members.

Arrangements for the prevention and detection of fraud

78. 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).

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

National Fraud Initiative in Scotland

80. 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.

81. 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.

82. Our review highlighted that, although data matches are actively investigated, there is scope for improving the frequency of reporting NFI progress to the audit committee.

83. The NFI exercise identified that there was a breach of the board's Standing Financial Instructions (SFIs) during the year. This related to payments made to a doctor who had not been added to the board's list of approved contractors. In addition to this, there was a breach of internal controls as the period of the Sales Level Agreement relating to this contractor was extended with no evidence of appropriate authorisation having taken place. The board has disclosed these breaches in the 2014/15 Governance Statement.

Recommendation 7

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

84. 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 annual reviews of Standing Financial Instructions and Standing Orders.

85. 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

86. The board processed 93% of FOI requests within the statutory timescales. There would appear to be valid reasons why some FOI requests were not processed within these timescales, including the complexity of the requests. However, we have no significant concerns about the procedures followed by the board in processing FOI requests.

Vale of Leven Inquiry

87. 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 recommendations directed at health boards.

88. In Shetland, 60 of the recommendations (80%) have been implemented. Only one of the remaining 15 actions is recorded as being partially implemented, with the remaining 14 being mostly implemented. This was reported to the Board in February 2015. To address the partially implemented recommendation, the board has planned further reviews in 2015 to look at sustainable options for mental health, primary care and unscheduled care.

89. The Healthcare Environment Inspection (HEI) process also provides assurance to the board on the effectiveness of infection control. The most recent unannounced inspection visit by the HEI was in November 2013 to Gilbert Bain Hospital when it was reported that there was evidence that the board was working to comply with the majority of NHS QIS HAI standards to protect patients, staff and visitors from the risk of acquiring an infection.

90. Work to prevent healthcare associated infections including staphylococcus aureus bacteraemia (SAB) and Clostridium difficile (C Diff) continues, with local surveillance and monitoring of every individual case both at home and in the community. The local rate for staphylococcal infection increased in 2014/15 to 0.46 per 1,000 occupied bed days from 0.20 per 1,000 occupied bed days in 2013/14. The local rate for C Diff also increased slightly in 2014/15 to 0.29 per 1,000 occupied bed days. Overall, though, these results demonstrate a high standard of infection control and good

prevention practice in place locally, with a strong programme of audit and compliance.

91. Overall, we concluded that the board has sound arrangements in place to help reduce healthcare associated infection risk to patients.

Health and Social Care Integration

92. 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. It is one of the most significant public sector reforms of recent years and requires detailed planning to ensure that the statutory implementation date of 1 April 2016 is achieved.

93. The board and Shetland Islands Council agreed to adopt the Body Corporate model for the provision of integrated health and social care across Shetland. This will result in the delegation of functions to a new legal entity, the Integration Joint Board (IJB) which will be responsible for overseeing the provision of services.

94. The Shetland draft integration scheme was submitted to the Scottish Government by the deadline of 31 March 2015 for review and approval. The Establishment Order was signed by the Cabinet Secretary in May and the IJB formally constituted on 27 June 2015.

95. Plans are in place to appoint a Chief Operating Officer and a Chief Financial Officer. Budgets and Standing Orders for the IJB are currently being developed.

96. The Chief Operating Officer will have a crucial role in terms of project management and ensuring completion of the strategic plan by the required date of 31 March 2016.

97. At this stage of development, there is a risk that health and social care arrangements may not be fully developed by the statutory deadline date of 1 April 2016.

2020 Vision

98. 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 has incorporated its 2020 vision into its local planning landscape and the corporate objectives. The Local Delivery Plan 2015-18 consolidates the corporate objectives with the 2020 Route Map.

99. Priority areas have been identified covering a range of issues including person-centred care, unscheduled and emergency care, early years, workforce, innovation and efficiency and productivity. Regular updates on progress are provided to the Strategy & Redesign Committee and the board.

100. Health and social care integration is also a key part of the Scottish Government's strategy to enable people to live healthy lives in a community setting. This has its own particular challenges as outlined above.

101. We have concluded that the board is proactive in planning to ensure that the population in the Shetland area are able to live longer,

healthier lives at home as evidenced by plans in place to achieve the 2020 Vision. However, significant challenges remain to establish effective partnership arrangements within Shetland to take forward health and social care integration.

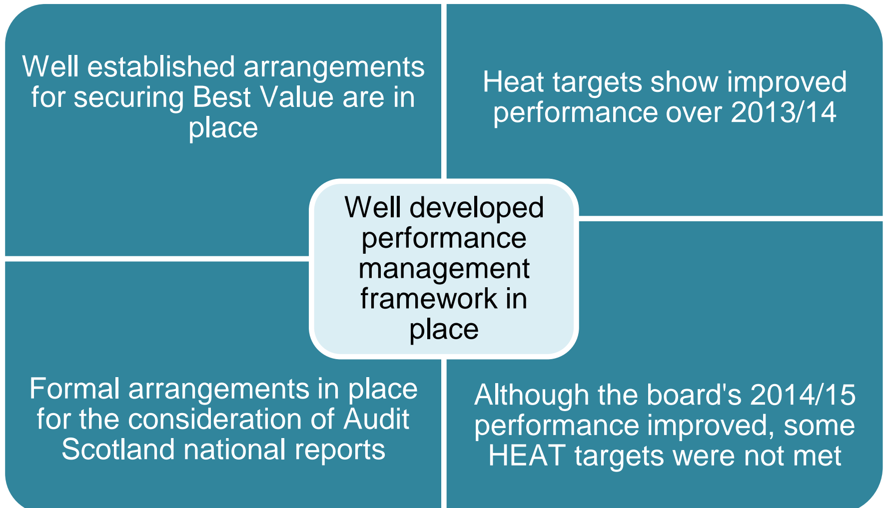
Outlook

102. 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.

103. 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.

104. Health and social care integration is also an important element in supporting the delivery of the Scottish 2020 Vision. 2015/16 is a transitional year for health and social care integration. A lot of work still has to be done to ensure that the board and its council partner are well placed to successfully deliver on this important strand of the Scottish Government's reform agenda.

Best Value



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

Arrangements for securing Best Value

106. 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.

107. Within NHS Shetland, responsibility for each Best Value characteristic is assigned to committees within the board. The chair of each committee provides assurance to the board on the relevant

Best Value theme. The Best Value themes set out in national guidance are:

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

108. We have reviewed evidence underpinning the board's BV arrangements including the Local Delivery Plan, performance management and reporting, and committee papers. Overall, we concluded that the board has well-developed arrangements for securing Best Value and continuous improvement.

Performance management

109. The performance of NHS Shetland 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 are set out in the board's 2014/15 Local Delivery Plan (LDP).

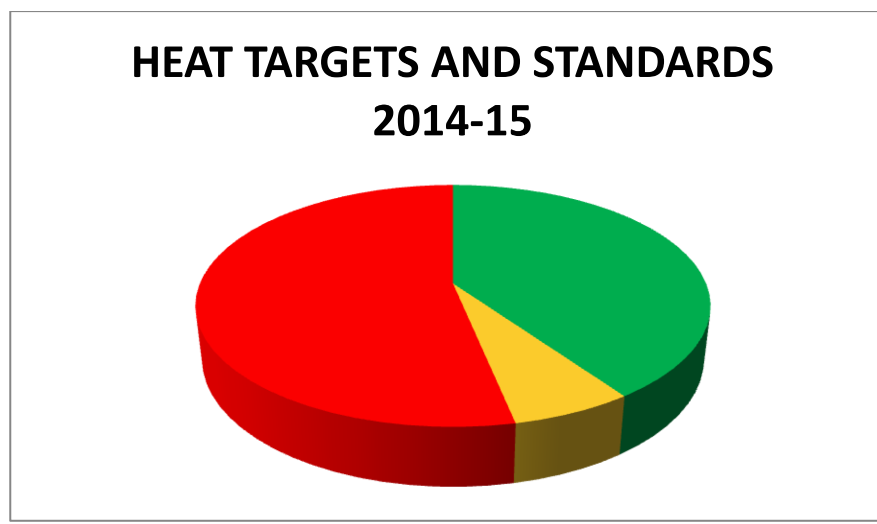
110. Performance against HEAT targets and standards is presented to various committee meetings as well as to the board. In 2015/16, NHS Shetland is planning to have bi-monthly Senior Management Team meetings which will review the entire performance scorecard. Furthermore, performance is discussed at the Annual Review meeting held between the Scottish Government and the board.

111. More detailed scrutiny of performance takes place by the appropriate committee and at meetings of the Senior Management Team. 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 reviewed on a regular basis.

112. We concluded that the board had a well established performance management framework in place during 2014/15. This was supported by good performance monitoring.

Overview of performance targets in 2014/15

113. The board's achievement of its performance 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 this diagram:



114. 41 targets were categorised as red, 5 as amber and 31 as green where:

- Green means meeting or better than trajectory (plan)
- Amber means within 5% of trajectory (plan)
- Red means outwith 5% of meeting trajectory (plan)

115. Those standards and targets currently being met (green status) by the board include the bowel and breast screening uptake levels, attendance at antenatal care and access to a GP within 48 hours.

116. In some areas, performance is slightly behind target (amber status) including the percentage of accident and emergency waits less than four hours, cervical screening uptake and 18 week referral to treatment time guarantee. Within this category, however, NHS Shetland still performs well in comparison to other boards.

117. Targets which are not currently being met include 18 week referral to treatment for psychological therapies, sickness absence rate and advance booking with a GP practice team. The board is taking measures to address these and will continue to monitor progress. It should be noted that, although a large number of targets are classified as red, the small population numbers in Shetland mean that any incremental change in performance no matter how small, has a crucial impact on the achievement or otherwise of a target.

National performance audit reports

118. 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.

119. As reported in previous years, NHS Shetland 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.

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

Equalities

121. 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.

122. The board published *“Shetland’s Equality Outcomes Progress & Mainstreaming Report”* in April 2015. The report is readily accessible on the board’s website and contains links to other publications and source legislation.

Outlook

123. 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.

124. The effort that NHS boards are making to meet 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
Risk of material misstatement		
Risk of material misstatement due to fraud in revenue recognition ISA 240 presumes an inherent risk of fraud where income streams are significant. **Risk** The majority of the board's funding comes from Scottish Government allocations but there is also income from other sources primarily due to the number of Out-of-Area patients who are in Shetland for work purposes. Having income from various sources increases the risk of a material misstatement in the reported revenue position.	• Evaluation of accounting policies for income and expenditure. • Detailed testing of journal entries. • Review of accounting estimates. • Analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income. • Substantive testing of income transactions to confirm occurrence and accuracy of amounts in the financial statements.	• Testing did not highlight any instances of potential fraud. • Testing confirmed that accounting estimates were soundly based. • Testing did not identify any transactions that were outside the normal course of business.

Audit Risk	Assurance procedure	Results and conclusions
Risk of management override of control ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. **Risk** Management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.	• Testing the appropriateness of journal entries and other adjustments. recorded in the general ledger and financial statements. • Review of accounting estimates for biases • Evaluation of significant transactions that are outside the normal course of business. • Focussed testing of the regularity and cut-off assertions during the financial statements audit.	• Testing did not highlight any instances of potential fraud. • Testing confirmed that accounting estimates were soundly based. • Testing did not identify any transactions that were outside the normal course of business.

Audit Risk	Assurance procedure	Results and conclusions
Financial statements audit process In previous years we reported that the processes in place for compiling the draft accounts to an appropriate standard required to be improved. **Risk** There is a risk of missed deadlines if additional time is required to ensure that the accounts comply with all guidance.	• Request confirmation from Director of Finance that a review of the process for completing the 2014/15 draft accounts has been performed. • Ongoing discussions with the Director of Finance. • Attendance at Audit Committee meetings. • Early review by the audit team of narrative sections of the financial statements.	• The Director of Finance confirmed at Audit Committee meetings that arrangements were in place to ensure that the financial statements were prepared in accordance with guidance. • Results of the audit team's review of the narrative sections were communicated to Director of Finance who agreed to make the required changes.

<table>
<tr><th>Audit Risk</th><th>Assurance procedure</th><th>Results and conclusions</th></tr>
<tr><td>NHS endowment funds consolidation
In 2013/14, the board did not satisfactorily complete the consolidation process of the endowment funds, leading to additional input being required from the audit team.
Risk
There is a risk of missed deadlines if consolidation processes are not properly in place.</td><td>• Discussions with Director of Finance during the year regarding the proposed consolidation process.
• Review of draft accounts of the Endowment Funds.
• Comprehensive testing of the consolidation calculations to ensure completeness, accuracy and appropriate disclosure of the figures.</td><td>• The Director of Finance confirmed at Audit Committee meetings that appropriate arrangements were in place to ensure that the consolidated accounts complied with guidance.
• After audit and consequent adjustments by the board, the financial position is not materially misstated.</td></tr>
<tr><td colspan="3">Risks identified from the auditor’s wider responsibility under the Code of Audit Practice</td></tr>
<tr><td>Cost pressures
The board continues to face a number of financial pressures which have to be managed within current resources. The main cost pressures are across acute and specialist services and off-island clinical services. Medical staffing vacancies also lead to significant locum costs.
Risk
There is a risk that the budgeted financial outturn will not be achieved if plans are not in place to address emerging cost pressures.</td><td>• Review of committee minutes and financial monitoring reports.
• Detailed cut-off testing.
• Testing of journal entries.
• Attendance at audit committee meetings.</td><td>• Financial monitoring reports adequately disclose cost pressures.
• The Board achieved its budgeted financial outturn.</td></tr>
</table>

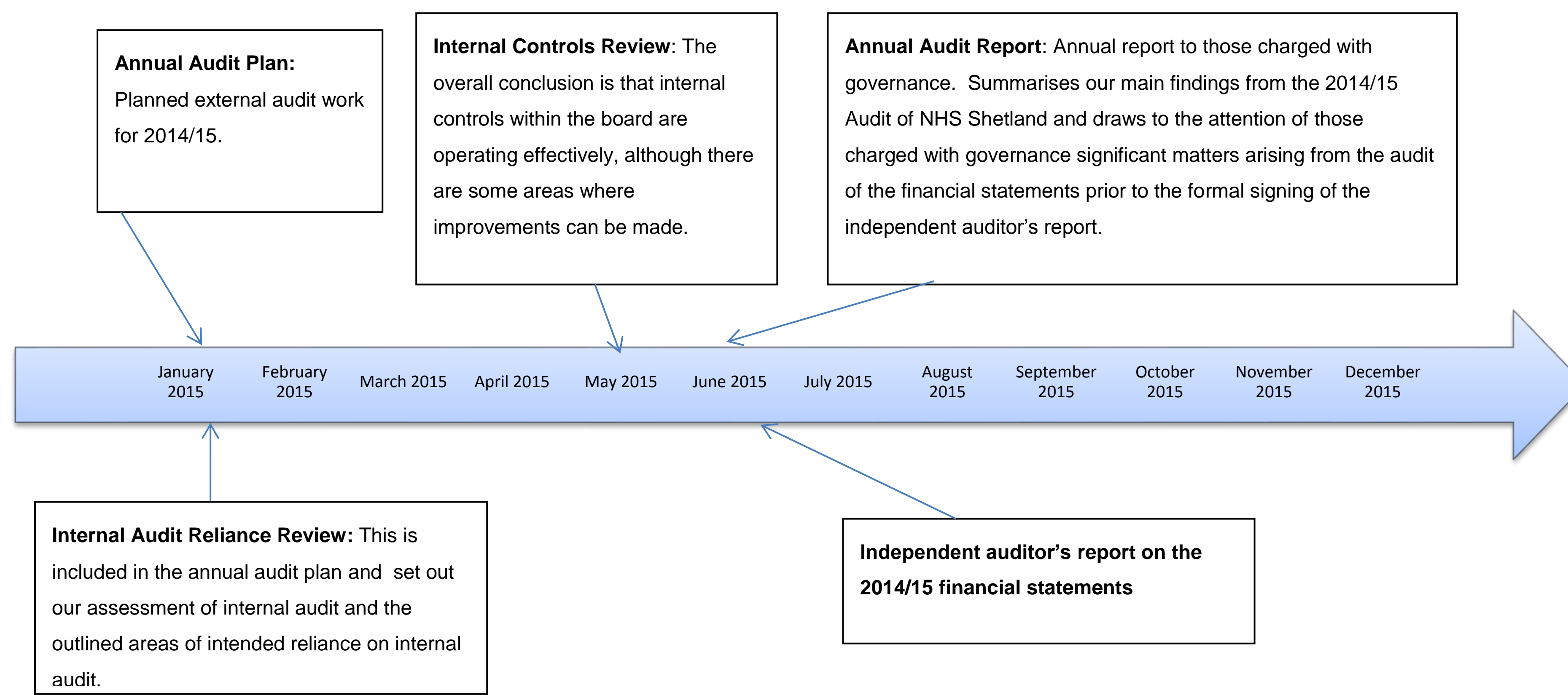
Audit Risk	Assurance procedure	Results and conclusions
Savings targets The board's ability to realise financial balance in 2014/15 was dependent on it achieving savings of £2.449 million. **Risk** Planned saving of £2.449 million are not achieved.	• Review committee minutes and financial monitoring reports. • Attendance at audit committee meetings.	• The board achieved savings of £2.511 million in 2014/15.
Reporting/monitoring The Finance Monitoring Reports for 2014/15 demonstrate that a breakeven financial position will be reached by 31 March 2015. The reports state that the SMT reviews and implements required actions to ensure satisfactory progress is maintained against the plan, and also that the finance department continues to work with relevant budget managers to monitor and predict outturn positions. **Risk** There is a risk that the detail behind the actions taken by finance department staff and budget holders is not at a sufficient level to enable appropriate decision-making by board members.	• Review committee minutes and reports. • Review financial and budgetary reporting processes to ensure adequate for decision-making purposes. • Attendance at Audit Committee meetings.	• Evidence of improvement to finance monitoring reports which will continue to be monitored by the audit team in 2015/16.

Audit Risk	Assurance procedure	Results and conclusions
Financial systems outsourcing During 2014/15, the accounts payable and accounts receivable systems were outsourced to NHS Grampian with annual savings of £75k expected. Finance officers, however, have highlighted a number of issues with the outsourced processes in place at NHS Grampian, including reduced payment date statistics, dissatisfied suppliers, problems with debt recovery and an increase in senior finance staff time. **Risk** These issues increase risks of financial loss to the board, difficulties with budget monitoring and cash flow inconsistencies.	• Discussions with Director of Finance during the year regarding the outsourcing processes. • Review of Internal Audit reports and consider impact on external audit testing. • Perform substantive testing at year-end on accounts receivable and accounts payable balances. • Review of adequacy of bad debt provision at 31 March 2015.	• Results of substantive audit testing indicated that the risk of material error in accounts receivable and accounts payable was low. • After audit and consequent adjustments by the board, the financial position is not materially misstated.
Out of area income Income from "out of area" patients has increased as a result of the influx of temporary oil workers. **Risk** There is a risk of financial loss to the board if internal controls are not in place to ensure that all income is collected.	• Discussions with finance staff. • Documentation of system in place for ensuring that out of area income is collected by the board. • Testing of system controls to ensure completeness of income.	• Improvements still require to be made to ensure that a strong system of control is developed so that the risk of financial loss to the board is minimised. • Discussions with board staff and review of data relating to care provided to out of area patients indicated that the risk of material loss to the board is low.

Audit Risk	Assurance procedure	Results and conclusions
Audit recommendations The board has arrangements in place to consider reports issued by Internal Audit. The system in place to monitor Audit Scotland recommendations was less robust: for example, a number of control weaknesses identified in 2012/13 were again reported in our 2013/14 Controls report. **Risk** There is a risk that weaknesses in internal control systems identified by external audit are not addressed leading to financial loss to the board.	• Monitor progress in addressing recommendations throughout the year. • Report to Audit Committee. • Completion of testing of internal controls. • Regular discussion with finance staff.	• Our follow-up of previous year recommendations indicated that significant improvements had been made by the board.

Appendix II

Summary of NHS Shetland local audit reports 2014/15



Appendix III

Summary of Audit Scotland national reports 2013/14

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 achieved. 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 **8/10**	**Issue** The financial statements contained a large number of grammatical and spelling errors which were not corrected in the revised set of accounts following the audit clearance meeting. This led to several successive sets of financial statements having to be checked by the audit team. **Risk** There is a risk of additional input being required by external audit and statutory deadlines being missed if the accounts process does not appropriately address identified errors. **Recommendation** Improvements are required to ensure that there is a process in place to minimise the number of grammatical and spelling errors in the narrative sections of the financial statements and that amendments to the accounts are made as agreed at the audit clearance meeting.	As part of the internal review process in 2015-16 the documents will be proof read by an individual not involved in the process who has the requisite skill set to identify grammatical and spelling errors in the original documents that will go to the joint Clinical Governance and Audit Committee meeting and external audit.	Accountable Officer/ Chief Executive	May 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 **9/20**	**Issue** Trade receivables at 31 March 2015 included £125,000 of debts which had been outstanding for more than 6 months and a further £76,000 for debts aged over 3 months. At 31 March 2014 the equivalent figures for debts aged over 6 months and over 3 months were £55,000 and £8,000 respectively. As a result of an audit adjustment, the bad debt provision was increased by £78,000. There remains a number of overdue balances due from NHS England bodies which total £45,000 and we have received assurances from the board that the risk of these being uncollected is low. **Risk** There is a risk of financial targets being missed and financial loss to the organisation. **Recommendation** The board should review its processes to ensure that sales ledger balances are collected within appropriate timescales.	A revision has been agreed with NHS Grampian to the overall process for the management of outstanding trade receivables. In addition as part of the quality circle internal discussions will continue to take place with Medical Records Department to ensure that other NHS Bodies receive the appropriate Minimum Data Set (MDS) to the correct safe haven address to ensure that patient confidentiality and compliance with the Data Protection Act is Maintained	Director of Finance	July 2015

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
3 **14/34**	**Issue** £962,000 (38%) of the savings achieved in 2014/15 were on a non-recurrent basis. £410,000 (22%) of planned savings for 2015/16 are also on a non-recurrent basis. **Risk** There is a risk that non-recurring savings will put pressure on future years' budgets and that financial targets may not be achieved. **Recommendation** The board should aim to ensure that its savings are achieved on a recurring basis.	The Board has a five year financial plan included within the Local Development Plan. This aims to return the Board to financial balance over three years using a mix of both non-recurrent and recurrent savings. To aid in the delivery of these out-line plans the Board has invested in external support via NHS NSS and project consultant to aid in the realisation of these savings targets. The Board is routinely advised that reliance on non recurring savings is not sustainable.	Accountable Officer / Chief Executive	December 2015

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
4 **16/50**	**Issue** The board continues to have difficulties in recruiting medical staff at both consultant and General Practitioner level and this has led to high locum costs. In 2014/15, £1.3 million was paid to locums to cover practices on Yell, Whalsay and Lerwick and a number of junior doctor and consultant vacancies. **Risk** Continued reliance on locums could have a significant impact on the board's ability to achieve its financial plans. **Recommendation** The board should aim to reduce the reliance on locum staff.	The Board recognises that the use of locums to cover 24/7 services is significant. Yell and Whalsay now have either employed or contracted General Practitioners in place following the conclusion of the recent recruitment cycle. The only Consultant vacancy will be filled in September. Investment is being made in the marketing for recruitment with initial steps in creating dedicated website and promotional cross working with other remote areas.	Accountable Officer / Chief Executive	October 2015

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
5 **16/51**	**Issue** As with other health boards, NHS Shetland is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence. The sickness absence rate at 31 March 2015 was 4.6% although this is better than the Scottish average of 5.14%. **Risk** A high sickness absence level may impact on the board's ability to achieve its targets and could adversely impact on service delivery. **Recommendation** The board should continue to implement measures to reduce the levels of sickness absence.	The Board will continue to highlight to managers the policies for effective absence management policy and referral options available to aid individuals manage their work life balance. Monitoring report information will continue to be shared with the Area Partnership Forum as part of the strategic joint agenda of that committee.	Accountable Officer / Chief Executive	March 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
6 **17/56**	**Issue** In 2014/15, patient travel costs increased by 10% from £2,656,000 to £2,923,000. **Risk** Similar increases in patient travel going forward are unsustainable for the board and there is a risk of budgets not being achieved. **Recommendation** The board should ensure that appropriate procedures are in place so that patient travel costs are in line with expectations.	The increase in costs solely arose in the final six months of 2014/15 and related to referrals. The Board's clinical strategy is based upon care as close as possible to individuals' home and as such redesign of pathways to reduce off island travel is a core part of the Board's efficiency redesign work to manage costs. New procedures are being put in place to reduce unnecessary cost incurred with patient flights not taken. Medical Records will be providing details about advance cancellation of appointments and details of those who were DNAs.	Director of Finance	October 2015

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
7 **21/83**	**Issue** During the year there was a breach of the board's Standing Financial Instructions (SFIs) as payments were made to a doctor who had not been added to the board's list of approved contractors. In addition, there was a breach of internal controls as the SLA relating to this contractor was extended and there is no evidence of appropriate authorisation. **Risk** There is a risk of inappropriate payments and financial and reputational damage to the board if SFIs and internal controls are breached. **Recommendation** The board should improve procedures to ensure that the risk of breaches of SFIs and internal controls is low.	In April all managers were asked to confirm that they had read and understood the Board's SFIs. The SFI though are currently being reviewed as part of the annual process and to account for possible implications that may arise from integration. As part of the communication process for highlighting the SFIs update, managers' attention will be brought to the correct procedures to follow when the method of delivery of a service is considered to be through a SLA.	Director of Finance	October 2015