

NHS Western Isles

Management Report 2019/20



 AUDIT SCOTLAND

Prepared for NHS Western Isles

May 2020

Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at NHS Western Isles. This work included reviewing the design and implementation of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We will use the results of this testing to determine our approach during the 2019/20 financial statements audit.

2. Our responsibilities under the [Code of Audit Practice](#) require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

3. We have also under the [Code of Audit Practice](#), carried out work on the wider dimension audit. This focussed on financial management, financial sustainability, governance and transparency and value for money.

COVID-19

4. The audit work contained in this report pre-dates the COVID-19 global pandemic and our audit approach may require further revision once we are clearer about the accounting and auditing frameworks that will apply to the audit of the 2019/20 financial year.

Conclusion

5. We identified several control weaknesses as summarised in [Exhibit 2](#) where we will be carrying out additional work in response to these findings.

6. In terms our wider dimension audit work we concluded that appropriate arrangements were in place for financial management, financial sustainability, governance, and value for money although with some areas for improvement as set out in Exhibit 2.

Work summary

7. Our 2019/20 review covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, our review covered budget monitoring and control and feeder system reconciliations as well as considering the Board's participation in the National Fraud Initiative.

8. Internal audit services continued to be provided by Scott Moncrieff during 2019/20. We have not placed any formal reliance on internal audit to support our audit opinion on the financial statements. However, in respect of our wider audit

dimension responsibilities, we have placed reliance on Workforce Management and Corporate Governance.

9. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during our audit is gratefully acknowledged.

Risks identified

10. The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 2](#) and [Exhibit 3](#). These findings inform our approach to the 2019/20 financial statements audit where relevant.

11. Our review identified additional control weaknesses in relation to payroll and fixed assets. These controls are not considered to be key controls or represent risks of material misstatement and therefore, do not have an impact on our audit approach. However, these weaknesses have been discussed with management to ensure that they are addressed to improve the internal control environment.

- NHS Greater Glasgow & Clyde payroll exception reports are not accessed or reviewed by NHS Western Isles.
- Payroll amendments processed by NHS Greater Glasgow & Clyde are not reviewed by NHS Western Isles to confirm the accuracy of the change.
- The fixed assets spreadsheet is password protected and known to a number of finance staff, but there are no formal procedures in place for granting or removing access.

12. We have followed up the recommendations made in our 2018/19 Annual Audit Report in relation to the wider dimension risks as detailed in [Exhibit 4](#). In addition, our 2018/19 Annual Audit Report outlined two financial statements risks. These risks will be assessed as part of our 2019/20 financial statements audit in May 2020 with an update provided in our 2019/20 Annual Audit Report.

13. Any weaknesses identified represent those that have come to our attention during normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to NHS Western Isles.

Additional audit work due to systems weaknesses

14. Interim testing has identified systems weaknesses which require us to reconsider our audit procedures. We have identified a need to undertake additional audit work during our financial statements audit as follows:

- We will substantively test new starts and leavers to confirm the validity of employees listed on the Payroll System (see [Exhibit 2](#) - Payroll).
- We will perform substantive analytical procedures to obtain assurances over payroll costs. (see [Exhibit 2](#) - Payroll).

National Fraud Initiative

15. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland and overseen by the Cabinet Office for the UK. 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 within NHS Western Isles is summarised in [Exhibit 1](#).

Exhibit 1 NFI activity



503

Matches



8

Completed/closed
investigations by 30
September 2019 deadline



503

Completed/closed
investigations by 31 March
2020

Source: NFI secure website: www.nfi.gov.uk

16. All matches from the 2018/19 NFI exercise were investigated and no frauds or errors were identified. Updates on NFI activity are reported regularly by the Fraud Liaison Officer to the Healthcare Governance and Audit Committee. The outcomes of the 2018/19 NFI exercise are due to be reported to the Healthcare Governance and Audit Committee in May 2020.

17. Overall, the initial level of engagement with the 2018/19 NFI exercise was disappointing with only 8 from a total of 503 matches investigated by the 30 September deadline. This was discussed with the Key Contact at the Health Board in February 2020 and all remaining matches were then investigated by 31 March 2020. A proportionate and risk-based approach should be applied to following up matches in a reasonable timescale for the 2020/21 NFI exercise.

Exhibit 2 Internal controls key findings and action plan 2019/20

Issue identified	Management response	Responsible officer / target date
<p>Payroll Validation</p> <p>A validation exercise to verify the existence of employees on the payroll system is not performed. Instead, reliance is placed on the 'Staff Monitoring Spreadsheet' that is prepared as part of the monthly financial monitoring arrangements to identify any discrepancies with staff numbers.</p> <p>Without confirmation, there is a risk that payments are made to people who are not employed by the Health Board.</p>	<p>Budget Holders and Managers receive their salary monitoring sheets and are advised by Finance to look at all staff members and report back to ensure that any new starters have correctly been allocated to their roster, staff members that have left have not been paid and amendments to salaries i.e. band changes etc. are picked up. The Board will be advising (and offering training where required) all budget holders/roster managers of the necessity of completing leaver forms on a timely basis to stop ex staff being paid after they have left the organisation. The Board are picking up overpayments, but the risk is that debts may not be paid back after a staff member has left.</p>	<p>Director of Human Resources and Workforce Development / Director of Finance</p> <p>31 August 2020</p>

Source: Audit Scotland

Exhibit 3

Wider dimension key findings and action plan 2019/20

Issue identified	Management response	Responsible officer / target date
<p>Financial Management – Financial Reporting</p> <p>NHS Western Isles has effective budget monitoring arrangements that allow scrutiny of the Board's finances. However, financial monitoring reports presented to the Board and Healthcare Governance and Audit Committee do not contain the details of any risk exposure to overspends in the Integration Joint Board, as a result, of the risk-share arrangement.</p> <p>There is a risk that financial monitoring reports are incomplete and do not transparently report the overall financial position of NHS Western Isles.</p>	<p>For the last 3 years there has been no risk of exposure to overspends in the Integrated Joint Board due to the underspends in Social Care and the large general reserves held by the Integrated Joint Board. However, going into 20/21 the risk will be live and will become part of the monthly Finance Board Reports risk assessment.</p>	<p>Director of Finance 30 June 2020</p>
<p>Financial Sustainability – Transformational Plan</p> <p>In order to bridge the funding gap and achieve the required level of efficiency savings, the Health Board should develop a transformational plan for the redesign of services. This should be developed alongside the medium to longer-term financial plan and consistent with the Integration Joint Board (IJB) Transformational Plan for the delivery of IJB related services that are provided by the Health Board.</p> <p>There is a significant risk that transformational change for Board services does not progress as planned and fails to achieve planned savings targets.</p>	<p>In the current circumstances and COVID 19 Pandemic it is unlikely that re-mobilisation plans and systems associated with the “new normal” allow for the preparation of a Transformational Plan based on current business as usual service configuration. The Board will revisit in 6 months.</p>	<p>Chief Executive / Nurse Director Ongoing</p>
<p>Governance and Transparency – Website</p> <p>Our 2019/20 Annual Audit Plan outlined that the Board's website has been under reconstruction for the past 18 months and minutes of both the Board and its statutory committees have not been publicly available since June 2018. The website does not include key documents such as the 2018/19 annual report and accounts.</p> <p>Management have advised that the Health Board are having ongoing issues with their current website provider and until the current contract ends, they are unable to move forward</p>	<p>The Board is working with a new website provider and are moving quickly forward with the new website. We will have a version for Management review week beginning 11 May 2020 and should go live shortly after. All relevant and up to date finance reports will be part of the new site.</p>	<p>Communications Manager 31 July 2020</p>

Issue identified	Management response	Responsible officer / target date
<p>with the website. In addition, the website still does not include the 2018/19 Annual Report & Accounts, and this will soon be superseded by the 2019/20 Annual Report & Accounts. Should this not be updated, the current 2017/18 Annual Report & Accounts which are currently made available on the website will be two years out of date.</p> <p>There is a risk that NHS Western Isles is failing to meet expectations of openness and transparency.</p>		
<p>Governance and Transparency – Financial Capacity</p> <p>From our audit work over the past number of years, we are satisfied that there are suitably qualified and experienced staff leading the finance team within NHS Western Isles. We note that there have been no changes in the leadership of the finance function during the year.</p> <p>However, NHS Western Isles needs to consider the capacity of the finance function given the dual role being completed by the Director of Finance and Procurement also acting as Chief Financial Officer of the Integration Joint Board. Whilst we are aware that capacity is an ongoing consideration, we note the dual role of this position is not reviewed on a regular basis. This should be specifically considered given the changes in the Chief Officer of the Integration Joint Board position in April 2020.</p> <p>There is a risk that the dual role held by the Director of Finance and Procurement has an adverse impact on the finance function within the Health Board.</p>	<p>The role of the Chief Finance Officer is limited to about 1/5th of a full-time post, sometimes less. The CFO is aided by 1 NHS Accountant and 1 Social Care Accountant. At present with no Chief Officer in post it is best to have some system wide continuity and leadership.</p>	<p>Chief Executive Ongoing</p>
<p>Governance and Transparency – Internal Audit Recommendations</p> <p>NHS Western Isles have made significant progress in recent years in addressing all outstanding and overdue internal audit recommendations. This was at a high in February 2015 with 79 outstanding recommendations and 69 overdue recommendations. This has now reduced to 23 outstanding recommendations with 12 overdue recommendations.</p>	<p>Due to the lack of Executive Directors there has been some slippage in completing recommendations. However, with the recruitment of a Director of HR who started January 2020 and the recruitment of a Medical Director in March 2020 we anticipate reducing the number of overdue recommendations (subject to COVID 19 issues).</p>	<p>Director of Finance 30 September 2020</p>

Issue identified	Management response	Responsible officer / target date
<p>However, over the course of 2019/20 the position has slowly began to deteriorate. As at May 2019, the number of actions either On Track or Completed represented 67% of all recommendations with 33% Overdue. This position significantly declined by February 2020 with 39% as either On Track or Completed and 52% Overdue. In addition, the number of Overdue recommendations has doubled over this period from 6 to 12 with the Director of Human Resources and Workforce Development and Nurse Director having 5 Overdue recommendations each. Furthermore, 8 (67%) of these 12 Overdue recommendations were graded as either very high risk or high risk.</p> <p>There is a risk that agreed internal audit recommendations are not implemented by the agreed deadline to prevent or detect a control failure in the Health Board's operations.</p>		
<p>Governance and Transparency – NFI</p> <p>Overall, the initial level of engagement with the 2018/19 NFI exercise was disappointing with only 8 from a total of 503 matches investigated by the 30 September deadline. A proportionate and risk-based approach should be applied to following up matches in a reasonable timescale for the 2020/21 NFI exercise.</p> <p>There is a risk that NHS Western Isles do not have appropriate arrangements in place to follow up matches in a timely manner.</p>	<p>The Board look at the high-risk areas of the NFI exercise as recommended. Many of the matches are low value and are symptomatic of living in a small island with suppliers having the same postcodes, staff also being patients and therefore claiming expenses.</p> <p>We will for the next NFI exercise increase the % of matches that we examine.</p>	<p>Principal Financial Accountant</p> <p>30 September 2021</p>
<p>Value for Money – Workforce Sustainability</p> <p>The Health Board is facing a number of workforce challenges. These include an ageing workforce, vacancy rates, spending on agency staff and sickness absence levels. A Workforce Strategy is under development in order to put appropriate actions in place to address these issues. This should be progressed and implemented as a matter of priority.</p> <p>There is a risk that NHS Western Isles do not have robust plans in place to address its workforce sustainability issues.</p>	<p>The risk that the Health Board is facing is Island wide and alone the NHS workforce strategy will not address the issues we are facing. The Board is working with the Community Planning Partnership, National Islands Plan etc., to try and increase the population of the island and therefore ultimately have a sustainable workforce</p> <p>At present the new WFP guidance covering Health & Social Care is for a three-year period and is due to be submitted to Scottish Government by March 2021. This may change due to Covid 19 and Boards are awaiting Scottish Government Guidance.</p>	<p>Director of HR</p> <p>31 March 2021 (dependant of any COVID 19 issues)</p>

Issue identified	Management response	Responsible officer / target date
<p>Value for Money – Temporary Staff Costs</p> <p>Our 2018/19 Annual Audit Report highlighted that spending on temporary staff at NHS Western Isles has increased by 75% over the last five years. Spending on temporary staff costs is forecast to be £4.1m for 2019/20 and this represents an increase of 141% since 2013/14.</p> <p>There is a significant risk that continued reliance on non-core staff will have a significant impact on the Health Board’s plans to achieve the efficiency savings required for longer-term financial sustainability.</p>	<p>NHS Western Isles has put in place workforce schemes to drive the cost of Agency Locums down by employing these people directly onto our payroll as IR35 workers at agreed working time equivalent rates. With the Board ongoing workforce challenges it is and will be difficult to drive down the use of temporary staff when the Board has a nearly 13% vacancy rate and a 27% vacancy rate within the consultant cohort. Work will continue to recruit to hard to fill posts and where that is not possible to try and employ temporary staff as efficiently as possible.</p>	<p>Director of Finance, Director of HR and Medical Director</p> <p>Ongoing</p>

Source: Audit Scotland

Exhibit 4

Follow-up of 2018/19 recommendations

Issue identified / Risk / Recommendation	Management response / Responsible officer / Target date	2019/20 update
<p>Financial Statements – Receipt of Unaudited Accounts</p> <p>Issue identified: The board did not provide a full set of financial statements till 7 June 2019.</p> <p>Risk: The Board fails to deliver audited financial statements on time.</p> <p>Recommendation: NHS Western Isles should review arrangements for preparing its financial statements.</p>	<p>Management response: As reported the IJB figures were not submitted by 10 May 2019. The Comhairle had not closed their accounts at that point and Comhairle journals were still be undertaken by 23 May 2019. Figures had still not been provided by 25 May when unfortunately, the CFO went off on unplanned absence. For 2019/20 closing accounts NHS Western Isles will ask the Comhairle to provide their data earlier but it is unlikely they will change their closing timetable to 10 May 2020. The Social Care element is part of the overall Comhairle closing timetable.</p> <p>Responsible officer: Director of Finance and Procurement</p> <p>Agreed date: 31 March 2020</p>	<p>Ongoing.</p> <p>Management response: Due to COVID 19 Pandemic there maybe slippage as SG have yet to provide final allocation letters and SG have agreed to a possible 3 months slippage period. However, NHS Western Isles aim to deliver audited financial statements on time.</p> <p>Responsible officer: Director of Finance</p> <p>Revised date: 31 May 2020</p>
<p>Financial Statements – Inventory Valuation</p> <p>Issue identified: A variance of £62,543 exists between the JAC</p>	<p>Management response: JAC is not a financial system but a drug control system. The £62,543 relates to an overstatement of the opening stock when the stock was transferred from</p>	<p>Ongoing.</p> <p>Management response: The Principal Financial</p>

Issue identified / Risk / Recommendation	Management response / Responsible officer / Target date	2019/20 update
<p>pharmacy system and the financial ledger. The difference has been investigated by Finance who have been unable to establish the reason because data cannot be re-created to enable a reconciliation to be performed. We have accepted the lower valuation (financial ledger) amount of £209,407, reflected in the board's accounts. Use of the higher (JAC) valuation would result in an increase in the underspend against total revenue resource limit. The variance represents almost 30% of the total recorded value of pharmacy stock. This issue was also raised last year.</p> <p>Risk: The inventory valuation is not accurate.</p> <p>Recommendation: Discrepancies between the JAC system and the financial ledger require to be resolved to ensure an accurate inventory valuation.</p>	<p>the previous system to JAC in 2017. This figure will remain unless the Board can find a way of removing the £62,543 value from JAC without affecting the drug stock count which is correct. The Board will work with the software suppliers to correct the opening balance.</p> <p>Responsible officer: Principal Accountant</p> <p>Agreed date: 31 March 2020</p>	<p>Accountant has reconciled the JAC stock system and a briefing note will be available to External Audit as part of the annual accounts review.</p> <p>Responsible officer: Principal Financial Accountant</p> <p>Revised date: 31 May 2020</p>
<p>Financial Management – Non-Recurring Savings</p> <p>Issue identified: £1.0 million (45%) of savings were achieved on a recurring basis, the remaining £1.2 million (55%) were non-recurrent. Although, the total savings target was lower than in the previous two financial years, the proportion of savings being delivered on a recurring basis has fallen.</p> <p>Risk: There is a significant risk that NHS Western Isles will continue to rely on non-recurring savings and be unable to deliver the savings required to achieve a balanced budget on a recurring basis over the new three-year planning and performance cycle.</p> <p>Recommendation: NHS Western Isles should increase its efforts to reduce its dependency on non-recurrent savings to balance its financial position each year.</p> <p>Update: NHS Western Isles 2019/20 budget required savings of £3.5m to be delivered in order to achieve a balanced budget. 66% (£2.3m) of these savings were non-recurring savings.</p>	<p>Management response: The Board is sighted on the necessity of achieving recurring savings and has already got a number of groups set up to achieve an increase in recurring savings, i.e. Patient Pathways Group (reduce reliance of travel by providing appointment using VC) and a focussed SLA group. There has already been the first meeting on the IJB Strategic Finance Group to discuss recurring savings over the next 3 years, and further meetings are scheduled.</p> <p>Responsible officer: Director of Finance and Procurement</p> <p>Agreed date: 31 March 2020</p>	<p>Ongoing.</p> <p>Management response: Due to COVID 19 at present all groups have been temporary disbanded. The budget was set as per a "normal" year, but we recognise that planned review work is not likely to happen until 21/22.</p> <p>Responsible officer: Director of Finance</p> <p>Revised date: Ongoing</p>

Issue identified / Risk / Recommendation	Management response / Responsible officer / Target date	2019/20 update
<p>Financial Sustainability – Efficiency Savings</p> <p>Issue identified: The Board's has a funding gap of £3.5 million in 2019/20 to be met by efficiency savings of £2.2 million (63%) and unidentified savings assumed to be delivered in-year of £1.3 million (37%).</p> <p>For the unidentified savings the Board has identified the main areas requiring recurring transformational savings. However detailed plans on how these will be delivered have yet to be fully developed.</p> <p>Risk: Financial targets will not be met as there is a lack of clarity in how the required savings will be achieved.</p> <p>Recommendation: Detailed savings plans should be developed to ensure that NHS Western Isles can deliver the required savings.</p> <p>Update: The medium-term financial plan covering the three-year period to 2021/22 outlines a funding gap of £4.9m for 2020/21 and £6.3m for 2021/22. This gap has increased year-on-year and is to be met through efficiency savings.</p>	<p>Management response: The Board will by the end of July 2019 set up small short life working groups (SLWGs), where relevant, to tackle each one of the areas where we believe further efficiencies could be made (briefing note provided). Each group would be supported by finance and led by the appropriate manager of the service. The Nurse Director has started the process to set up a focussed work SLA group to tackle both identified savings and contribute further to efficiencies over the next 3 years. We may second an appropriate person to aid with this focussed work.</p> <p>The governance of the SLWGs will be accountable to the Nurse Directors monthly operational management meeting. The SLWGs will update, escalate and be directed as necessary.</p> <p>Responsible officer: Director of Finance and Procurement and Nurse Director</p> <p>Agreed date: 1 August 2019 (for set up)</p>	<p>Ongoing.</p> <p>Management response: The Board has achieved the savings for 19/20 but recognise the savings plans in place for 2020/21 may need to be deferred and 1 off savings primarily relating to COVID 19 could be used in instead.</p> <p>Responsible officer: Director of Finance</p> <p>Revised date: 31 March 2021</p>
<p>Governance and Transparency – GDPR Compliance</p> <p>Issue identified: GDPR compliance is an ongoing project and the Board should undertake periodic internal audits and regularly update data protection processes. This includes checking records of processing activities and consent, testing information security controls, and conducting Data Protection Impact Assessments.</p> <p>Risk: Infringement of the EU GDPR can result in administrative fines or a range of corrective actions.</p> <p>Recommendation: The Board should undertake periodic internal audits to monitor GDPR compliance and regularly update data protection processes.</p>	<p>Management response: NHS Western Isles will monitor finance assets at least annually on the Boards asset register, making sure all processing has an appropriate legal basis under GDPR. Any new suppliers processing personal data will complete a Data Processing Agreement/Data Protection Impact Assessment prior to any change. A Data Protection Impact Assessment template was created by the National Information Governance Forum for use, and the hope is that an electronic version will be available in 2019. All staff receive Information Governance corporate induction training and are expected to complete a Safe Information Handling Learn Pro module and will soon be asked to complete an Information Security Learn Pro module, at least every two years.</p> <p>Responsible officer: Information Governance Officer</p> <p>Agreed date: 31 March 2020</p>	<p>Ongoing.</p> <p>Management response: No change in update.</p> <p>Responsible officer: Information Governance Officer</p> <p>Revised date: Ongoing</p>

Issue identified / Risk / Recommendation	Management response / Responsible officer / Target date	2019/20 update
<p>b/f Governance and Transparency – Longer-Term Financial Planning</p> <p>Issue identified: The board has not produced a financial plan beyond 2018/19.</p> <p>Risk: There is a significant risk that NHS Western Isles will continue to rely on non-recurring savings and be unable to deliver the savings required to achieve a balanced budget on a recurring basis over the three-year planning and performance cycle and over the longer term.</p> <p>Recommendation: The board should develop a medium to long-term financial plan.</p> <p>Update: NHS Western Isles has developed a high-level medium-term financial plan covering the period 2019/20 – 2021/22. However, a longer-term financial plan has yet to be developed.</p>	<p>Management response: A medium term financial plan has been developed but the development of long-term financial planning is dependent on the work of the regional programme and regional partners.</p> <p>Responsible officer: Director of Finance and Procurement</p> <p>Agreed date: 31 December 2018</p>	<p>Ongoing.</p> <p>Management response: A three-year plan was submitted as part of the AOP taking the Board up to 22/23. In light of COVID 19, a mid-year review will be undertaken.</p> <p>Responsible officer: Director of Finance</p> <p>Revised date: 31 March 2021</p>
<p>b/f Governance and Transparency – Business Continuity Management</p> <p>Issue identified: In April 2018, internal audit conducted a review of the extent to which NHS Western Isles has implemented an effective Business Continuity Management (BCM) framework and testing of these plans.</p> <p>Risk: Their review identified that significant improvements are required.</p> <p>Recommendation: The board should ensure that identified weaknesses in business continuity / disaster recovery arrangements are resolved as a matter of urgency.</p>	<p>Management response: The Corporate Risk Register now includes a requirement to ensure that a business continuity management system is in place. This risk is assessed at each Board meeting.</p> <p>The Board's Business Continuity Strategy will be updated in July 2019 and will include clear guidance on roles and responsibilities as well as expectation of governance arrangements for business continuity. A timetable for completion of the business continuity plans has yet to be agreed.</p> <p>Responsible officer: Director of Public Health</p> <p>Agreed date: First update to the HGAC 19 September 2018.</p>	<p>Ongoing.</p> <p>Management response: Work is still underway and is being reviewed by internal audit.</p> <p>Responsible officer: Nurse Director</p> <p>Revised date: 31 March 2021</p>

18. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

NHS Western Isles

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