

# NHS Western Isles

## 2016/17 Annual Audit Report



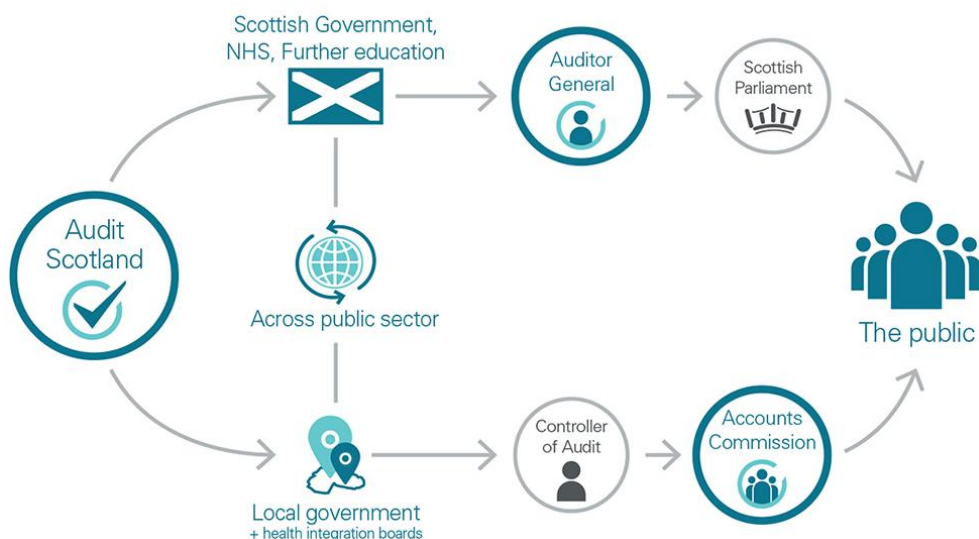
Prepared for the board of NHS Western Isles and the Auditor General for Scotland

28 June 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2016/17 annual report and accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, regularity of transactions, remuneration and staff report, performance report and governance statement.
- 2 A review is required to the process of preparing the financial statements including fixed assets, IJB transactions and RTA income. Staffing and availability were an issue that adversely affected the audit in 2016/17.

## Financial management and financial sustainability

- 3 NHS Western Isles met all of its financial targets and achieved a small underspend of £0.051 million against its revenue resource limit.
- 4 NHS Western Isles has effective arrangements in place for managing its finances and the use of resources.
- 5 NHS Western Isles managed to achieve its savings target of £4.0 million in 2016/17 but is relying increasingly on non-recurrent savings. This puts additional pressure on future financial sustainability.
- 6 The board faces significant challenges in recruiting and retaining critical staff resulting in an increasing reliance on temporary staff which is not financially sustainable.
- 7 Longer term financial planning is not yet fully demonstrated in NHS Western Isles, but a limited three-year plan is reported as part of the Local Delivery Plan. For next year, 2017/18, the financial plan is projecting a funding gap of £3.5 million.

## Governance and transparency

- 8 NHS Western Isles has appropriate governance arrangements in place that support scrutiny of decisions made by the board. Transparency could be improved by making all papers/ meetings open to the public with sensitive or confidential items held in private session/ restricted.

## Value for money

- 9 NHS Western Isles performs adequately with a majority of targets (61%) being met or exceeded.

# Introduction

1. This report summarises the findings from our 2016/17 audit of Western Isles Health Board, commonly known as NHS Western Isles.
2. The scope of our audit was set out in our Annual Audit Plan presented to the December 2016 meeting of the Healthcare Governance and Audit Committee. This report comprises:
  - the audit of the annual accounts, and
  - consideration of the wider audit dimensions set out in the [Code of Audit Practice \(2016\)](#) as illustrated in [Exhibit 1](#).

## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:
  - an interim audit of the main financial systems and governance arrangements
  - an audit of the 2016/17 annual accounts including the issue of an independent auditor's report setting out our opinions.
4. NHS Western Isles is responsible for preparing the annual accounts. It must also put arrangements in place for governance, propriety and regularity that enable them to successfully deliver their objectives.

5. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice \(2016\)](#), and guided by the auditing profession's ethical guidance.
6. As public sector auditors we give independent opinions on the annual accounts. We also review and report on the arrangements within NHS Western Isles to manage its performance, regularity and use of resources such as money, staff and assets. In doing this, we aim to support improvement and accountability.
7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice \(2016\)](#).
8. This report raises matters from the audit of the annual accounts and risks or control weaknesses identified during the audit process. Communicating these does not absolve management of its responsibility to address the issues we raise, and to maintain adequate systems of control.
9. Our annual audit report contains an action plan at [Appendix 1 \(page 24\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
11. This report is addressed to both the board and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
12. We would like to thank management and staff for their cooperation and assistance during the audit.

# Part 1

## Audit of 2016/17 annual accounts



### Main judgements

#### Unqualified audit opinions on the annual accounts.

**There needs to be further work with the IJB and Comhairle nan Eilean Siar to ensure IJB amounts are agreed by the required deadline.**

**A review is required to the process of preparing the financial statements including fixed assets and RTA income. Staffing and availability were an issue that adversely affected the audit in 2016/17.**

#### Unqualified audit opinions

- 13.** The annual accounts for the year ended 31 March 2017 were approved by the board on 28 June 2017. We reported, within our independent auditor's report:
- an unqualified opinion on the financial statements
  - an unqualified opinion on regularity of expenditure and income
  - unqualified opinions on the remuneration and staff report, performance report and governance statement.
- 14.** Additionally, we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

The board's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

#### Submission of annual accounts for audit

- 15.** We received a full set of unaudited annual accounts on 25 May 2017, more than 2 weeks later than the agreed audit timetable within our [Annual Audit Plan](#) of 8 May. Although accounts for some areas were provided earlier, these were incomplete. The working papers provided to support the accounts were of a reasonable standard. There were some issues with the availability of finance staff during our audit visits. This included the individual responsible for fixed assets who had significant leave during the audit process. This is an area where there is no segregation of duties or adequate cover. This left issues still to be resolved in this area as late as 6 June and some classification issues within notes to the accounts. The issues which were resolved during the audit included a difference of £8.6 million between the valuer's report and the fixed assets register for land and buildings.
- 16.** These issues had a significant impact on the planned audit process. We will revise our planned approach in 2017/18 to meet this later submission date and recommend that NHS Western Isles review the finance staffing arrangements including backfill for the acting director of finance and availability and /cover for key staff.

#### Action Plan (Appendix 1, point 1)

## Exhibit 2

### Issues with submission of initial accounts submission on 5 May 2017

- Narrative sections (about 30 pages) were missing (submitted 16 May)
- Payment policy figures missing (submitted 16 May)
- Remuneration and staff report numbers missing (Mostly submitted 16 May)
- Summary of capital resource outturn missing (submitted 25 May)
- Fixed asset notes lack detail and total transactions for some areas (submitted 16 May)
- Capital commitments (note 21) missing (submitted 25 May)
- Pension cost charges (note 24) missing (submitted 25 May)
- Segmental info missing (note 30) missing (submitted 25 May)
- Related parties missing (note 29) missing/ not updated (submitted 25 May)

17. In 2016/17, for the first time, the board prepared group accounts to include the financial results of Curam Is Slainte Nan Eilean Siar (CISNES) Integration Joint Board. The unaudited financial statements submitted on 25 May 2017 still did not contain either the funding transactions to/from the IJB (which significantly increases gross income and expenditure reported in the financial statements), nor did it include the Board's share of the IJBs net assets. The transactions were included in a revised set of statements on 16 June 2017.

18. Our review of the financial statements identified a few areas for improvement to reflect good practice as set out in the Audit Scotland publication. *'Improving the Quality of the NHS Annual Report and Accounts' (December 2014)*. These included shortening the overview in the management commentary (from 8 pages); cutting the accounting policies on intangibles (as these identified policies for transactions that NHS Western Isles does not have); removing irrelevant policies on PFI/HUB/NPD Schemes and removing the prior year restatement notes which aren't required. Some of these changes were reflected in the audited financial statements, but there is scope to streamline the contents of the annual accounts further. We will continue to discuss this with NHS Western Isles as part of the audit planning for next year.

### Risks of material misstatement

19. [Appendix 2 \(page 27\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider dimension risks, how we addressed these and conclusions.

### Materiality

20. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

21. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 3](#). Specifically with regard to the annual accounts, we assess the materiality of uncorrected misstatements, both individually and collectively.

22. On receipt of the annual accounts we reviewed our materiality calculations and concluded that, on the basis of the gross expenditure, the materiality levels should be increased. This reflects transactions with the Integrated Joint Board, as shown in Exhibit 3.

## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£1.27 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 75% of overall materiality.	£0.95 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the reporting threshold amount. This has been calculated at 2% of overall materiality.	£0.02 million

Source: Audit Scotland

## How we evaluate misstatements

23. There were a number of significant and material adjustments to the unaudited financial statements during the period of our audit. This included:
- The inclusion of transactions with the integration joint board - £38 million. Increasing both HCH income and HCH expenditure with no overall effect on net expenditure. This change was not presented for audit until 16 June and had to be further corrected to represent the difference between the funding to/from the IJB.
  - Inclusion of NHS Western Isles share of net assets in the IJB in the group accounts. This was not presented for audit until 16 June and was materially different from the proposed reserves (unaudited) in the IJB accounts which were provided on 19 June (£1.5 million).
  - Decrease in property, plant and equipment reflecting revaluation adjustments (£3.7 million)
24. In total these adjustments exceeded our overall performance materiality of £0.95 million and we considered the need to undertake further audit testing. We consider that we have identified in full the adjustments to recognise IJB income and expenditure and share of net assets, based on IJB unaudited financial statements. The revised Net Book Value of property assets has been agreed to the valuer's report at 31 March 2017. We have concluded that the errors are isolated and do not indicate further systematic errors within the account areas or more pervasively within the financial statements. We considered the impact of these misstatements on our audit approach and decided that further audit procedures were not required.

25. [Appendix 3 \(page 29\)](#) identifies unadjusted errors and their expected impact on the annual report and accounts.
26. It is our responsibility to request that all misstatements are corrected although the financial decision on this lies with those charged with governance taking into account advice from senior officers and materiality. Management do not propose to adjust for the item(s) above as the amounts are not considered material in the context of the financial statements.

## Significant findings

27. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1 \(page 24\)](#) has been included.

## Exhibit 4

### Significant findings from the audit of the financial statements

Issue	Resolution
<b>Classification of PPE and Intangible assets</b>	
28. In the financial statements, notes 10 and 11 include categorisation of assets into classes such as “land and buildings”, “dwellings”, “software licences” and “software”. We identified differences with the values identified in the financial statements and the underlying fixed asset register, although in total intangible and property, plant and equipment assets were correctly stated.	<p>We compared each category in the financial statement notes to the fixed asset register. In some cases the differences existed in opening balances. We considered the extent of misclassification was limited to £0.349 million and the total on the face of the balance sheet was consistent with the fixed asset register. These are unadjusted errors in the audited financial statements.</p> <p><b>Action Plan (Appendix 1, point 2)</b></p>
<b>Accuracy of depreciation calculation</b>	
29. Our recalculation of a sample of depreciation calculations identified differences to those identified in the fixed asset system (RAMS). We were told that this is because the RAM system generates depreciation charge on revalued assets based on historic values, not current values.	<p>We calculated the depreciation charge on all assets and found that the net difference in calculation is £0.046 million. This is 2% of the total depreciation charge for 2016/17. We decided that the differences in depreciation are not but recommend that the issue is reviewed in 2017/18. This is an unadjusted error in the audited financial statements.</p> <p><b>Action Plan (Appendix 1, point 3)</b></p>
<b>Asset additions and valuation</b>	
30. We identified a number of asset additions within the Fixed Asset Register which were added on top of the valuer’s valuation of those buildings at 31 March 2017. This included OUAB Heating £8,928, OUAB Replacement doors £26,595 and STY HC Auto Doors £48,445.	<p>We discussed this with the valuer (FG Burnett) and they explained that when they were on site in autumn 2016 these assets were not complete but the capital expenditure was taken into consideration for the valuation and the value of the properties should remain as stated in the valuer’s report. This is an unadjusted error in the audited financial statements.</p> <p><b>Action Plan (Appendix 1, point 4)</b></p>

Issue	Resolution
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### Road Traffic Accident (RTA) Income

31. This issue arose late in the audit process and from work undertaken across NHS Scotland. It became clear that NHS bodies were not all accruing for RTA income in accordance with the [Department of Health's Guidance on the application of the NHS injury cost recovery scheme for 2016/17](#) and that some bodies were not allowing for a bad debt adjustment to report the fair value of the debtor. At NHS Western Isles RTA income was being accounted for on a cash basis as it was received.

We established the annual income that has been recognised in 2016/17 (£28,696) and estimated the total debtor / income that should be recognised on the basis of annual receipts and an estimate for the multiplier of debtor/ annual income (x2) that was established for other NHS bodies and adjusted for a national position on bad debt. We estimate to the total error to be £45,000 and have included this as an unadjusted error in the audited financial statements

### Action Plan (Appendix 1, point 5)

### Transfers from revaluation reserve

32. The financial statements do not include any transfers between revaluation reserve and general fund in the Statement of Changes in Taxpayers Equity. There is no evidence of a transfer being made in any of the last four financial years. Within the requirements of the Accounting Standard (IAS16 Para 41), organisations can choose to make adjusting entries to the revaluation reserve throughout an assets life or at disposal. In order to do this, a record must be kept of how any reserve balance is allocated to individual assets.

NHS Western Isles does not have a history of significant asset disposals, which would lead to significant misclassification between the reserves, if management elect to make transfers between reserves on disposals rather than through the assets life. We have not asked management to review the reserve balance nor have we undertaken further audit work in this area, but we do recommend that the revaluation reserve adjustments and policy are reviewed during 2017/18.

### Action Plan (Appendix 1, point 6)

### Other findings

33. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

# Part 2

## Financial management



### Main judgements

NHS Western Isle operated within its resource limits achieving an underspend of £0.05 million (0.06%) against its core revenue resource limit of £80 million

There are effective arrangements in place for managing its finances, with directors receiving accurate information on the financial position

NHS Western Isles is increasingly reliant on non-recurring savings to achieve financial balance. This represented 40% of total savings in 2016/17.

### Financial performance in 2016/17

34. NHS Western Isles, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD) annually. As illustrated in [Exhibit 5](#), the board operated within all limits during 2016/17 achieving an underspend of £0.05 million (0.06%) against its 2016/17 revenue resource limit of £83 million.

### Exhibit 5

Performance against resource limits in 2016/17

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	80.104	80.053	0.051
Non-core revenue resource limit	2.979	2.979	0.000
<b>Total revenue resource limit</b>	<b>83.083</b>	<b>83.032</b>	<b>0.051</b>
Core capital resource limit	1.503	1.503	0
<b>Total capital resource limit</b>	<b>1.503</b>	<b>1.503</b>	<b>0</b>
<b>Cash requirement</b>	<b>86.261</b>	<b>86.261</b>	<b>0</b>

Source: NHS Western Isles Annual Accounts for the year ended 31<sup>st</sup> March 2017

## Financial management during 2016/17

- 35.** We reviewed NHS Western Isles budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular, timely and up to date financial information on the board's financial position. We believe the developing financial position throughout the year was appropriately reported to the Board.
- 36.** We concluded that NHS Western Isles has effective budgetary monitoring and control arrangements that allow directors to scrutinise the board's finances.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

### Exhibit 6

#### Financial reporting during 2016/17

	Forecast Outturn £Million	Annual Budget £Million	Variance £Million
<b>Apr-16</b>			
<b>May-16</b>			
<b>Jun-16</b>	84.8	84.8	0
<b>Jul-16</b>	84.9	84.9	0
<b>Aug-16</b>	85.0	85.0	0
<b>Sep-16</b>	84.7	84.7	0
<b>Oct-16</b>	84.7	84.7	0
<b>Nov-16</b>	84.8	84.8	0
<b>Dec-16</b>	84.8	84.8	0
<b>Jan-17</b>	84.7	84.7	0
<b>Feb-17</b>	84.7	84.7	0
<b>Mar-17</b>	84.6	84.6	0.0
<b>Mth 13</b>	84.7	84.6	0.1
<b>A/cs</b>	84.7	84.6	0.1

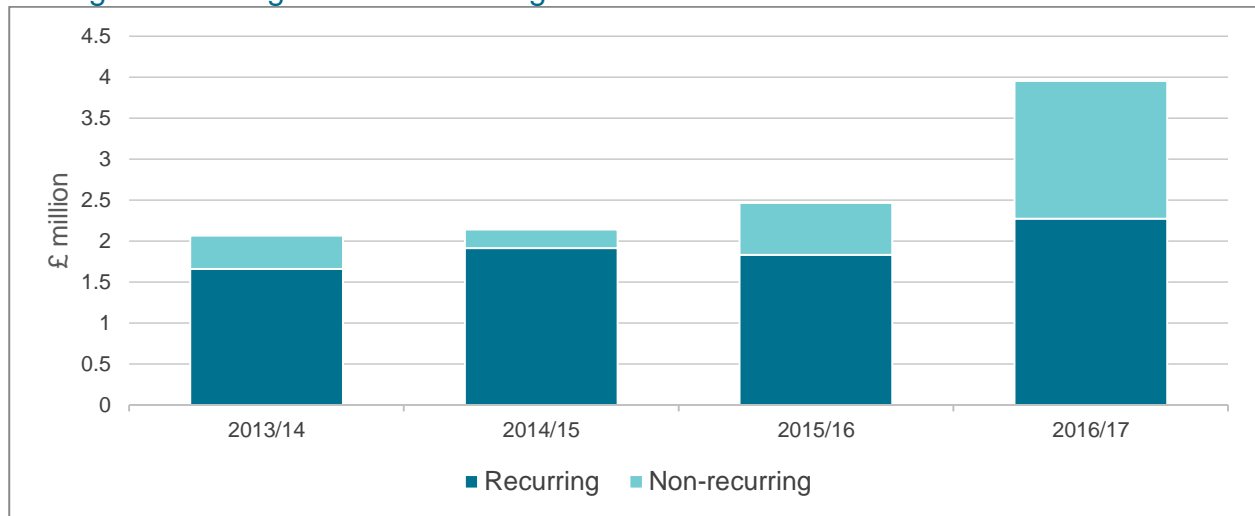
Source: Financial Performance Reports and 2016/17 financial statements – includes RRL and FHS non-discretionary

- 37.** The Scottish Resource Allocation formula is used in the allocation of approximately 70% of the total NHS Budget between the 14 territorial NHS Boards in Scotland. This formula was developed by the National Resource Allocation Committee (NRAC) in 2007. NHS Western Isles currently receives more funding than the allocation formula would indicate. As a result of this NHS Western Isle's uplift for 2016/17 was 1.7% and it will continue to receive minimum levels of uplift in future years.

### Local Delivery Plan (LDP) and identified savings targets

- 38.** NHS Western Isles achieved its savings target of £4 million or 4.8% in 2016/17. The achievement of financial targets in 2016/17 was as a result of a number of non-recurring measures which amounted to £1.7m. So £2.3 million of savings were achieved on a recurring basis (57%), this was slightly above planned and demonstrates that NHS Western Isles is taking appropriate actions towards improving future financial sustainability. However as illustrated in [Exhibit 7](#), NHS Western Isles has been increasingly reliant on non-recurrent savings in recent years. This situation is not sustainable and only provides short-term respite from the underlying financial position.

Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years. Recurring savings are savings, that once achieved, recur year-on-year from that date.

**Exhibit 7****Savings – recurring and non-recurring**

Source: Western Isles Health Board Annual Report and Accounts 2012/13 to 2016/17

# Part 3

## Financial sustainability



### Main judgements

**Longer term financial planning is not yet fully demonstrated in NHS Western Isles, but a limited three-year plan is reported as part of the Local Delivery Plan.**

**NHS Western Isles growing reliance on non-recurrent savings presents an increasing risk to achieving medium-term financial sustainability .**

**The board faces significant challenges in recruiting and retaining critical staff resulting in an increasing reliance on temporary staff which is not financially sustainable**

### Financial planning over the medium to longer term

- 39. NHS Western Isles draft Local Delivery Plan (LDP) for the next three years (2017/18 to 2019/20) sets out how the financial, workforce and service plans will implement strategic priorities. The LDP was submitted to the Scottish Government in line with the required timescales. There is no evidence of financial planning beyond this three-year horizon
- 40. The three-year financial plan sets out how NHS Western Isles plans to achieve financial balance over the period and projects a breakeven position each year. This is predicated on delivering significant recurring savings of £3.5 million in year 1 (this is 4.9% of baseline RRL), £4 million in year 2 and £2.9 million in year 3. The plan recognises the significant cost pressures facing NHS Western Isles including achievement of savings targets, addressing delayed discharges, staff absence rates and increasing demand.
- 41. Efficiency savings will play a crucial role in bridging this gap next year and in future years. Over 60% of the planned savings were achieved in 2016/17 on a recurrent basis but as noted above there is an increasing reliance on non-recurrent savings and this is a growing risk to achieving medium-term financial sustainability.

Financial sustainability looks forward to the medium and long term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Workforce planning

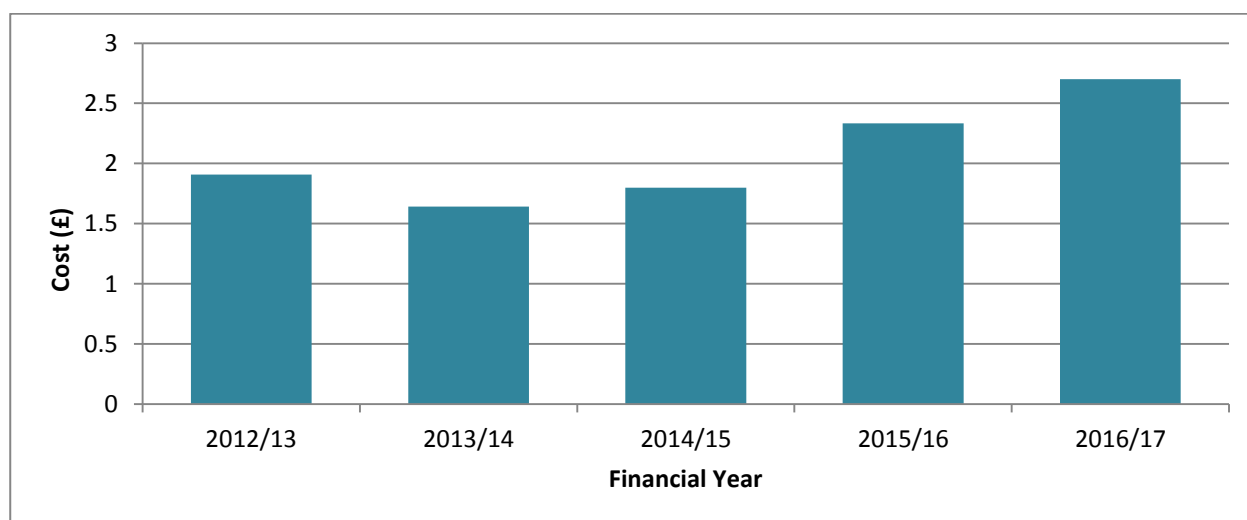
- 42. In February 2017, the Auditor General for Scotland published a data briefing on Scotland's NHS Workforce. It highlighted that NHS staff numbers are at their highest ever level, but there are key issues relating to the workforce. These include an ageing workforce, vacancy rates, increased spending on agency staff and sickness absence levels. NHS Western Isles is facing a number of workforce challenges. Currently 43.8% of the workforce is aged 50 or over, with more than 90% of consultants within this age group.
- 43. NHS Western Isles is also facing significant challenges in recruiting and retaining critical staff. In particular, the board remains dependent on the continued provision of visiting consultants and networked shared clinical care

arrangements. As partner boards respond to the challenges of increasing demand and delivering the Treatment Time Guarantee, there is a risk that partner boards may withdraw from the shared model of care. Inability to recruit critical staff also necessitates expensive temporary staff cover.

44. Spending on temporary staff at NHS Western Isles has increased over the last five years as illustrated in [Exhibit 8](#). Temporary staff provide flexibility in the short term by providing cover for sickness absence and vacancies but that comes at a cost. Spending on temporary staff has increased from £1.9 million (5.4%) in 2012/13 to £2.7 million (6.9%) in 2016/17.

## Exhibit 8

### Temporary staff costs



Source: Western Isles Health Board Annual Accounts 2012/13 to 2016/17

45. The increasing use of temporary staff, that can cost significantly more than permanent staff, is putting pressure on the Board's budget and does not represent value for money. We are aware that the finance department is working closely with budget holders at NHS Western Isles to try to improve rota management and reduce the use of temporary staff. However, it is clear that the use of agency workers (use of medical agency locums in particular) is relied upon to cover vacancies in the staff establishment, to ensure appropriate service delivery is maintained.
46. In addition NHS Western Isles, like most NHS Boards, is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence despite measures to maximise attendance at work. The sickness absence rate was 5.70% in 2016/17, compared to 5.98% last year. Whilst improving, this continues to be above the NHS Scotland average of 5.2%.
47. We will continue to monitor NHS Western Isles workforce plans, particularly its use of temporary staff, as staff costs in total account for a significant proportion (46.8 %) of the Board's annual revenue expenditure. Managing the staff costs budget effectively will be crucial to achieving financial targets in 2017/18.

## Health and Social Care Integration

48. Audit Scotland's publication Health and Social Care Integration published in December 2015 highlighted the significant risks which need to be addressed if integration is to fundamentally change the delivery of health and care services.

NHS Western Isles and the IJB are in on-going discussions on how to redesign community services across the islands. Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established.

# Part 4

## Governance and transparency



### Main judgements

**NHS Western Isles has an appropriate vision describing how health services will be delivered**

**Adequate arrangements exist for standards of conduct but improvements could be made with plans in place to extend the registers of interests to key staff**

**Financial controls operated satisfactorily during 2016/17**

**NHS Western Isles has appropriate governance arrangements in place for the board and should consider extending this to other committees.**

**NHS Western Isles has good arrangements in place for fraud detection and prevention**

### 2020 Vision

- 49.** In 2011 the Scottish Government set out an ambitious vision for health and social care that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. In NHS Western Isles has incorporated the 2020 vision aims within its Route Map to the 2020 Vision for Health and Social Care. This describes 12 priority areas for action.

### Standards of conduct and arrangements for the prevention and detection of bribery and corruption

- 50.** NHS Western Isles has a range of activities in place designed to maintain standards of conduct including Codes of Conduct for members and officers. Also, there are procedures in place for preventing and detecting bribery and corruption including a Fraud Policy and separate Bribery section within the Code of Corporate Governance. Officers are currently working with the Counter Fraud Service to review their documentation.
- 51.** During 2016/17 we reviewed NHS Western Isles' register of interests, and found that it met basic practice in most areas. All Board members complete a Declaration of Interest, including related parties disclosures, which is published on the board's website and updated annually or when amendments are reported by Board members. Currently, staff are not asked to make a formal declaration but officers acknowledge that arrangements need improvement and so plan to circulate the Declaration of Interest form completed by Board members to heads of department and budget holders for completion. It has yet to be decided whether this information will be published on the board's website.

- 52.** Based on our review of the evidence, we concluded that the board has adequate arrangements in place for standards of conduct and the prevention and detection of bribery and corruption.

## Transparency

- 53.** Transparency means that the public, in particular, local residents have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using resources such as money, people and assets.
- 54.** There is evidence from a number of sources which demonstrate the Board's commitment to transparency including the annual accountability review (where members of the public can attend). Board meetings are open to the public, and Board agendas, minutes and papers are available on the website.
- 55.** Although Board meetings are held in public, the Board's other committees (including the Health Governance & Audit Committee) are not. Minutes of these Committee meetings are, however, made available as part of the papers for subsequent Board meetings. In order to be fully transparent, all papers/ meetings should be open to the public with sensitive or confidential items held in private session/ restricted.

## Action Plan (Appendix 1, point 7)

### Governance arrangements

- 56.** As part of the wider review of governance arrangements across the public sector, we completed a follow-up of the 'Role of Boards' national report, published in September 2010. This involved review of documentation, attendance at Board meetings and discussions with key officers.
- 57.** Our review concluded that appropriate arrangements are in place to ensure the performance and governance of the Health Board are effectively scrutinised by non executive members. In addition, we noted that each committee meeting agenda includes an evaluation section which requires members to reflect on the meeting and consider whether they were provided with sufficient information to support effective scrutiny. We believe this is an area of good practice and welcome this approach.
- 58.** The Western Isles Integration Joint Board (IJB) became fully operational on 1 April 2016. Members of NHS Western Isles have a role on the IJB and its committees and therefore maintain an input and responsibility for their respective professional remits at all times. Minutes of the IJB are considered at the Healthcare Governance & Audit Committee of the NHS Western Isles Board, and delegated services are monitored through the Board's regular performance reports. As part of our 2017/18 audit we will further review the NHS Western Isles' scrutiny of the IJB.

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Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

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### Internal audit

- 59.** Internal audit provides the Board and Accountable Officer with independent assurance on NHS Western Isles overall risk management, internal control and corporate governance processes such as the roles and responsibilities of committees.
- 60.** The internal audit function is carried out by Scott Moncrieff. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

## Internal controls

- 61.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that NHS Western Isles has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.
- 62.** Our findings were included in an interim audit report presented to the Healthcare Governance and Audit Committee on 24 May 2017. We concluded that the controls put in place by management are adequate and are operating effectively. We identified several control weaknesses and undertook additional audit procedures during our final accounts work to confirm that the internal control weaknesses identified did not result in a material misstatement in the financial statements.

## Prevention and detection of fraud and irregularity

- 63.** We have a responsibility for reviewing the board's arrangements for the prevention and detection of fraud. Our audit work, in this area, covered a number of areas such as whistleblowing and liaison with Counter Fraud Services.
- 64.** We concluded that NHS Western Isles is proactive in promoting fraud awareness and had adequate arrangements in place for fraud detection and prevention during 2016/17.
- 65.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated 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. NFI activity is summarised in [Exhibit 9](#).

## Exhibit 9

### Total number of matches



2,145

### Number recommended for investigation



73

### Completed/closed investigations



50

Source: NFI secure website: [www.nfi.gov.uk](http://www.nfi.gov.uk)

- 66.** The NFI secure website lists a total of 2,145 data matches. From this total, 73 are classed as 'recommended' matches (high risk) for investigation. Matches were made available at the end of January 2017. We noted that there has been a delay, nationally, in providing payroll and procurement matches to organisations. This has also led to a delay in reporting the outcomes of the NFI process. Updates on NFI activity are reported regularly by the Fraud Liaison Officer to the Healthcare Governance and Audit Committee.

# Part 5

## Value for money



### Main judgements

**NHS Western Isles performs adequately with a majority of targets (61%) being met or exceeded.**

### Performance management

67. The Scottish Government monitors how NHS Western Isles performs against targets it set in its national performance framework. These include targets and their trajectories (plans) as set out in the board's Local Delivery Plan (LDP).

### Overview of service performance

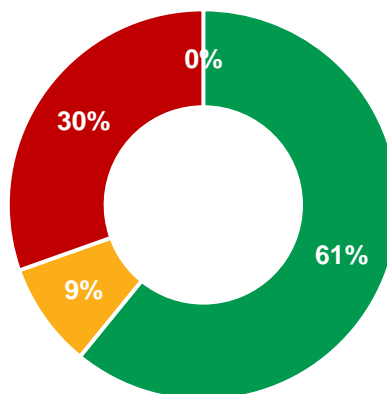
68. NHS Western Isle's performance against its 23 LDP Standards as reported in the 2016/17 annual accounts, and based on the most up-to-date position at the end of March 2017 is summarised in [Exhibit 10](#).

Value for money is concerned with using resources effectively and continually improving services.

### Exhibit 10

#### Overall performance

- Green Status (14) - being met or exceeded
- Amber Status (2) - within 5% of target
- Red Status (7) - more than 5% below target
- In Progress (0) - no data yet







Source: NHS Western Isles unaudited accounts 2016/17

69. Overall, NHS Western Isles performs adequately with a majority of targets (61%) being met or exceeded. There are 7 targets that are outwith acceptable standards and more details on these are provided in [Exhibit 11](#).

## Exhibit 11

### Performance against key LDP standards

Standard	Target	Performance at March 2017	Action being taken by NHS Western Isles
Cancer 62 day referral to treatment (RTT)	95%	 82.6%	The improvement in performance is out with our control, all are referred timeously from NHS Western Isles to mainland health boards. The Board will continue to raise concerns via SLA monthly meetings.
MRSA/MSSA cases per 1,000 acute bed days	0.24	 0.39	Critical Incident reports continue to be cascaded to staff by the Infection Prevention and Control Team in their education sessions
Alcohol Brief Interventions	317	 294	The Board will follow up on the implementation of the SLA for Alcohol Brief Interventions (ABI) with Primary Care Services. Training of additional staff to deliver ABI has now taken place
Sickness absence	4.0%	 6.86%	The Board have now implemented EASY throughout the organisation. The objective is that the implementation of EASY will help support the reduction in sickness absence and provide managers with additional support when managing staff absence.
Proportionate increase in cases of early detection of cancer	29%	 23.9%	The actual is based on combined sets of 2 calendar years (latest period 2014-2015), the Board expects the actual for the next 2 calendar years to be above 29%
Early access to antenatal services by 12 <sup>th</sup> week	80%	 75%	Strive to implement an electronic maternity

system that will give the Board more accurate information, this will help with quicker resolution to incorrect data entry by mainland boards.

Dementia: access to post diagnostic support

100%

● 0%

Vacancy now been filled. However performance cannot be assessed until the post holder has not been in situ for one full year.

Source: Source: NHS Western Isles unaudited Accounts 2016/17

- 70.** We have not assessed whether the actions identified are likely to address measures that are not achieving “green” status.




### National performance audit reports

- 71.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which are of direct interest to the board. These are outlined in [Appendix 4, page 30](#).

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

			
Para no.	Issue/risk	Recommendation	Agreed management action/timing
156	<p><b>1. Review Finance staffing</b></p> <p>The board did not provide a full set of financial statements till the 25 May and some significant changes were made up till the week commencing 19 June. We believe that one factor might be the availability and capacity of finance staff.</p> <p><b>Risk:</b> The Board fails to provide staff to answer audit questions or deliver audited financial statements on time.</p>	<p>NHS Western Isles should review the finance staffing arrangements including backfill for the acting director of finance and availability and cover of key staff during audit visits.</p>	<p>The Accountable Officer is reviewing staffing arrangements including backfill for the acting director of finance.</p> <p>Normally all 3 accountants are present during audit and previous audits were within a two week timeframe. There will always be exceptions in a small Boards for example unplanned sickness.</p> <p>Responsible Officer: Chief Executive/Acting Director of Finance</p> <p>Agreed date: October 2017</p>
28	<p><b>2. Review of classification of assets within Notes</b></p> <p>We identified differences with the values identified in the financial statements and the underlying fixed asset register, between classes of asset. In total intangible and property, plant and equipment assets were correctly stated.</p> <p><b>Risk</b> The classification of assets into classes becomes materially misstated in the notes to the accounts.</p>	<p>The consistency of values between the Fixed Asset Register and the financial statements should be reviewed in 2017/18 and checked by management as part of the process of preparing the financial statements.</p>	<p>The differences noted are in relation to historic opening balances. In 2017/18 we will perform a thorough review of fixed assets and will amend these difference as part of the process</p> <p>Responsible officer: Principal Accountant Technical</p> <p>Agreed date. December 2017</p>



Para no.	Issue/risk	Recommendation	Agreed management action/timing
29	<p><b>3. Depreciation calculation</b></p> <p>We calculated the depreciation charge on all assets and found that the net difference in calculation is £0.046 million. This is 2% of the total depreciation charge for 2016/17.</p> <p><b>Risk</b> The depreciation charge becomes materially misstated.</p>	<p>The basis of depreciation charges following revaluation should be reviewed during 2017/18.</p>	<p>In 2017/18 we will perform a thorough review of fixed assets including the depreciation calculation run within RAM</p> <p>Responsible officer: Principal Accountant Technical</p> <p>Agreed date: December 2017</p>
30	<p><b>4. Asset additions and valuation</b></p> <p>A number of asset additions to buildings were not treated correctly and were not eliminated as revaluation adjustments when they were subsumed in the valuer's valuation of those buildings at 31 March 2017</p> <p><b>Risk:</b> The valuation of assets becomes materially overstated.</p>	<p>We commend that a process is established to review the treatment of any asset additions which have been subject to a year end valuation report.</p>	<p>In 2017/18 we will update the internal capital procedures to take onboard any amendments required in relation to asset additions.</p> <p>Responsible officer: Principal Accountant Technical</p> <p>Agreed date: December 2017</p>
31	<p><b>5. RTA income</b></p> <p>NHS Western Isles is not accruing for RTA income in accordance with the Department of Health's Guidance At NHS Western Isles RTA income was being accounted for on a cash basis as it was received</p>	<p>NHS Western Isles should review how it accounts for RTA income during 2017/18.</p>	<p>The Board will accrue RTA income starting from 2017/18</p> <p>Responsible Officer: Principal Financial Accountant</p> <p>Agreed date: from July 2017</p>
32	<p><b>6. Revaluation reserve transfers to general fund</b></p> <p>The financial statements do not include any transfers between revaluation reserve and general fund in the Statement of Changes in Taxpayers Equity. In accordance with IAS16 Para 41, organisations can choose to make adjusting entries to the revaluation reserve throughout an assets life or at disposal. In order to do this, a record must be kept of how</p>	<p>We recommend that the revaluation reserve adjustments and policy are reviewed during 2017/18 and that the capability of the fixed assets register to account for the reserves movement is assessed.</p>	<p>In 2017/18 we will perform a thorough review of the fixed asset register and will address any adjustments required to the revaluation reserve.</p> <p>Responsible officer: Principal Accountant Technical</p> <p>Agreed date: December 2017</p>



**Para  
no.**

**Issue/risk**

**Recommendation**

**Agreed management  
action/timing**

any reserve balance is  
allocated to individual assets.

**55**

**7. Openness of committees**

Although Board meetings are held in public, the Board's other committees (including the Health Governance & Audit Committee) are not. .

In order to be fully transparent, all papers/ meetings should be open to the public with sensitive or confidential items held in private session/ restricted

Minutes from the Board's Statutory Committees are presented at the Board's public meetings and are available on the website.

Other papers can be accessed via a Freedom of Information request.

We will review at Board level the risks and benefits of these meetings being open to public attendance.

Responsible Officer: Chief Executive

Agreed date: October 2017

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<b>1 Risk of management override of controls</b>  ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls in order to change the position disclosed in the financial statements.	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Focused testing of accruals and prepayments.</li> <li>Review of significant management estimates and evaluation of the impact of any variability in key assumptions.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> <li>Substantive testing of transactions after the year end to confirm expenditure and income has been accounted for in the correct financial year.</li> </ul>	<p><b>Results</b> We did not identify any significant issues within our work on journals or accounting estimates. We identified late notification of IJB net assets due to allocation of local government CHCP reserves and ensured these were reflected in the audited accounts .</p> <p><b>Conclusion</b> We did not identify any issues as a result of our audit work that would indicate management override of controls that materially affect the year-end position.</p>
<b>2 Risk of fraud over income</b>  NHS Western Isles receives approximately 5% of income from sources other than Scottish Government funding. The extent of complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud that requires an audit response.	<ul style="list-style-type: none"> <li>Analytical procedures on income streams.</li> <li>Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>	<p>We did not identify any significant issues in our testing of income transactions, in our review of NFI matches, or walkthroughs of systems. We identified that RTA income was not being accrued.</p> <p><b>Conclusion</b> We did not identify any fraud issues.</p>
<b>3 Risk of fraud over expenditure</b>  The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. NHS Western Isles incurs significant expenditure on patient travel and family health service expenditure.	<ul style="list-style-type: none"> <li>Walk-through of controls over patient travel.</li> <li>Detailed substantive testing of patient travel expenditure.</li> <li>Audit work on the National Fraud Initiative matches.</li> <li>Obtain assurance from the Counter Fraud Service.</li> </ul>	<p><b>Results</b> We did not identify any significant issues in our testing of expenditure transactions, in our review of NFI matches, review of correspondence issues concerning dental expenditure or walkthroughs of systems, including patient travel expenditure.</p> <p><b>Conclusion</b> We did not identify</p>

Audit risk	Assurance procedure	Results and conclusions
		any fraud issues.
<p><b>4 Estimation and judgements</b></p> <p>There is a degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions. This subjectivity represents and increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Completion of 'review of the work of an expert' for the professional valuer.</li> <li>• Review of information provided by the Central Legal Office.</li> <li>• Focused substantive testing of provisions.</li> </ul>	<p><b>Results</b> Refer point 2 above. We also identified an error in the consistency of valuation adjustments when there has been expenditure on associated assets included within the valuer's report</p> <p><b>Conclusion</b> We did not identify any material errors in estimates as a result of our audit.</p>
<p><b>5 Consolidation of Curam Is Slainte Nan Eilean Siar (CISNES) Integration Joint Board</b></p> <p>CISNES will be consolidated into the accounts of NHS Western Isles for the first time in 2016/17.</p> <p>The timing of CISNES accounts may affect the production of the NHS Western Isles group accounts and as the adjustment is being made for the first time, there may be errors in accuracy and disclosure.</p>	<ul style="list-style-type: none"> <li>• Consider the process for consolidation.</li> <li>• Agree the consolidation adjustment is accurate and correctly disclosed.</li> <li>• Confirm that any balances relating to CISNES have been agreed by the partner bodies.</li> </ul>	<p><b>Results</b> The process for consolidation was in line with the integration scheme, although there was a delay with presenting auditable transactions between NHS Western Isles and the IJB and delay in the final figures for net assets agreed by the partner bodies.</p> <p><b>Conclusion</b> – We did not identify any material errors in accuracy or disclosure as a result of our audit</p>
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>6 Financial sustainability</b></p> <p>NHS Western Isles has developed a 5 year financial plan to 2020/21 which outlines the reliance on identifying and achieving non-recurring efficiency savings to deliver a break even outturn position. Delivering efficiency savings is increasingly challenging and represents a risk to the financial sustainability of the health board.</p>	<ul style="list-style-type: none"> <li>• Review financial monitoring reports and the financial position.</li> <li>• Undertake specific audit work on financial planning and governance. This will include assessing the robustness of long term financial planning.</li> </ul>	<p><b>Results</b> –NHS Western Isles does not have a long term financial plan although a limited medium term plan is produced through the LDP. We have flagged concerns about the increasing reliance on non recurring savings and the pressure this adds to the board's on-going financial sustainability.</p> <p><b>Conclusions</b> – NHS Western Isles' financial sustainability continues to be a significant challenge.</p>

# Appendix 3

## Summary of unadjusted errors

**We report all uncorrected misstatements that are individually greater than our reporting threshold.**





















The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 3 \(page 9\)](#).

	Account areas	SCCNE		Consolidated Balance sheet	
		Dr £m	Cr £m	Dr £m	Cr £m
<b>1</b>	<b>Classification of intangible assets NBV within Note 10a (software licences and IT)</b>				
	Intangible Assets (software)			0.028	
	Intangible Assets (licences)		0.028		
<b>2</b>	<b>Depreciation calculated on Historic Cost rather than Revalued amount</b>				
	HCH expenditure	0.046			
	Property, Plant and Equipment				0.046
<b>3</b>	<b>Classification of property assets NBV within Note 11a (Buildings and Dwellings)</b>				
	Property, Plant and Equipment (buildings)		0.349		
	Property, Plant and Equipment (dwellings)			0.349	
<b>4</b>	<b>Capital expenditure (included in valuation)</b>				
	Loss on revaluation (Other Comp Net Exp)	0.084			
	Property, Plant and Equipment (dwellings)			0.084	
<b>5</b>	<b>Omission of RTA debtor/ income</b>				
	Trade and other receivables		0.045		
	HCH income	0.045			
	<b>Net impact – Net expenditure</b>		<b>0.001</b>		
	<b>Net impact – Other comprehensive expenditure</b>	<b>0.084</b>			
	<b>Net impact – Total taxpayers equity</b>				<b>0.085</b>

# Appendix 4

## Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

### NHS relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[NHS in Scotland 2016](#) – October 2016

[Social work in Scotland](#) – September 2016

[Scotland's NHS workforce](#) – February 2017

# NHS Western Isles

## 2016/17 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)