NHS Highland

2015/16 Annual Audit Report for the Board of NHS Highland and the Auditor General for Scotland

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Stephen Boyle Assistant Director, Audit Scotland is the appointed 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.

Contents

Key messages

Audit of financial statements	• We reported, within our independent auditor's report
	  ○ an unqualified opinion on the financial statements
	  ○ an unqualified opinion on the regularity of income and expenditure
	  ○ an unqualified opinion on other prescribed matters

Financial management & sustainability	• The Board met all of its financial targets in the year • A saving of £0.099 million was achieved against total Revenue Resource Limit (RRL) • The Board achieved its overall savings target of £16 million (£6.1 million on a recurrent basis) • The Board is continuing to strengthen financial management arrangements that support the review, and facilitate scrutiny, of financial performance
Governance & transparency	• The Board's governance arrangements are evolving to reflect the changing environment it operates within and to strength its decision-making processes • Appropriate systems of internal control were in place during 2015/16 • The Board's internal audit service complies with Public Internal Audit Standards • Adequate anti-fraud arrangements are in place
Best Value	• The Board has a well developed performance management framework in place • The Board, via the Improvement Committee assurance report, receives regular updates on all aspects of performances and the actions being taken to improve performance • The Board continues to struggle to deliver the LDP standards including delayed discharges and cancer treatments.
Outlook	• NHS Highland will continue to operate in a period of reducing public sector funding in real terms, increasing cost pressures and a growing demand for services especially from the elderly. The current model of healthcare provision is unsustainable. The Scottish Government's 2020 vision and the implementation of health and social care integration are intended to provide services on a more sustainable footing by shifting the balance of care from hospitals to community settings. The Board continues to work towards this through its lead agency arrangement with Highland Council and the newly established IJB with Argyll & Bute Council. • The way in which health and social care is delivered is changing and the structures of the NHS in Scotland and its relationship with local government will need to be adapted to reflect this. A review of national NHS targets will be undertaken in 2016/17 and will also look at how target setting aligns with the Government's strategy for the future direction of NHS and social care services.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of 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.

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 appendix II and appendix 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 2015/16 financial statements

Audit opinion	• We have completed our audit and issued an unqualified opinion that the financial statements of NHS Highland and its group for 2015/16 give a true and fair view of the state of its affairs and of its 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 notably the Performance Report and Accountability Report (which includes the Annual Governance Statement (AGS) and the Remuneration and Staff Report). We consider whether these reports have been properly prepared, comply with extant guidance and are consistent with the financial statements. • We report any material errors or omissions, any material inconsistencies with the financial statements or any otherwise misleading content. We have nothing to report in respect of the other information published as part of the annual report and accounts.
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 will be submitted to the Scottish Government by 30 June 2016. These templates are used to compile the national NHS financial position.

Submission of financial statements for audit

10. We received the unaudited accounts template for the Board's financial statements on 9 May 2016 in accordance with the agreed timetable, however we did not receive the performance report, accountability report (including the annual governance statement) or accounting policies until 13 May. The remuneration and staff report was not available until 16 May 2016. We had agreed with officers to delay the start of the annual accounts on-site work for one week this year on the understanding that a full set of accounts would be made available on the 9 May and it was disappointing that this timetable was not met. The working papers were of a good standard and the support provided by finance staff to the audit team along with the additional resources we allocated to the on-site work enabled us to complete our audit on time and meet the reporting deadlines.

Recommendation 1

11. The financial statements of the Board are prepared in accordance with the Government Financial Reporting Manual (FReM). There was significant restructuring to the annual report this year to include a performance report (which has replaced the management commentary) and accountability report which includes the governance statement and the renamed remuneration and staff report. These changes have been properly reflected in the Board's accounts.

12. In 2015/16, for the first time, health boards' group accounts are required to include the financial results of Integration Joint Boards (IJBs) in their area, where material. Within NHS Highland there is one IJB – the Argyll and Bute Health and Social Care Partnership – which was established on 18 August 2015 although it didn't become operational until 1 April 2016. Minimal expenditure was incurred to 31 March 2016 and this was mainly on staff costs. Consequently, management decided not to include the financial transactions of the IJB in the Health Board's group accounts. Appropriate disclosures explaining this decision were included in the accounts.

13. The accounts reflect good practice as set out in the Audit Scotland publication 'Improving the Quality of NHS Annual Report and Accounts' (December 2014).

Overview of the scope of the audit of the financial statements

14. 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 15 December 2015.

15. 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 2015/16 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.

16. The concept of audit risk is central to our audit approach. We focus on those areas that are most at risk of causing material misstatement in the financial statements. In addition, we consider

what risks are present in respect of our wider responsibility, as public sector auditors, under Audit Scotland's Code of Audit Practice.

17. During the planning phase of our audit we identified a number of risks and reported these to you in our Annual Audit Plan along with the work we proposed doing in order to obtain appropriate levels of assurance. Appendix I sets out the significant audit risks identified and how we addressed each risk.

18. 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

19. 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).

20. 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.

21. 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 2015/16 at £8.5 million (or 1% of gross expenditure). Performance materiality was calculated at £5.1 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level. Additionally, we set a misstatement threshold of £100,000 (approximately 1% of planning materiality). Amounts below this value are considered trivial.
On receipt of the financial statements we reviewed our materiality levels and concluded that our original calculations remained appropriate.

Evaluation of misstatements

22. All misstatements identified during the audit which exceeded our misstatement threshold have been amended in the financial statements. The audit identified some presentational and monetary adjustments which were discussed and agreed with management. The adjustments, taken individually and aggregated did not have any effect on the Board's reported financial outturn for the year. The adjustments primarily related to classifications across lines in individual notes.

Significant findings from the audit

23. 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.

24. Table 1 below details those issues or other audit judgements that, in our view require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA260
Pharmacy accrual During 2015/16 the Board identified an error in its non discretionary pharmacy accrual included in the accounts dating back a number of years. This resulted in an estimated understatement of non discretionary FHS costs of around £2.8 million in the 2014/15 annual accounts and in previous years. The amount is not material and therefore a prior year adjustment has been not made to the comparative balances in this year's accounts. It did not impact on the Board's achievement of its financial targets as these FHS costs were funded from non-core RRL. Audit testing identified that the understatement was a higher figure of £3.4 million. The Board discussed the issue with the Scottish Government and in June 2016 an increase to its non-core RRL of £0.63 million was provided to cover the shortfall. We are satisfied that the pharmacy figures in the 2015/16 Statement of Consolidated Comprehensive Net Expenditure are correct however the difficulties experienced in reaching this conclusion highlighted a weakness in the Board's knowledge of the complex arrangements around FHS Pharmaceutical payments. *Appendix IV – Recommendation 2*

Significant findings from the audit in accordance with ISA260

Annual Governance Statement

Overall the process for obtaining assurances for the AGS was lax with no formal statements from directors, incomplete assurance reports from committees and no Internal Audit final report available at the time of drafting the statement. In addition the Board had not undertaken its own self assessment of its performance. In the initial version provided to us on 9 May there was potential for further comments/disclosures particularly around the Raigmore recovery plan, staff training issues, FOI responses and performance against LDP standards. A revised AGS was provided on 16 June 2016.

Appendix IV – Recommendation 3.

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 2014/15 we highlighted 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. Officers 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. This year the valuer provided a range (3.5% to 4%) for indexation in an email but this did not translate into the revaluation report which specified a single indexation figure (3.5%). The actual calculation applied this year equates to 3.7% and resulted in an overstatement of both assets and the revaluation reserve of £0.5 million. The amount is not material and officers are not proposing to adjust the financial statements.

Appendix IV – Recommendation 4

Significant findings from the audit in accordance with ISA260

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. In 2014/15 the Director of Finance for the NHS in Scotland advised that equal pay claims were to be included as a provision in the accounts of NHS boards because of an offer of settlement in relation to certain claims. There have been significant developments in 2015/16 whereby these claims are due to be settled. Scottish Government has provided funding to cover the costs of equal pay which are included in the accounts. We can confirm that the board has properly accounted for equal pay in accordance with Scottish Government guidance.

The matter is now closed.

Future accounting and auditing developments

Health and Social Care Integration

25. From 1 April 2016 IJBs will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code of Practice on Local authority Accounting in the United Kingdom. The Accounts Commission have appointed auditors to audit the financial statements of IJBs.

26. As stated at paragraph 12, Argyll and Bute IJB did not become operational until 1 April 2016 and its financial results will need to be reflected in the Board's group accounts for 2016/17.

27. The Board and IJB have different reporting regimes. NHS Highland is required to submit its audited accounts by 30 June each year whereas the IJB does not have to submit its audited accounts until 30 September each year. The Board will have to ensure that procedures are in place for the IJB to provide financial and non-financial information by a mutually agreed date to allow the Board to meet its statutory reporting obligations. In addition, the Board will need to consider what assurances are required from the IJB for its annual governance statement.

Audit appointment from 2016/17

28. The Auditor General for Scotland is responsible for the appointment of external auditors to Scottish health bodies. External auditors are appointed for a five year term either from Audit Scotland's Audit Services Group or private firms of accountants. The financial year 2015/16 is the last year of the current audit appointment round.

29. The procurement process for the new round of audit appointments was completed in March 2016 and from next

year (2016/17) Grant Thornton will be the appointed auditor for NHS Highland.

30. We would like to thank Board members, audit committee members, executive directors and other staff particularly those in finance for their co-operation and assistance over the last five years.

Financial management and sustainability

Core revenue resource limit £639.771m	Non-core revenue resource limit £22.378m	Capital resource limit £10.925m	Total savings target £16.043m
Outturn CRRL £639.672m	Outturn NCCRL £22.378m	Outturn CRL £10.925m	Recurrent savings £6.114m
Underspend on CRRL £0.099m	Underspend on CCRL £0.0m	Underspend on CRL £0.0m	Non-recurrent savings £9.930m

Financial management

31. In this section we comment on NHS Highland's financial performance and assess the Board's financial management arrangements.

32. The Board, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorate (SGHSCD). The budget for revenue expenditure is termed the Revenue Resource Limit (RRL) and consists of core and non-core elements. The budget for capital expenditure is termed Capital Resource Limit (CRL). Both funding streams are agreed annually with the SGHSCD.

33. The Board must ensure that expenditure is held within the resource limits set by the SGHSCD. Regular monitoring of expenditure and income against these budget limits is central to effective financial management and keeping expenditure within agreed limits

Financial performance 2015/16

34. The Board's final RRL (£662.149 million) and CRL (£10.438 million) were agreed with the SGCHSCD on 11 May 2016.

35. The Board achieved its financial targets for 2015/16 as illustrated in Table 2.

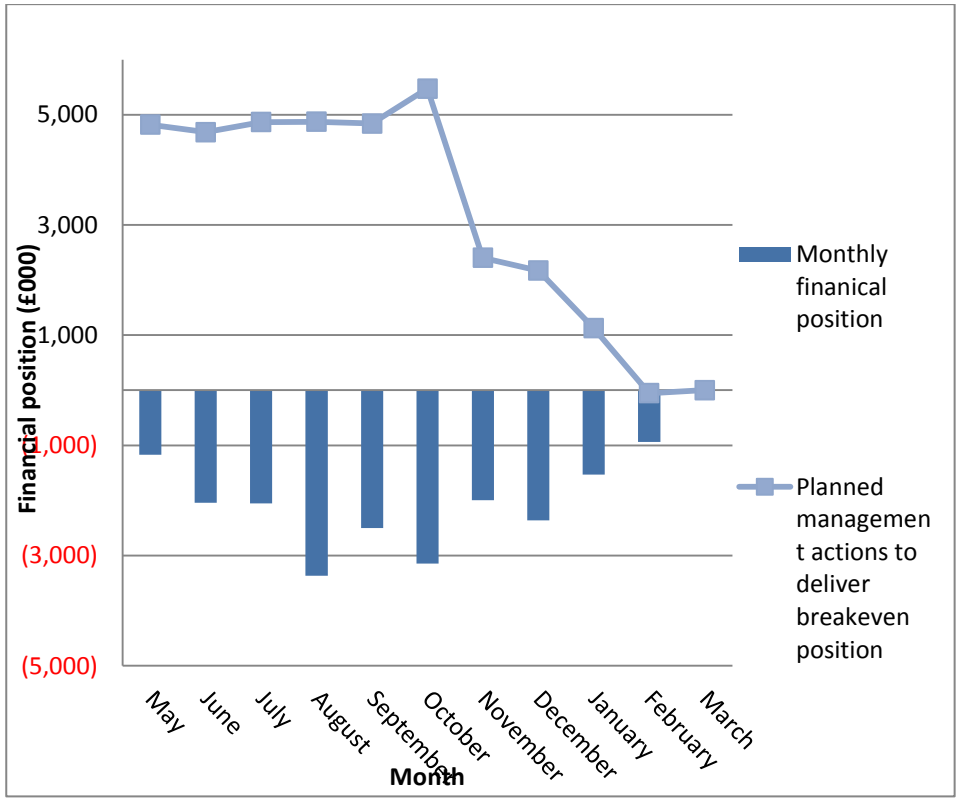
Table 2: Summary of financial performance

Performance against budget limits	Target (£m)	Actual (£m)	Saving (£m)
Core revenue resource limit	639.771	639.671	0.1
Non-core revenue resource limit	22.378	22.378	0.0
Core capital resource limit	10.438	10.438	0.0
Non-core capital resource limit	0.487	0.487	0.0
Cash requirement	677.166	677.166	0.0

Source: 2015/16 annual accounts

36. Financial reports to the Board throughout the year forecast a break-even position at year end provided that significant savings were delivered. The reports included the projected overspend if no action was taken as shown in Exhibit 1 below. A contingency plan was included in the October 2015 finance report to the Board covering the £5 million shortfall in achieving break-even at that point. An updated contingency plan (addressing a further £2.5 million shortfall) was also presented to the December 2015 Board meeting. These plans were key to the Board's final outturn position.

Exhibit 1: 2015/16 Reported Financial Position



Efficiency savings

37. NHS Highland, in common with other territorial health boards, was required to make efficiency savings totalling 2.4% of its baseline RRL in 2015/16. This equated to a savings target of £16.04 million, £12.04 million on a recurring basis and £4 million non-recurring.

38. The Board has struggled to deliver the majority of its required savings on a recurring basis for a number of years, as shown in Table 3 below, 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. The Board reported that it made savings for 2015/16 of £6.1 million (38%) on a recurrent basis and £9.9 million (62%) on a non-recurrent basis. Some recurring savings reflected in Table 3 were achieved part way through the year and as the full year benefit in future years (e.g. £8.995 million 2015/16) is achieved the Board has steadily reduced its underlying recurring deficit which is currently just above £3 million.

Table 3: 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
2015/16	16.04	6.11	9.93	3.05

39. Due to the tight financial settlement for 2016/17 the Board is required to deliver 5% (£28.2 million) savings next year. Savings of this magnitude present a considerable challenge. Moreover, it will be important to deliver savings on a recurrent basis as non-recurring savings put pressure on future years' budgets.

Capital resource limit 2015/16

40. The Board remained within its Capital Resource Limit of £10.925 million. It fully utilised its capital allocation which was mainly spent on critical care theatres, radiology equipment, Drumnadrochit Health Centre, medical equipment, estates backlog and ehealth systems.

41. The Board faces a number of on-going challenges in relation to capital including the risk that following recent updated guidance on the application of ESA10 accounting standards DBFM hub projects may need to be taken onto the public sector balance sheet. Backlog maintenance in medical equipment is increasing and there will be a significant impact on contracts above £50,000 from April 2016 when the Procurement Reform (Scotland) Act 2014 comes into effect.

Financial management arrangements

42. 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.

43. We reviewed the Board's standing financial instructions (SFI) and standing orders and concluded that they are comprehensive. The Board's SFI and standing orders are readily available to all staff on NHS Highland's intranet however, both of these documents are dated 2014. We note that, with the appointment of a new Board Secretary, revised Standing Orders are expected to go to the July 2016 Board meeting. There are regular updates to the SFI approved at Board meetings although an overall document incorporating the on-going changes has still to be developed.

44. Financial monitoring reports (both revenue and capital) are submitted to all meetings of the Board and the Improvement Committee and tailored financial reports are also reported to a number of other committees.

45. The financial monitoring reports have been significantly improved in the last two years following our criticism of the Board's financial monitoring arrangements in 2013/14. The revised reports are comprehensive and contain detailed budget information for each

directorate, cost pressures, progress against savings targets and actions being taken to mitigate risks.

46. Detailed monthly financial monitoring reports are provided to budget holders. The findings from internal audit reviews in recent years found that, generally, budget holders have difficulty in understanding these reports. A two part mandatory training programme for all budget holders was developed but, as at May 2016, not all budget holders had undertaken this training.

Recommendation 5

47. As auditors we observed a number of Board and committee meetings each year. Board members provide a good level of challenge and question budget holders on significant variances and service performance issues.

Conclusion on financial management

48. We have concluded that whilst the Board has continued to strengthen the financial management arrangements that support the review and scrutiny of financial performance and the achievement of financial targets, there are weaknesses in budget holders' ability to properly monitor and control budgets. This is a known issue and needs to be addressed as a priority.

Financial sustainability

49. Financial sustainability is concerned with whether the Board has the 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 and its use of resources principally asset management and workforce management.

Financial planning

50. In August 2014, NHS Highland agreed its ten-year strategy, *The Highland Care Strategy: NHS Highland's Improvement and Co-production Plan*. It also developed a ten-year operational implementation plan to support this strategy and although the Board noted the first draft of the operational plan in February 2015, there has been no update to this draft.

51. The Board's Local Delivery Plan (LDP) for 2016/17 to 2020/21 aligns its strategic priorities with its financial plans, workforce plans and service plans. The plan draws attention to significant cost pressures facing the Board notably overspends at:

- Raigmore of £5.3 million due to the numerous pressures faced by acute hospitals including delayed discharges and cancelled admissions and
- the North & West Operating Unit of £5.1 million primarily due to very high locum costs at Caithness General Hospital to maintain the level of service.

52. Other financial pressures include, adult social care costs, employment costs (the Scottish Government's policy of introducing the Scottish Living Wage from 1 October 2016, impact of pay

awards, national insurance increases) and the growing costs of drugs.

53. While facing significant cost pressures and rising demands for its services, the Board will also have to deal with reduced funding, in real terms, over the five year period of the plan.

54. In addition to the baseline uplift in 2016/17 of around £9.5 million for 2016/17, the Board will receive £15.25 million for adult social care (refer paragraph 111) and a further £1 million increase in NHSScotland Resource Allocation Committee (NRAC) funding. The Board's view is that to maintain its current NRAC position, Highland's share would need to be around £2 million and this lower share means the Board will have moved further from parity.

55. The need to make savings will remain part of the Board's approach to financial planning over the next five years. A Quality and Finance plan was presented to the May 2016 Board outlining the savings required for 2016/17 and how these would be achieved.

56. The efficiency savings target for 2016/17 is £28.8 million, of which £25.8 million is planned on a recurring basis (Table 4). The LDP reported that savings of around £26.5 million are identified although £3.95 million is classed as high risk, £5.55 million medium risk and £17 million low risk. There is also £2.3 million unidentified savings and the Board anticipates it will reduce or eliminate this through national initiatives.

Table 4. Savings plans for 2016/17 - 2020/21

	Total savings £m	Recurring savings £m	Non-recurring savings £m
2016/17	28.880	25.880	3.000
2017/18	20.000	18.000	3.000
2018/19	18.000	15.000	3.000
2019/20	18.000	15.000	3.000
2020/21	18.000	15.000	3.000
Total over 5-year period	93.880	78.880	15.000

Figures from 2016/17 LDP

57. Service redesign will be essential to delivering savings plans and, in the short term, the Board is focusing on two transformational programmes – adult social care and flow; and transformation of outpatients across Highland. As highlighted at paragraph 38 delivering recurring savings has 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.

Raigmore Hospital

58. Raigmore Hospital has overspent against its budget in each of the last six years (Table 5). Management at NHS Highland had rebased the hospital's budget in 2012/13 but weaknesses in budgetary control had contributed to it reporting a £9.65million overspend in 2013/14 and the Board's need for brokerage from the Scottish Government.

Table 5. Financial position at Raigmore Hospital, 2010/11 – 2015/16

	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
2015/16	149.8	155.4	5.6

59. A three-year recovery plan for Raigmore Hospital, covering 2014/15-2016/17 projected that the hospital would overspend against its budget by £6 million, £3 million and £1 million respectively, before delivering a breakeven position in 2017/18. An overspend of £0.9 million in year 1 deteriorated further in 2015/16 with a £2.6 million shortfall on the target position.

60. A number of rapid process improvement workshops (RPIW) to identify savings have taken place including working with GPs to reduce referrals, and redesign of child and adolescent mental health services to reduce the need for hospital intervention.

61. The hospital's performance management arrangements are helping it to analyse how it is delivering services and the causes of its overspending in previous years. For example, it is now getting better information about its theatre utilisation rates through the theatres system and better bed management data from the patient management system. This is enabling the Board to be clearer on the reasons for the increase in spending. Action is being taken to deliver further savings through three specific savings programmes for Raigmore on transforming outpatient services, theatre utilisation and unscheduled care.

62. In September 2015 the Raigmore and South & Mid operational units were merged. It is anticipated that efficiencies will be achieved through the new operational unit. Although the Raigmore senior management team remains confident that financial balance will be delivered by 2017/18, this will be challenging to achieve based on the Board's track record of recurring savings and particularly in light of the significant savings required in 2016/17.

Workforce Management

63. Workforce planning is integral to the Board's strategic planning process and is a key element of the LDP. The availability of staff is an important factor in the Board's capacity to provide safe patient care.

64. The Board's workforce plan for 2015/16 was approved in August 2015. This highlighted the ageing workforce within the Board which will add to its ongoing difficulty in recruiting staff to remote and rural areas in future years. Recruitment of key medical staff in remote and rural areas continues to be a significant challenge for the Board.

65. The knock-on effect of the Board's recruitment difficulties is an increase in spending on non-core staff costs (i.e. bank, agency, locum and overtime). Despite strengthening controls around the use of locums in 2014/15 the cost of agency staff rose in 2015/16 to £15.509 million (£9.859 million in 2014/15), an increase of 57 %. The use of bank, agency and locum staff, provides flexibility to cover for vacancies and staff absence. However, continued reliance on such staff could have an impact on the Board's plans to achieve the savings required for longer term sustainability.

Recommendation 6

66. Audit Scotland published a report on Scotland's Public Sector Workforce in November 2013 and we carried out local follow up work, based on the recommendations in the 2013 report during 2015/16. We found that the workforce plan includes very little on succession planning and refers to staff projections rather then internal development of staff to fill any potential key staff vacancies that may occur in the future. There are no individual service workforce plans prepared although there are various documents produced as required which include details on workforce issues. We did not receive any examples of scenario planning or horizon scanning and therefore have concluded that the Board does not use these to help inform service delivery. Overall we concluded that more could be done by the Board to address workforce management issues particularly relating to succession planning and horizon scanning.

Recommendation 7

67. 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 2016 was 5.1%, below the Scottish average of 5.37%, but it had increased slightly on the previous year rate of 4.9%. Long term sickness absence accounts for over 60% of the total and the board has appropriate on-going plans to address this.

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

68. NHS Highland has four PFI/PPP projects, New Craigs Hospital, Easter Ross Primary Care Resource Centre, Mid Argyll Community Hospital and Integrated Care Centre and Tain Health Centre, the latter three revert to the Board at the end of the contracts. These are disclosed in Note 23 of the accounts. The associated recurrent cost of these schemes is £7 million (11.5% of gross annual expenditure) with a total future commitment recorded in the balance sheet of £35.8 million. The capital costs of these projects are included in the balance sheet with a combined value of £38.3 million.

Conclusion on financial sustainability

69. Overall, we concluded that the Board's financial position is sustainable in the short term. It now 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 supports its financial sustainability and provides a platform for the ongoing delivery of recurring savings and financial balance across the Board's operations. Given the Board's own assessment of the risks it faces in delivering the five year financial plan, financial sustainability under the current funding model is more challenging than in previous years.

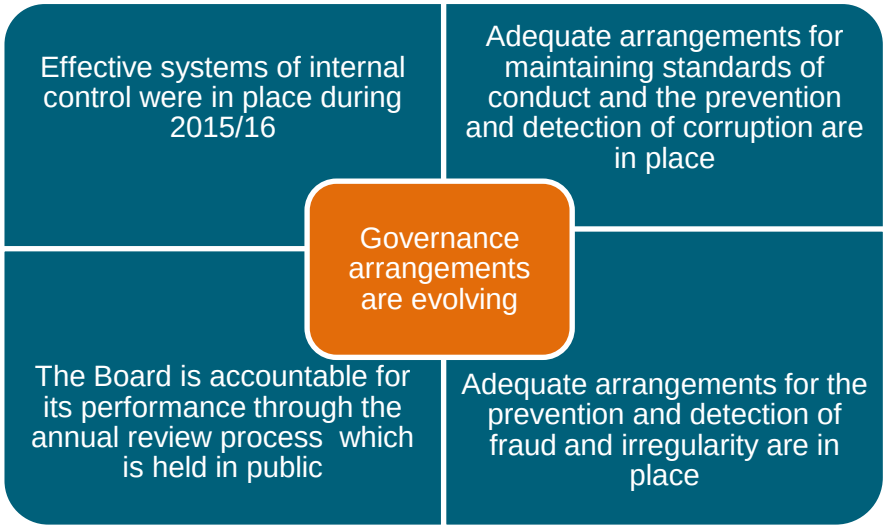
Outlook

70. The Board is predicting a balanced budget in each of the five years from 2016/17 to 2020/21. This is dependent on it making significant efficiency savings each year to bridge the gap between available funding from current sources and the forecast cost of services. 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.

71. There is an increasing risk that, unless fundamental changes are made to the way the Board currently works and organises its services, the quality of patient care will deteriorate and fall short of meeting the needs and expectations of citizens.

72. At the same time, improvements in public health and medical treatments mean that people are living longer although not necessarily in good health. This has resulted in greater demand for health services thereby putting further pressure on finances.

Governance and transparency



73. 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.

74. 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. A new Chair was appointed to the Board for four years effective from 2016/17. The new Chair has experience of the Board having been a non executive member there from 2003 to 2011 and in June 2012, as an elected member he was nominated as the Highland Council representative on the Board until April 2016.

75. Board members recognised the governance challenges they face and initiated a review of governance arrangements this year. This work resulted in a number of recommendations to strengthen the Board's position including:

- a greater focus on the leadership role and how this differs from the performance scrutiny role
- development of a performance framework showing the goals to be achieved
- a deeper understanding of the respective roles of executive and non-executive board members
- clarification of the roles and remits of governance committees and their interaction with the Board
- a renewed focus on the governance framework to fulfil both health and social care functions responsibilities
- a strengthening of the corporate governance support, including training and development opportunities available to board members.

76. The Board will be considering the findings and agreeing an action plan over the next few months. In our view, the recommendations made in the report are constructive and will, if adopted, enable the Board to deliver improved efficiency in their governance arrangements.

77. To date, there have been no changes to the Board's governance structure and it continues to be supported by a number of standing committees as illustrated below. The standing committees meet on a regular basis throughout the year. We also review committee minutes to ensure that committees are fulfilling their responsibilities and we attend each meeting of the Audit Committee.

Exhibit 2 – Governance Committees

78. We concluded that the Board's governance arrangements are evolving as it adjusts to changes in the way services are being delivered between itself and its council partners. It is important that both executive and non-executive directors have the opportunity to consider the findings of their governance review and agree on a model that allows them both to fulfil their respective responsibilities within a clear framework.

Internal control

79. During the year we review and tested the Board's systems of internal control for the purposes of our audit of the financial statements. Our objective being to obtain sufficient audit evidence to support our opinion on the Board's financial statements.

80. 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. We consider the systems of internal control to be effective.

81. We reported our findings to the Director of Finance on 25 February 2016 and the Audit Committee on 8 March 2016.

Internal audit

82. Internal audit provides the Board and Accountable Officer with independent assurance on the Board's overall risk management, internal control and corporate governance processes. The internal audit function is carried out by Scott Moncrieff. 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.

83. We had planned to place formal reliance on internal audit work on the general ledger, however, as internal audit work in this area was on-going when we prepared our internal controls report we undertook our own testing of controls within the Board's general ledger.

eHealth governance and cyber security

84. During 2015/16 a number of changes were initiated to improve the ability of eHealth to meet the national eHealth strategic objectives as well the Board's local targets.

85. The Head of eHealth retired at the end of 2015 and the former Head of eHealth Operations was appointed to this post in early 2016. This allows for a continuity in management as well as engagement with the national eHealth Leads Group.

86. In the summer of 2015, a review of eHealth governance resulted in a restructuring of the strategic framework which was implemented from January 2016. Two new groups have been put in place: the eHealth Strategy Group overseeing the strategic direction of eHealth and the eHealth Delivery Group responsible for delivering the eHealth Delivery Plan, overseeing projects and managing the eHealth budgets. Internal audit are scheduled to carry out a review of eHealth governance, which will cover the newly implemented governance framework. A report on this is expected later in 2016.

87. During 2015/16, internal audit carried out a review of eHealth Network and Application Management. This reported to the May 2016 Audit Committee that user account management controls for the NHS Highland network were weak. An action plan to address the issues identified has been agreed and will be monitored by internal audit. As at May 2016 there were 20 previously agreed e-health audit actions, dating back to 2011/12 in some instances, yet to be completed. These are being monitored through internal audit's tracker system and reported to the audit committee.

88. Overall, we concluded that the changes to the eHealth governance and delivery arrangements will allow the Board to move eHealth forward to becoming an integral part of its service delivery framework.

Arrangements for the prevention and detection of fraud and other irregularities

89. 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 whistleblowing policy was due to be reviewed in November 2014 and the fraud policy in November 2015 but this has not yet taken place. We reviewed the existing policy documents and found these to be appropriate and from discussions with officers we noted that minimal changes are expected to be made to these documents.

90. The chair of the Audit Committee is the counter fraud champion and during 2015/16 reported back to the Audit Committee in December 2015 and March 2016 on issues identified at national meetings. 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.

91. We concluded that the Board had adequate arrangements in place for fraud detection and prevention during 2015/16.

National Fraud Initiative in Scotland

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

93. The current NFI exercise identified a total of 9,346 matches of which 727 were recommended for investigation. As at 12 April 2015 the Board had investigated 830 matches (including all recommended matches) with no frauds/errors being found. Twenty of the cases investigated had still to be concluded although we understand that only three of these had queries over potential fraud.

94. We concluded that the Board actively investigates NFI recommended matches, although the results of NFI activity are not regularly reported either internally or externally. Following discussions on this with officers we have been advised that NFI will be added as a standing item in the fraud report which is presented at every Audit Committee.

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

95. The Board has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for officers and members. There are established procedures for preventing and detecting corruption including regular reviews of Standing Financial Instructions and Standing Orders (see also paragraph 43).

96. Based on our review of the evidence we concluded that the Board has adequate 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 other than the Bribery and Corruption policy has recently been updated although the revised version has still to be formally approved by the Board.

Transparency

97. 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.

98. 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 health boards. The

annual review for NHS Highland was held on the 7 September 2015 with the Cabinet Secretary for Health Wellbeing and Sport who acknowledged there was some “excellent work” going on in Highland. Further improvements can be made, for example, in progressing local health improvement work, achieving in year and recurring financial balance and progressing the redesign of local services.

99. Board and committee meetings that form part of the formal governance structure are formally minuted and, from March 2015, various informal meetings including board development sessions are also minuted.

100. 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.

101. Meetings of standing committees are not held in public session. A significant amount of the Board’s business is done through these standing committees. While minutes of the committees are available in Board papers on the website, committee papers are not available on the website. The Board should consider enhancing transparency by publishing papers submitted to standing committees. Where papers include confidential information these can be withdrawn or redacted as appropriate.

102. As highlighted at paragraph 75 above a review of the Board's governance and committee structure has been on-going through the year and an action plan to address the findings of this work is expected to be produced over the next few months.

103. Overall we concluded that the Board is open and transparent although we believe that there are some areas where the Board could make improvements to the current arrangements, for example by publishing standing committee papers.

Integration of health and social care

104. 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.

105. The integration of health and social care services straddles both the local government and health sectors but only covers some of their functions. This is a change to the delivery of health and social care of considerable scale and complexity.

106. Audit Scotland published the first of a series of reports on the integration agenda in December 2015. *The Health and Social Care Integration* report reviewed progress by the new Health and Social Care Partnerships. The report identified a range of risks for partners, including difficulties in agreeing budgets, complex governance arrangements and workforce planning. The report’s recommendations

included the setting of clear targets and timescales to demonstrate how integrated services will deliver care differently, to better meet the needs of citizens.

107. The report also stated that stakeholders have done well to get the systems in place for integration, but much work remains. It outlined key issues that require to be addressed if the reforms are to be successful in improving outcomes for people. These included IJBs

- clearly setting out how governance arrangements will work in practice, particularly when disagreements arise
- having training and development for IJB members to help them fulfil their role
- setting out clearly what resources are needed, what success will look like and the impact will be monitored and publicly reported.

108. NHS Highland is the only Scottish health board to opt for the lead agency model for delivering health and social care services, continuing arrangements established in earlier years.

109. The first two years of the partnership arrangements with Highland Council were financially challenging for both partners and a further financial settlement, covering a three year period from 2014/15, was reached during 2013/14 in an effort to get budgets on a sounder financial footing.

110. The significant reduction in the council's financial settlement for 2016/17 is likely to lead to further financial challenges for the partnership. The third year of the financial agreement was based on Highland Council receiving a 'flat cash' settlement from the Scottish Government in 2016/17. However, the council will receive a reduction in its allocation next year which will be passed on to the Board via a reduction in the quantum (equivalent to £4.1 million). The £1.4 million additional funding previously agreed will be honoured therefore the Board's net position is a reduction of £2.7 million.

111. Whilst this reduction will be covered by the Board's share of a £250 million national allocation in respect of adult social care of £15.25 million it reduces the balance available to fund inflation, cost pressures and growth and efficiency savings will still be needed.

112. The Board anticipated that it would take up to five years to demonstrate efficiencies (based on the experience of similar integration models in England) with 2016/17 being the fifth year of the lead agency arrangement. The biggest challenge continues to be securing improvements to care home places which currently do not meet the Board's required quality standard. This impacts on its ability to discharge patients from the acute setting and thereby its ability to deliver efficiencies.

113. The alternative option of a body corporate arrangement for integrated health and social care services with Argyll and Bute Council came into being on 1 April 2016.

114. A report was provided to the Board's Audit Committee in December 2015 giving assurance that NHS Highland's arrangements for the

Argyll and Bute Health and Social Care Integration met the overall financial and related requirements of the pre-integration process.

115. The Chief Officer for the IJB was appointed in October 2014 and a Chief Financial Officer was appointed in March 2016. The Board's costs in relation to the IJB in 2015/16 were minimal and a full year budget of around £200 million has been agreed for 2016/17.

116. Overall the Board is making progress in developing its integration arrangements across the area although the pace of change particularly around the lead agency arrangements is slower than anticipated. The significant reduction in the Highland Council's financial settlement for 2016/17 is likely to lead to further financial challenges for the partnership.

2020 Vision

117. The Scottish Government's vision is that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. Audit Scotland published its annual overview report, "NHS in Scotland 2015", in October 2015. It found that the pace of change needs to increase if the 2020 Vision is to be achieved. The report recognised the importance of the Scottish Government and NHS boards ensuring that changes are underpinned by good long-term financial and workforce planning. It also recognised the need to consider the implications for performance targets and standards and the NHS estate, as well as ongoing initiatives and reform programmes. By doing so, the report concluded that, the Scottish Government and boards will gain a better understanding of the nature, scale and impact of changes required.

118. In August 2015 the Cabinet Secretary for Health, Wellbeing and Sport opened a national conversation on improving the health of the population and on the future of health and social care. It is envisaged that the national conversation will be used to influence a programme of work to drive greater progress towards the 2020 vision and any necessary changes over the next 10 to 15 years. This is a clear signal from the Scottish Government that it intends to promote faster progress through NHS boards.

119. NHS Highland is addressing this challenging agenda through the *Highland Care Strategy* approved in August 2014. The strategy, which was developed as part of the Highland Quality Approach (HQA), emphasises prevention and early intervention to maintain and improve people's health and independence.

120. In the last two years the Board has begun work on a number of major service redesign projects including out of hospital care, out of hours care and outpatient services. 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.

121. NHS Highland was, in the main, four years ahead of other areas in integrating health and social care and is starting to see shifts in the balance of care from hospital to community.

122. 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 on-going need to evidence the impact of health and social care integration across the area.

Vale of Leven/Penrose

123. 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.

124. NHS Highland performed a gap analysis and identified some areas for improvement. An action plan was developed to address the gaps and progress is monitored by the Control of Infection Committee. A progress report was also considered at the November 2015 NHS Highland Partnership Forum.

Review of older people's services

125. Scottish Ministers had requested that the Care Inspectorate and Healthcare Improvement Scotland carry out joint inspections of health and social work services for older people. A Joint Inspection of older people's services in Highland was undertaken by the Care Inspectorate and Healthcare Improvement Scotland between October 2014 and March 2015. The Board was subsequently advised by the two regulatory bodies that there would be no Joint Inspection Report published as the regulators' internal quality assurance process had identified aspects of the joint inspection process that had fallen below the required standard.

126. The Care Inspectorate and Healthcare Improvement Scotland highlighted a number of positive observations by the Inspection Team including: positive outcomes for older people; good multi-disciplinary working at team level and a well embedded approach to partnership working.

127. A similar review of older people's services across Argyll and Bute assessed services across nine quality indicators including: key performance outcomes; impact on staff and partnership working. The review assessed two indicators – key performance outcomes and impact on the community - as good (important strengths with some areas for improvement) and nine as adequate (strengths just outweigh weaknesses). There were no major issues and 11 recommendations for improvement were made.

128. Overall the Board demonstrates a number of positive outcomes for older people. Further improvements are required to help deliver on the Scottish Government delayed discharge targets (see paragraph 146).

Freedom of Information requests

129. The Board processed 60.6% of FOI requests within the statutory timescales during 2015/16 (prior year 82%). We were advised that the reduction in performance this year was due to a number of factors including an increase in the number of requests received

and increased pressure on staff time to respond to these. Due to organisational changes at the Board during the year there were difficulties in sourcing FOI administration cover over holiday/sickness periods which results in a backlog. The fall in performance for this statutory requirement is concerning and the Board should address the issues as a priority.

Recommendation 8

Outlook

130. NHS Highland faces continuing challenges on a number of fronts including mounting financial challenges, exacting performance targets, health and social care integration and delivering the Scottish Government's aim of having people living longer and healthier lives at home or a homely setting (i.e. the 2020 Vision). The way in which health and social care is delivered is changing and the structures of the NHS in Scotland and its relationship with local government will need to be adapted to reflect this.

131. Embedding robust governance arrangements will be an essential element in meeting these challenges and maintaining accountability. All stakeholders including patients, clinicians, the public, staff, executive and non-executive directors and the Scottish Government, benefit from the assurance and confidence a good governance regime brings.

132. Good governance will be particularly important where Board resources and service delivery are devolved to third party organisations. It will be crucial that the Board implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an ongoing focus on governance and assurance to ensure that the national and local priorities are being addressed.

Best Value

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

Arrangements for securing Best Value

135. Best Value (BV) arrangements are part of business as usual within the Board. Its established BV framework maps activities and sources of assurance against the BV themes set out in national guidance, namely:

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

136. We have reviewed evidence underpinning the Board's BV arrangements including the LDP, performance management and reporting and committee papers. Work continues across NHS Highland in embedding the Highland Quality Approach (HQA) and a total of 52 rapid process improvement workshops (RPIW) have taken place in recent years.

137. An RPIW takes place over five days with staff coming together to review and improve a particular part of a process in real time, for example, pre-operative assessment at Raigmore, length of stay of COPD patients, proportion of patients seen within 4 hours. A paper to the December 2015 Board meeting highlighted that 70% of RPIWs showed improvement in the follow up period.

138. NHS Highland has 24 people trained to run improvement events, and another 14 in training. Over 3,000 staff have attended introductory awareness sessions on lean training since 2012. The Board's HQA improvement work has attracted external recognition with the Scottish Improvement Science Collaborating Centre using NHS Highland as one of their three case studies of large scale improvement work.

139. Overall, we concluded that the Board has well-developed arrangements for securing BV and continuous improvement.

Performance management

140. The performance of NHS Highland is monitored by the Scottish Government against a number of Local Delivery Plan Standards which support the delivery of the Scottish Government's national performance framework. These standards and their trajectories (plans) are set out in the Board's Local Delivery Plan (LDP).

141. Performance against LDP Standards is presented to each meeting of the Board- via the Improvement Committee assurance report - in the form of a balanced scorecard. Additionally, the Board's overall performance is discussed at the Annual Review meeting held with the Scottish Government (see paragraph 98).

142. More detailed scrutiny of performance takes place at the Improvement Committee where progress against standards is reviewed and discussed. There are significant challenges in achieving Standards and the Improvement Committee's assurance reports highlight pressure points in the system and the actions planned to deliver improvements.

143. Similarly, a separate financial report is submitted to each meeting of the Board. These reports includes risks to achieving financial balance, cost pressures, progress in achieving savings targets, projected outturn position and remedial actions being taken to mitigate risks.

144. It is important that the public are able to understand the Board's finances so that they can be involved in and understand decisions taken. Comprehensive, transparent, reliable and timely budget documents and financial reports are at the heart of good governance and decision making. This helps ensure that stakeholders have an accurate picture of the Board's financial position and the potential risks it may encounter. Significant improvements have been made to finance reports in the last 18 months to clarify the language used and make these reports more user friendly.

145. We concluded that the Board had a well established performance management framework in place during 2015/16. This was supported by good performance monitoring.

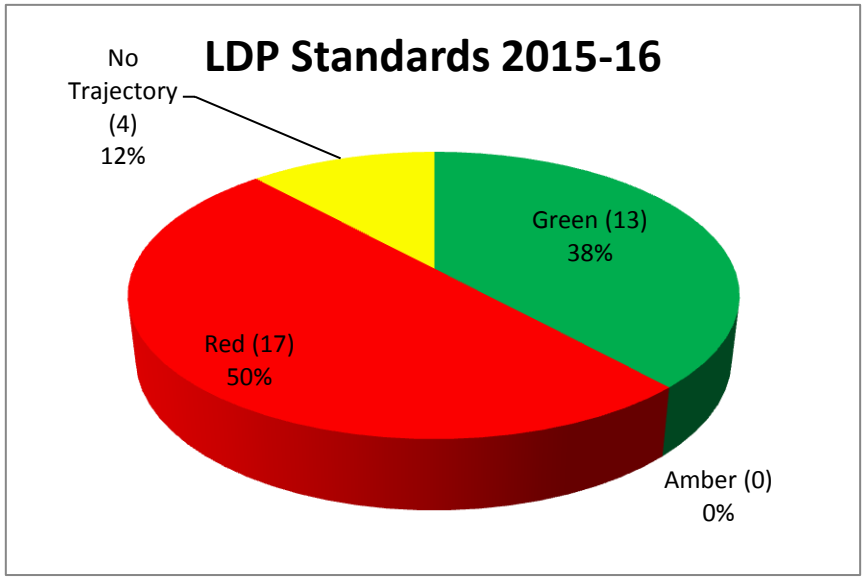
Overview of performance targets in 2015/16

146. The Board's performance against its 34 LDP Standards reported in the 2015/16 annual accounts, and based on the most up to date data available regarding the position at the end of March 2016, is summarised Exhibit 4. 13 Standards were categorised as green (meeting or better than trajectory), none as amber, 17 as red (outwith 5% of meeting trajectory) and three with no trajectory.

147. Those LDP standards currently being met (green status) by the Board include, access to antenatal care, smoking cessation, financial performance and 4 hour A&E waiting times. The LDP standards reported as red included delayed discharges, cancer treatments, CDiff infections and MRSA bacterium. As we reported

last year, delayed discharges have been a very challenging area to manage particularly since the target was reduced from no patient waiting more than 28 days for discharge to 14 days.

Exhibit 4 Performance against LPD Standards



National performance audit reports

148. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the Board. These are outlined in appendix III accompanying this report.

149. 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.

150. From our attendance at Audit Committees and evidence available to us, we conclude that the arrangements for considering national performance audit reports are consistent with good practice.

Equalities

151. 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.

152. 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. In April 2015 the Board were provided with a progress report which also recommended a full review of the existing equality outcomes to assess whether they were still relevant, aligned with the Board's priorities, evidenced-based and measurable.

153. In accordance with equality legislation a new set of outcomes must be published by April 2017 following a period of consultation with

staff and patients. In April 2016 a timeline to deliver the new set of outcomes was agreed by the Board.

154. 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

155. In common with other NHS boards, NHS Highland is finding it increasingly difficult to meet performance standards while remaining within annual resource limits. Ongoing financial pressures, combined with greater activity and demand, makes achieving performance standards more difficult.

156. Audit Scotland in its annual overview of the NHS in Scotland (October 2015) highlighted that pressures on NHS boards have intensified over the past year as has the urgency for fundamental changes such as introducing new ways to deliver healthcare and developing a national approach to workforce planning. The strong focus on performance targets may not be sustainable when combined with the additional pressures of increasing demand and the overall NHS budget static or decreasing in real terms. 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 the long-term planning required to achieve the Scottish Government's 2020 Vision. A review of national NHS targets will be undertaken by the Scottish Government in 2016/17 and this will also look at how target setting aligns with the Government's strategy for the future direction of NHS and social care services

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 in the financial statements		
Financial position In common with other health boards, NHS Highland has a statutory requirement to break-even. The Board's forecast year end position as at October 2015 is break even, however the month 7 position shows an overspend of £3.1 million. In recent years the Board has relied on significant non recurring savings to deliver financial balance and it recognises that this is not sustainable. There remains a risk that anticipated savings will not be achieved and as a result the Board will be unable to deliver the break-even position.	• Agreement of the Financial Plan with SGHSCD • Monthly review of position by SGHSCD. More formal mid-year review by SGHSCD.	• Contingency plans were developed in October 2015 to address the projected overspend for the year. The Board was able to deliver the required savings for 2015/16 and managed to reduce the underlying recurring deficit. It received additional NRAC funding in the year which helped it deliver its breakeven target. • 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 March 2016.

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.	• Detailed monitoring of financial position at Board and other committee meetings.	• Satisfactory explanations given for variances between income and expenditure headings • Sample testing of journal adjustments found. no indications of management override of controls. • Judgements and estimations applied were appropriate and reasonable. No issues with the amounts applied were found.
FReM changes There have been two significant changes to the 2015/16 FReM requirements: • the adoption of IFRS 13 Fair value measurement • restructuring the annual report and accounts The Board will need to make arrangements to ensure it captures the information required to comply with the FReM changes. There is a risk the accounts do not comply with the FReM if these revisions are not properly addressed.	• Technical Accountant is a member of the Technical Accounting Group Annual Accounts Sub Group and is ideally placed to ensure the Board's approach fully meets FReM requirements	• The additional disclosures required by IFRS 13 were included in the accounts • The annual report provided on 13 May 2016 incorporated the majority of the restructuring required by the FReM. Further improvements were made in the final version included in the audited accounts.

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
Long term financial planning The Auditor General for Scotland's update on the 2013/14 financial management issues at NHS Highland identified that more needs to be done to ensure that the Board's financial position is supported by a robust longer term financial plan. There is a risk that the financial position is unsustainable over the long term.	• Ten year operational plan agreed by the Board in February 2015 • Five year financial plan is due to be approved by the Board in April 2016.	• Further update to 10 year operational plan now expected to go to the June 2016 Board meeting • A Quality & Finance plan was presented to the May 2016 Board outlining the key actions that are required to deliver financial balance.
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. There is an on-going risk that the Board is unable to fill medical vacancies in remote areas leading to increased costs from increased reliance on medical locums.	• Use of locums continues to be an area of focus for the Board. • An SLA is now in place with Medacs which is hoped will transform the use of locums in NHS Highland • There is also an ongoing focus to reduce supplementary staffing (bank agency and overtime) across all staff groups and monitoring and reporting is in place to the Board via finance and the quarterly workforce plan rolling action plan update.	• Agency costs increased by 57% this year (total cost £15.5 million) On-going issue: refer Appendix IV point 6 • Medacs SLA has been extended following the initial 6 month agreement as it is anticipated it will take a year to see efficiencies (loss made on initial arrangement).

Audit Risk	Assurance procedure	Results and conclusions
Sickness Absence The national sickness absence target of 4% continues to present a challenge to NHS Highland. Sickness absence rate in 2014/15 was 4.9%. There is a risk that Board may not achieve the sickness absence target of 4% which could impact on its ability to achieve its financial and non financial performance targets.	• Regular monitoring of the position by the Highland Partnership Forum and Local Partnership Forum meetings. • Executives and Senior/Personnel Managers receive sickness absence information for their area of responsibility each month. • The Highland Partnership Forum receives data on a monthly basis for the whole of NHS Highland and the Staff Governance Committee receives this on a quarterly basis. • Long term sickness absence (>90 days) is regularly reviewed by Head of Personnel and Occupational Health Consultant (can be analysed for location, age, and reason for absence).	• The Board's sickness absence rate at the end of 2015/16 increased slightly to 5.1%. 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
Senior ICT vacancies The current Head of eHealth will be retiring at the end of 2015. The recruitment process has started, however, considering the seniority of the post, it is unlikely that the new appointee will be in post until later in 2016. In addition, two key information governance and security posts have been vacant since the start of 2015, with recruitment to these posts thus far being unsuccessful. Our previous audit also highlighted further improvement was required on user access management and service call management. There is a risk that key posts are not filled in a timely manner which could adversely affect the Board's information governance performance.	• Board is in the process of recruiting to both posts with an expectation that these will be filled early in the new year. • Interviews for the Head of eHealth post are being held on 18 December with support from the Scottish Government Head of eHealth acting as the external assessor.	• New Head of eHealth appointed on 1 January 2016. • Successful recruitment for the two information assurance roles with one appointment being made at the end of May and the second one at the end of August 2016.

Audit Risk	Assurance procedure	Results and conclusions
NHS Highland website and policy review We reported in 2014/15 that the Board's website search facility was poor and finding information on activities was not straightforward. Significant changes in the structure of the Board as well as pressures on resources have meant that only a small number of improvements have been successfully implemented. A number of policies, procedures, and other documents had not been reviewed, updated and made available either on the website or intranet in line with set deadlines. There is a risk that 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. In addition staff are not provided with up to date policies and procedures to enable them to deliver their roles effectively.	• 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 • Policies and procedures will be updated and made available.	• Information review and content management is ongoing on the NHSH website. Priority continues to be given to the areas of major service change, news, views, and events, feed-back, board information, recruitment and the homepage. An Adult Social Care section has also been added. • Search facility is still ineffective, with straightforward searches not resulting in the desired returns. • A meeting with the management team is being planned to discuss how to take website development forward. • Content management software SharePoint for both Intranet and public facing website is imminent.

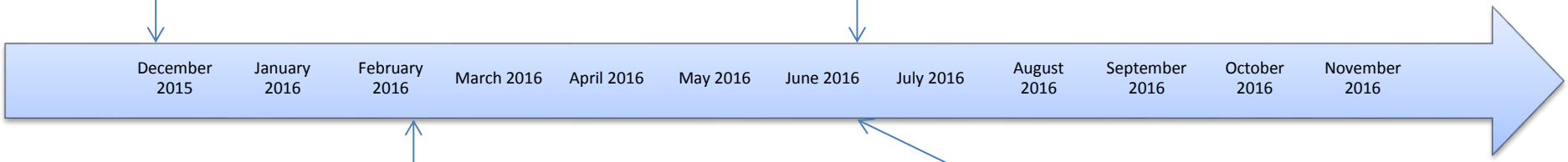
Audit Risk	Assurance procedure	Results and conclusions
Health and Social Care Integration The Argyll and Bute Integration Joint Board (IJB) will be the accountable body of the Health and Social care partnership between the Board and Argyll & Bute Council. The IJB will become operationally responsible for all services defined within its integration scheme from the 1 April 2016. Any material costs for the body from its inception to the end of March 2016 will also need to be consolidated within the Board's accounts. There is a risk that the accounting treatment for this new body within the Board's accounts does not fully comply with legislative requirements.	• Technical Accountant is a member of the Technical Accounting Group Annual Accounts Sub Group and is ideally placed to ensure the Board's approach fully meets requirements	• Total costs for the new IJB in 2015/16 were £87,000. As a result these were not consolidated within the Board's accounts on the grounds of materiality. This is a reasonable approach for 2015/16.

Audit Risk	Assurance procedure	Results and conclusions
Merger of operational units NHS Highland has recently merged South and Mid Operational Unit and Raigmore Operational Unit to form the Inner Moray Firth Operational Unit. This was designed to achieve greater integration of acute and community services as 70% of all the referrals into Raigmore were from the South and Mid Operational Unit. There is a risk that the planned integration will not be achieved.	• New unit has been formed and all meetings are being reviewed with a view to merging as many as possible ensuring that both divisions are represented • Clinical working group and forum have been established bringing together professionals from both divisions with common aims and objectives including issues such as prescribing and review clinics • Plans exist to merge the budgets from 1 April 2016 • Huddle has been revamped to include both divisions and address the full patient journey.	• New Inner Moray Firth Unit now established. • Raigmore financial recovery plan continues to be challenging and failure to deliver the required savings by 2017 will significantly impact on the Board's financial position going forward.

Appendix II: Summary of NHS Highland local audit reports 2015/16

Annual Audit Plan: Planned external audit work for 2015/16.

Annual Audit Report: Annual report to those charged with governance. Summarises our main findings from the 2015/16 Audit of NHS Highland and draws to the attention of those charged with governance significant matters arising from the audit of the financial statements prior to the formal signing of the independent auditor's report.



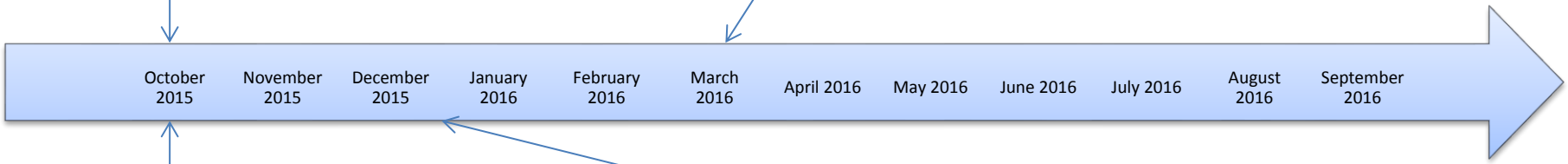
Internal Controls Review: The overall conclusion is that internal controls within the Board are operating effectively, although there are some areas where improvements can be made.

Independent auditors' report on the 2015/16 financial statements.

Appendix III: Summary of Audit Scotland national reports 2015/16

NHS in Scotland 2015 (October 2015): This report looks at the annual performance of the NHS and its future plans. A key message in the report is that fundamental changes and new ways of delivering healthcare are required now to ensure that the NHS is able to continue providing high quality services in future.

Changing models of health and social care report (March 2016): This report says that transformational change is required to meet the Scottish Government's vision to shift the balance of care to more homely and community-based settings. NHS boards and councils need to significantly change the way they provide services and how they work with the voluntary and private sectors.



NHS 24 Update on management of IT contract (October 2015): The Auditor General presented an update report to Parliament on significant financial issues arising from the implementation of a new IT system at NHS 24. The report has lessons applicable across all public bodies engaged in the specification, procurement and implementation of large scale IT contracts.

Health and Social Care Integration (December 2015): This report reviewed the progress made to establish new integration authorities, which will be responsible for planning joint health and social care services and managing budget totalling over £8 billion by 1 April 2016. The report highlights that significant risks must be addressed if a major reform of health and social care is to fundamentally change how services are delivered and improve outcomes for the people who use them.

Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	10	**Draft Accounts** The unaudited accounts template was provided to us on 9 May 2016, however we did not receive the performance report, accountability report (including the annual governance statement) or accounting policies until 13 May. The remuneration report was not available until 16 May 2016. We had agreed with officers to delay the start of the annual accounts on-site work for one week this year on the understanding that a full set of accounts would be made available on the 9 May **Risk** The Board's accounts will not be audited by the 30th June deadline if the draft accounts are not provided timeously. **Recommendation** Senior management in the Board's finance team should ensure that a full set of unaudited accounts are provided to audit in accordance with the agreed timetable.	For 2015/16 a new style of Performance Report and accountability report was required and the information for both was more complex. Completion was delayed as a result and for 2016/17 and future years, a more structured timetable with responsibilities, and firm dates to be adhered to, will be agreed at Director level.	Director of Finance February 2017

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	24	**Pharmacy accrual** During 2015/16 the Board identified an error in the pharmacy accrual included in the accounts and additional non cash funding was received from the Scottish Government to correct this. Audit testing raised doubts over the accuracy of the estimated under statement and in June 2016 a further allocation was received. Discussions around this issue had been on-going between auditors and officers since February 2016. The protracted process in finalising the position highlighted weaknesses in the Board's knowledge of the complex FHS pharmaceutical arrangements. **Risk** The expertise required to understand and manage FHS expenditure is lacking and therefore the Board's costs are not accurately reflected in the accounts resulting in financial targets not being met. **Recommendation** Officers involved in FHS pharmaceutical payments need to develop a robust understanding of this complex area.	The lack of expertise is acknowledged and responsibility has now been agreed within the Finance department. Full training on reconciliation is being introduced to ensure the full process is understood both within North Highland and Argyll & Bute.	Head of Area Accounting July 2016

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3.	24	**Annual Governance Statement** Overall the process for obtaining assurances for the AGS was lax with no formal statements from directors, incomplete assurance reports from committees and no Internal Audit final report available at the time of drafting the statement. In addition the Board had not undertaken its own self assessment of its performance. In the initial version provided to us on 9 May there was potential for further comments/disclosures particularly around the Raigmore recovery plan, staff training issues, FOI requests and performance against LDP standards. **Risk** The AGS is incomplete or misleading and does not fully reflect the governance arrangements or disclose all significant matters. **Recommendation** The Board should adopt a formal approach to compiling the AGS to ensure it has all appropriate assurances and has fully disclosed any significant points.	All Assurance Reports had not been received by the completion of the Annual Governance Statement and the Internal Audit annual report was only available in draft at the time of completion. The final reports will be presented at the June Audit committee together with the finalised internal audit report. The AGS has been amended to take account of additional disclosure points and this process will be reviewed in line with 1 above for 2016/17.	Director of Finance February 2017

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
4.	24	**Indexation** In 2014/15 we highlighted 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%. This year the valuer provided a range (3.5% to 4%) for indexation in an email but this did not translate into the revaluation report which included a single indexation figure (3.5%). The actual calculation applied equates to 3.7% and resulted in an overstatement of both assets and the revaluation reserve of £0.5 million. The amount is not material and officers did not adjust the financial statements. **Risk** The Board's accounts do not fully reflect the value of the assets held. **Recommendation** Officers should 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.	This is accepted.	Head of Financial Planning March 2017

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
5.	46	**Budget Holders** Regular budgetary reports are provided to budget holders although previous internal audit reports had highlighted that generally budget holders have difficulty in understanding these reports. Mandatory training has been put in place but, as at May 2016, not all budget holders have completed this. **Risk** Budgetary control is weakened as budget holders are unable to interpret and respond to the information provided. **Recommendation** The Board should, as a matter of priority, ensure the appropriate training is delivered to budget holders to enable them to fully understand and address issues highlighted in the reports provided to them	Ongoing work with budget-holders continues with recent significant uptake in training within Raigmore unit.	Head of Financial Planning September 2016

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
6	65	**Agency staff costs** Despite strengthening controls around the use of locums in 2014/15 the cost of agency staff rose in 2015/16 to £15.509 million compared to £9.859 million in 2014/15 (an increase of 57 %). The use of agency staff provides flexibility to cover for staff absences and vacancies but this use has increased significantly in the last two years. **Risk** Continued reliance on agency staff will have a significant impact on the Board's plans to achieve the savings targets required for longer term financial sustainability. **Recommendation** The Board should reduce reliance on agency staff to maintain services.	This is accepted. Work is on-going with recruitment to reduce agency staff and appoint permanently wherever possible.	Director of Finance Ongoing

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
7	66	**Workforce Planning** We found that the workforce plan includes very little on succession planning and refers to staff projections rather then internal development of staff to fill any potential key staff vacancies that may occur in the future. There are no individual service workforce plans prepared although there are various documents prepared as required which include details on workforce issues. We did not receive any examples of scenario planning or horizon scanning and therefore have concluded that the Board does not use these to help inform service delivery. **Risk** The Board is not efficient in managing its workforce and does not proactively plan for the longer term **Recommendation** The Board should make better us of techniques such as scenario planning and horizon scanning and should actively consider succession planning.	Some language in the Workforce Plan 2016/17 will be changed to specifically emphasise scenario planning and horizon scanning, rather than using workforce planning language " Drivers for workforce change" and "Workforce Demand". This year we want to improve our staff experience working for NHS Highland by: • Making NHS Highland the employer of choice • Ensuring staff are proud of their contribution to delivering safe and effective care • Increasing the number of staff who feel engaged and valued as part of our team. Workforce planning is an important function for the NHS Board and as part of the three objectives above we deliver an annual workforce plan, supported by workforce projections and workforce narrative for each workforce group. These include scenario planning and succession planning. This year we are making more explicit our approach to talent management in line with our overall approach to HQA which has a specific People strategy.	Director of HR Workforce Narrative to SGHD by 30th June 2016 Workforce Projections to SGHD by 15th July 2016 Workforce Plan to be published by 30th August 2016

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
8.	129	**Freedom of Information Requests** The Board processed 60.6% of FOI requests within the statutory timescales during 2015/16 (prior year 82%). The fall in performance for this statutory requirement is concerning and the Board should address the issues as a priority **Risk** The Board is unable to meet its statutory obligation on FOI requests. **Recommendation** The Board should take action to ensure adequate resources are available to deal with FOI requests to enable the statutory delivery date to be met.	The recent appointment of a new Board Secretary (who is responsible for FOIs) will provide the resources required to deal with this issue.	Board Secretary Immediate