

# NHS WESTERN ISLES

2017/18 Annual Audit Report



 AUDIT SCOTLAND

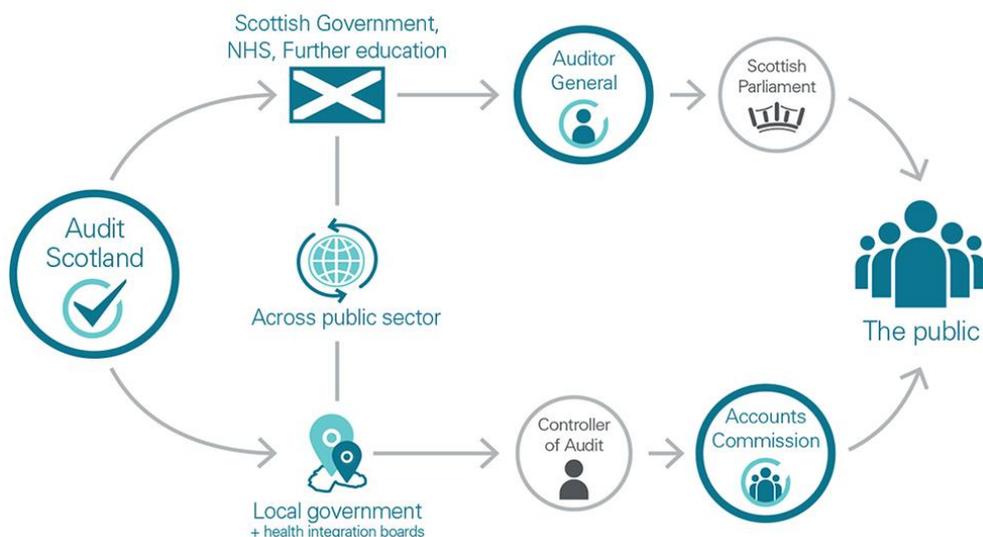
Prepared for the Board of NHS Western Isles and the Auditor General for Scotland

June 2018

## 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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## 2017/18 annual accounts

- 1 Our audit opinions are all unqualified.

## Financial management and financial sustainability

- 2 NHS Western Isles operated within its revenue resource limit reporting an underspend against this of £0.013 million, but after it had received additional funding of £0.5 million from Comhairle nan Eilean Siar to cover overspends in IJB services.
- 3 NHS Western Isles did not achieve its savings target on a recurring basis in 2017/18. It achieved £2.4 million on a recurrent basis: £1.1 million short of the target of £3.5 million.
- 4 Efficiency savings required in 2018/19 are £2.2million or 3% of RRL. £0.7 million of savings (32%) are not yet identified in detailed savings projects to support the agreed budget for 2018/19.
- 5 NHS Western Isles is finding it difficult to recruit staff and relies on temporary or agency staff to fill gaps. The costs of temporary staff are adding to the financial pressures facing the board. The Board has an unfilled vacancy for its Director of Finance, although the Head of Finance has been fulfilling the role since April 2017.
- 6 Medium/long term financial planning development has not progressed.

## Governance and transparency

- 7 NHS Western Isles has appropriate governance arrangements in place that support scrutiny of decisions made by the board. Transparency could be improved by holding all committee meetings in public although recognising that sensitive or confidential items could be dealt with in a private session.

## Value for money

- 8 NHS Western Isles has an effective performance management framework in place which supports continuous improvement. However, the board continues to struggle to meet key national performance targets.

# Introduction

1. This report summarises the findings from our 2017/18 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 13 December 2017 meeting of the Healthcare Governance and Audit Committee. This report comprises the findings from:
  - an audit of the board's annual accounts
  - consideration of the wider dimensions that frame the wider scope of public audit 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 2017/18 have been:
  - a review of the board's main financial systems
  - an audit of the board's 2017/18 annual accounts including the issue of an independent auditor's report setting out our opinions
  - consideration of the four audit dimensions.
4. NHS Western Isles has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with the accounts direction from Scottish Ministers. The board's annual accounts includes the following:
  - Performance Report

- Accountability Report (which includes the Directors' Report, Governance Statement and Remuneration and Staff Report)
- Financial statements and supporting notes.

5. The board is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

6. 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.

7. As public-sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the board's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this, we aim to support improvement and accountability. 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 consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to their attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £68,370, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

### **Adding value through the audit**

11. Our aim is to add value to NHS Western Isles by providing insight and foresight on financial sustainability, risk and performance and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

12. This report is addressed to 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) in due course.

13. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2017/18 annual accounts



### Main judgements

**Our audit opinions were all unqualified**

**A variance of £71,000 exists between the new JAC pharmacy stock system and the financial ledger. This is a significant variation in a total amount of £327,000.**

### Audit opinions on the annual accounts

14. The annual accounts for the year ended 31 March 2018 were approved by the board on 27 June 2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- the audited part of the remuneration and staff report performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

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

### Submission of annual accounts for audit

15. We received the unaudited annual accounts on 14 May. This was in line with the agreed timetable of included in the NHS Western Isles Annual Audit Plan 2017/18. The board's group accounts however did not include the financial results of the Western Isles Integration Joint Board (the IJB). These were submitted in a revised version on 7 June 2018.

16. Working papers provided were of a good standard and finance staff provided good support to the audit team.

### Risks of material misstatement

17. Appendix 2 provides a description of areas we assessed as being at risk of material misstatement and the wider dimension risks. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and how the efforts of the audit team were directed. The appendix identifies the audit work we undertook to address these risks and our conclusions from this work.

### Materiality

18. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. On receipt of the annual accounts we reviewed our planning materiality and concluded that,

the materiality levels required only minor adjustment. These are shown at in [Exhibit 2](#).

## Exhibit 2

### Materiality values

Materiality level	Amount
Overall materiality	£1.3 million
Performance materiality	£0.5 million
Reporting threshold	£26,000

## Significant findings from the audit in accordance with ISA 260

19. International Standard on Auditing (UK) 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](#) has been included.

20. The findings include our views about significant qualitative aspects of the board's accounting practices including:

- Accounting policies
- Accounting estimates and judgements
- Significant financial statements disclosures
- Timing of transactions and the period in which they are recorded
- The impact on the financial statements of any uncertainties
- The effect of any unusual transactions on the financial statements
- Misstatements in the annual report and accounts
- Disagreement over any accounting treatment or financial statements disclosure

## Exhibit 3

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

Finding	Resolution
<p><b>1. Stock variance</b></p> <p>A variance of £71,120 exists between the JAC pharmacy system and the financial ledger. The reason for this is not known because data cannot be re-created to enable a reconciliation to be performed. We have accepted the lower valuation (financial ledger) amount of £327,316, 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 22% of the total recorded value of pharmacy stock. We are</p>	<p>The difference is not material and the lower ledger balance has not been amended in the audited financial statements.</p> <p> <a href="#">Recommendation 1 (refer appendix 1, action plan)</a></p>

Finding	Resolution
concerned that discrepancies exist in the first year of the new stock system.	
<b>2. Treatment of upward revaluation movement</b>	
An increase in the valuation of an asset (£41,000) was incorrectly netted off against an impairment amount on a separate asset and the lower charge was included in net expenditure. This was incorrect as the upward revaluation should have been taken to the revaluation reserve resulting in higher total net expenditure and revenue resource outturn.	The accounting treatment has been corrected in the audited financial statements.

## How we evaluate misstatements

21. Total errors did not exceed our overall performance materiality of £0.5 million.
22. The net unadjusted errors total £72,000 (Appendix 3). We considered the impact of these misstatements on our audit approach and decided that further audit procedures were not required.
23. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final 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 above as the amounts are not considered material in the context of the financial statements and have no significant impact on the board's achievement of its financial targets.

## Follow up of prior year recommendations

24. We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).
25. In total, seven agreed actions were raised in 2016/17. Of these:
- six have been fully implemented
  - one has not been actioned.
26. Overall the board has made good progress in implementing these actions. For the action not yet implemented, a revised response and timescale has been agreed with management in [Appendix 1](#).

# Part 2

## Financial management



### Main judgements

NHS Western Isles operated within its revenue resource limit reporting an underspend against this of £0.013 million.

NHS Western Isles continued to rely on non-recurring savings in 2017/18, but this has reduced from last year. 70% of savings were achieved on a recurring basis

NHS Western Isles has effective budget monitoring arrangements that allow directors to scrutinise the board's finances.

### Financial performance in 2017/18

28. NHS Western Isles 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 4, the board operated within its limits during 2017/18, recording an underspend of £0.013 million.

### Exhibit 4

Performance against resource limits in 2017/18

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	82	82	0.013
Non-core revenue resource limit	2.2	2.2	0
<b>Total revenue resource limit</b>	<b>84</b>	<b>84</b>	<b>0.013</b>
Core capital resource limit	2.8	2.8	0
Non-core capital resource limit	0	0	0
<b>Total capital resource limit</b>	<b>2.8</b>	<b>2.8</b>	<b>0</b>
<b>Cash requirement</b>	<b>85.2</b>	<b>85.2</b>	<b>0</b>

Source: NHS Western Isles Annual Accounts 2017/18, subject to rounding for presentation purposes

## Underspend against Revenue Resource Limit (RRL)

29. The 2017/18 Local Delivery Plan (LDP) forecast a breakeven position against its RRL, after assuming that total efficiency savings target of £3.5 million (4.9%) would be achieved. The year-end outturn (an underspend against RRL of £0.013 million) demonstrated the achievement of the savings target. The outturn incorporates some overspends against budget. This includes GP Prescribing (£0.3 million), Highlands and Islands travel scheme (£0.3 million), Laboratories (£0.4m) and Off Island Therapeutics (£0.4m). These were generally offset by use of the centrally-held contingency of £1.5m for specific pressures.

30. Another significant factor, which reversed a projected overspend of £0.6 million at December 2017, was the £0.5 million cash transfer between the Health and Social Care Partners. In effect this resulted in Comhairle nan Eilean Siar meeting much of the overspend on IJB health services. This had not been factored into earlier outturn projections.

31. We did not identify any significant issues with slippage in financial plan commitments and unspent allocations, additional funding, or year-end adjustments

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

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## Efficiency savings

32. Savings targets to address the budgeted financial gap of £3.5 million were allocated in initial budgets between NHS Western Isles (£2.1 million) and Comhairle is Slainte nan Eilean Siar (CISNES), the integration joint board (£1.4 million).

33. NHS Western Isles continues to rely to a lesser extent on non-recurring savings as illustrated in [Exhibit 5](#). Recurring savings of £2.4 million (78%) were delivered in 2017/18. Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

## Exhibit 5

### Savings – recurring and non-recurring



Source: Audit Scotland Annual Audit Reports

34. Budgetary processes and quality of financial reporting

35. We reviewed NHS Western Isles budgetary processes and budget monitoring arrangements. 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 and concluded that NHS Western Isles has effective budgetary monitoring and control arrangements that allow directors to scrutinise the board's finances.

36. Operational budgets for 2017/18 were adjusted downwards, to address the financial gap of £3.5 million, but with a centrally held contingency as noted above.

37. A tracker system of specific savings projects was maintained for the savings. However, £0.8 million (23%) of the total savings were not mapped to specific projects at the time the budget was agreed. On the basis that there were no details on a significant proportion of savings required to close the budget gap, we find it difficult to see how the board was able to conclude that it had a balanced budget agreed at the outset of 2017/18.

### **Financial capacity**

38. We are satisfied that there are suitably qualified and experienced officials leading the board's finance team. NHS Western Isle is to continue with the current arrangement that the Head of Finance undertakes the workload and support associated with the Director of Finance position and her role as chief finance officer of the Integrated Joint Board (CISNES).

# Part 3

## Financial sustainability



### Main judgements

**Medium/long term financial planning development has stalled and financial planning now covers just one year.**

**Steps have been taken by the Board to reduce sickness absence however the Board acknowledges that it is facing a number of workforce challenges.**

### Medium to long term financial planning

39. NHS Western Isles' Local Delivery Plan (LDP) for 2017/18 to 2019/20 sets out how the board's financial, workforce and services plans implement its strategic priorities. The LDP was submitted to the Scottish Government in line with the required timescales. The three-year financial plan is a key component of the LDP and sets out how the board plans to achieve financial balance over the period.

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. 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. The LDP was replaced by an Annual Operational Plan (AOP) from 2018/19. This requires a one-year financial plan rather than the three required by the LDP.

42. The board has not produced a financial plan beyond 2018/19. The board's view is that it is more realistic to wait until the national and regional financial frameworks are published, to provide clarity around some important areas including:

- There has only been a one-year (2018/19) settlement and no indication of future years assumptions from the Scottish Government
- The pay deal for 2018/19 and the next 2 years is still under negotiation and could have various new features (e.g. changes to pay bands or to terms and conditions)
- The funding for the pay deal is not yet known. Although the board has been told to assume any rise over 1% will be funded, there is still uncertainty around how this will balance out in 2018/19 and more uncertainty in respect of future years
- The board does not yet know how the £126 million transformation fund will be deployed by the Scottish Government (other than that around £50 million will be used to support waiting times).

43. The board intends to start developing medium term financial plans from 2019/20 onwards later in 2018 when the longer-term planning framework should be clearer. The board should ensure that its medium term financial plans include scenario planning or modelling.

44. A Budget Scenario for the five-year period 2018-23 which models inflationary and other predicted uplifts to expenditure against uplifts to RRL (0%, 0.5% and 1.5%) has been developed as part of the North of Scotland Regional Delivery Plan

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

(RDP). However, this is at an early stage and most of the savings required in 2019/20 and beyond have yet to be identified.



### **Recommendation 2**

**The board should develop a medium to long term financial plan.**

45. The 2018/19 budget agreed by the Board in March 2018 requires to achieve efficiency savings of 3.0% of baseline RRL. This is equivalent to a saving of £2.2 million. £0.7 million of savings (32%) have yet to be identified.



### **Recommendation 3**

**The board should ensure that savings plans are developed identifying how the £0.7 million of unidentified savings in 2018/19 will be made.**

## **New Financial Powers**

46. Proposals have been made to amend the Scottish Budget process likely to be introduced for the 2019/20 budget, however, at this stage the board is assuming that amendments to the process this will not have an impact on the funding it receives from Scottish Government.

## **Workforce planning**

47. In July 2017 the Auditor General for Scotland published a data briefing on Scotland's NHS Workforce Planning. 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, spending on agency staff and sickness absence levels.

48. The briefing makes a number of references to NHS Western Isles, including:

- The Board had the highest sickness absence rate of territorial boards at 5.7%
- The Board had the highest rate of consultant vacancies and consultant vacancies that had been open for at least six months
- 53% of interview panels were cancelled.

49. The Board acknowledges that it is facing a number of workforce challenges. 26% of its workforce is aged 55 and over and 43% aged 50 and over.

50. NHS Western Isles remains dependent on the continued provision of visiting consultants and networked shared clinical care arrangements. However, the board is working with NHS Grampian, NHS Highland, NHS Shetland, NHS Orkney and NHS Tayside to develop a more systematic approach to delivering services that are provided on a regional or national basis.

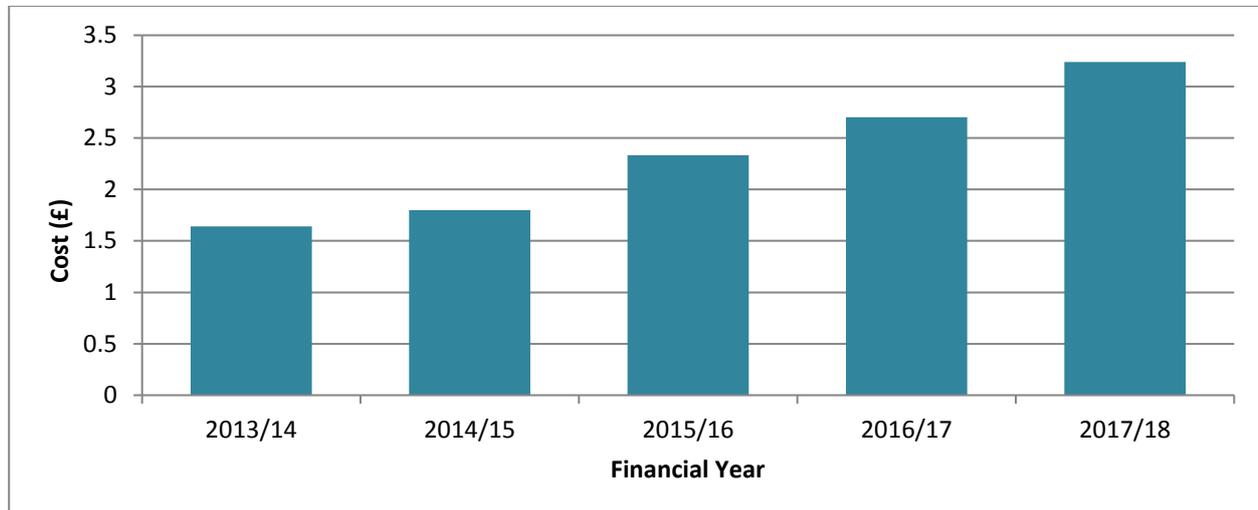
51. There also exists a community planning commitment to repopulation through needs assessment locality plans and the Local Outcome Improvement Plan. The board considers that the actions of the CPP can collaboratively address the sustainability of the population

52. Spending on temporary staff at NHS Western Isles has increased by 97% over the last five years as illustrated in [Exhibit 7](#). Recorded spending on agency staff increased from £2.7 million (6.9%) in 2016/17 to £3.2 million (8.1%) in 2017/18

principally as a result of loss of a substantive Gynaecology Consultant together with a Paediatrics post. This resulted in the need for increased agency and temporary staff

## Exhibit 7

### Temporary staff costs



Source: Western Isles Health Board Annual Accounts 2013/14 to 2017/18

53. NHS Western Isles, like most NHS Boards, is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence. The sickness absence rate was 5.5% in 2017/18, compared to 5.7% last year. Whilst improving, this continues to be above the NHS Scotland average of 5.3%. Steps taken by the Board to reduce sickness absence include introduction of the 'EASY' system (Early Access for Support for You) which supports managers in managing sickness absence.

54. We will continue to monitor NHS Western Isles workforce plans, particularly its use of temporary staff.

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# Part 4

## Governance and transparency

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### Main judgements

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**NHS Western Isles has appropriate governance arrangements in place that support scrutiny of decisions made by the board.**

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**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**

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**Business continuity arrangements are inadequate**

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### Systems of internal control

55. As part of our audit we identify and inspect the key internal controls in the 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 sound systems of recording and processing transactions which provide the basis for the preparation of the financial statements.

56. Our findings were included in the management report presented to the Healthcare Governance and Audit Committee on 23 May 2018. We concluded that no significant issues were identified from our interim audit work. This enabled us to proceed with our planned audit approach for the 2017/18 financial statements.

### Business Continuity Management

57. 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. Their review identified the following areas for improvement:

- There is a need to reinvigorate BCM processes. This includes updating the business continuity management strategy and policy as well as developing robust governance arrangements to gain assurance that plans are being completed, maintained and tested.
- Business Continuity Plans (BCP) are either in draft, or are still to be completed.
- Where BCPs have been developed, they do not always consider Single Points of Failure and there were weaknesses in recovery strategies;
- Plans had not been subject to testing.



#### Recommendation 4

**The board should ensure that identified weaknesses in business continuity / disaster recovery arrangements are resolved as a matter of urgency.**

#### Governance arrangements

58. Western Isles Health Board meets every month and is supported by three governance committees:

- Staff Governance
- Patient Focus Public Involvement
- Health Governance and Audit.

59. Papers for Board/Committee meetings are issued two weeks in advance of the meeting so members can review these in advance.

#### Transparency

60. We reported last year that 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. This recommendation has not been implemented and public access remains the same as the previous year.

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.



#### Recommendation 5

**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**

#### Internal audit

61. The board's internal audit function is carried out by Scott Moncrieff.

62. We reviewed the board's internal audit arrangements and concluded that we would place reliance on aspects of internal audit work in the following areas – Financial Systems Healthcheck and IT security. In relation to our wider dimension audit responsibilities we placed reliance on their review of Delayed Discharges.

#### National Fraud Initiative

63. 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 irregularity.

64. We reported on progress with the NFI exercise in our 2017/18 Management Report and concluded that good progress had been made with the 2016/17 NFI exercise in terms of checking almost all of the recommended matches.

## **Standards of conduct for prevention and detection of fraud and error**

65. The board has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

66. We concluded that the board has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

## **Cyber security**

67. The Scottish Government issued a Public-Sector Action Plan (PSAP) on Cyber Resilience in November 2017 which requires all public-sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

68. As part of the PSAP public bodies are encouraged to achieve Cyber Essentials or Cyber Essential Plus accreditation by 31 October 2018. Cyber Essentials is a set of cyber security standards covering the management and operation of IT systems and services. Accreditation is obtained by performing a self-assessment against the critical criteria which is then independently reviewed by an external certifying body. A certificate of compliance was awarded to Western Isles Health Board in May 2018.

69. In 2017 NHS Western Isles experienced a WannaCry malware incident which caused some disruption to services. Immediate measures were taken to prevent infection and spread, and the impact of the virus itself was contained and minimal. In response to this, the board has strengthened its arrangements around IT security through a number of measures. These include:

- patching policy has been extended to include any devices currently maintained by suppliers
- planning to simplify the GP technical configuration to enable the implementation of a single set of patching and monitoring policies across the board area
- ensuring that all GPs are aware of their responsibilities and are empowered to seek appropriate assurance from NHSWI around the integrity of their data
- improved data governance processes, in particular the back-up process.

70. We concluded that NHS Western Isles is actively strengthening its cyber resilience arrangements. The board completed its Cyber Essentials pre-assessment by the required date (31 March) and has achieved accreditation within the required timeframe (end of October 2018).

## **EU withdrawal**

71. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

72.NHS Western Isles has information available on the number of its workforce who are (non-UK) EU which confirms the numbers are low.

## **General Data Protection Regulation**

73.The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998.

74.All operational contacts and service managers were required to complete information by 25 May 2018 about the data (be that a system, database or individual records) that they hold on behalf of NHS Western Isles. This system will be updated annually with reminder emails being sent to advise data owners of the requirement.

75.An update report was submitted to the Board in May 2018 on the data capture exercise for completion to confirm compliance with the data handling arrangements.

76. We have concluded that the board has made good progress on planning for and implementing the GDPR requirements.

# Part 5

## Value for money



### Main judgements

**NHS Western Isles has an effective performance management framework.**

**The board continues to struggle to meet some key national performance targets.**

### Performance management

77. The Scottish Government monitors how NHS Western Isles performs against the targets it set in its national performance framework. These include targets and their trajectories (plans) as set out in the board's LDP. Examples include waiting times for accessing treatment such as the proportion of patients that were seen within 12 weeks, otherwise known as the Treatment Time Guarantee.

78. The board is informed of performance across all areas through the quarterly Performance and Patient Activity Reports. Performance is reported using 23 key LDP Standards and Patient Activity trends for key hospital settings.

79. Further details on indicators that are not being met are included along with the action being taken to improve the position. This enables members to focus on key risks relating to sustaining delivery and evolving services in line with the 2020 Vision.

80. We concluded that the NHS Western Isles has an effective performance management framework in place helping the board achieve value for money and continually improve how it delivers services.

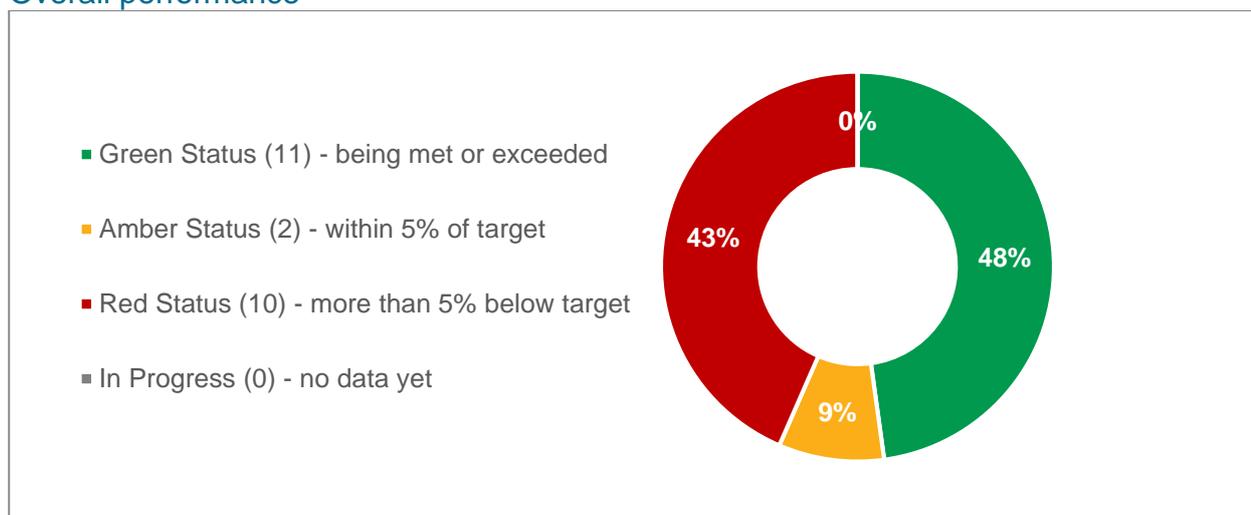
### Overview of service performance

81. NHS Western Isle's performance against the 23 LDP Standards as reported in the 2017/18 annual accounts and based on the most up-to-date position at the end of March 2018 (where data available) is summarised in Exhibit 8.

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

## Exhibit 8

### Overall performance



Source: NHS Western Isles unaudited accounts 2017/18

82. Overall, NHS Western Isles continues to face a number of challenges in delivering performance targets with 52% categorised as red or amber. There are 10 targets that are out with acceptable standards (7 targets 2016/17) and more details on these are provided in Exhibit 11.

## Exhibit 9

### Performance against key LDP standards that are classed as “red”

Standard	Target	Performance at March 2018	Action being taken by NHS Western Isles
Suspicion of cancer 62-day referral to treatment (RTT)	95%	● 88.9%	An 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.
Number of people on QoF Dementia Register	324	● 292	Ongoing consolidation & rationalisation of dementia codes in collaboration with Health Intelligence, Dementia Clinical Nurse Specialist and GPs to improve recording.
Smoking cessations	47	● 32	The Board considers that this performance standard is on track but that the performance at March 2018 does not include all quit attempts for Quarter 3. These

figures are distributed by ISD Scotland.

Sickness absence	4.0%	 4.5%	<p>Workshops open to all managers were delivered during 2017.</p> <p>The EASY system is embedded throughout the organisation. The objective being to support the reduction in sickness absence and provide managers with additional support when managing staff absence.</p> <p>Focussed reporting developed by HR to support senior managers to monitor staff absence is in place.</p>
Proportionate increase in cases of early detection of cancer	29%	 15.4%	<p>An 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.</p>
Early access to antenatal services by 12 <sup>th</sup> week	80%	 71.4%	<p>Strive to implement an electronic maternity system that will give us more accurate information,</p> <p>Uist and Barra staff to document in referral letters when the women book so that the information is available to mainland units on all correspondence.</p>
Dementia: access to post diagnostic support	100%	 21.74%	<p>Post Diagnosis Support (PDS) lead to be transferred with service delivery to Mental Health.</p> <p>Performance of Old Age psychiatry to be monitored for outcomes and activity on dementia diagnosis and uptake of PDS.</p>
New outpatients waiting over 12 weeks	95%	 88.9%	<p>The Planning Office continues to push for these patients to be discharged after 2 or more reasonable offers if deemed clinically</p>

appropriate by the responsible clinician. We also continue to request extra capacity utilising waiting times monies in specialties where visiting SLA does not provide sufficient slots to meet ongoing demand.

New outpatients waiting over 16 weeks	100%	 94.3%	Continue to highlight to consultant's patients who have had reasonable offer package and ask if clinically appropriate to discharge back to referrer.
Faster access to Psychological Therapies (18 weeks RTT)	90%	 74%	<p>Western Isles has a low referral rate by comparison with national average of 5.8 per thousand Referral rates have slightly increased however capacity has not increased in line with increased demand.</p> <p>Increased efficiency re use of clinic spaces and bookings. Exploring other ways of increasing capacity e.g. other forms of computerised Cognitive Behaviour Therapy pending Mental Health Redesign Workforce changes which are ongoing.</p>

Source: Source: NHS Western Isles unaudited Accounts 2017/18

## National performance audit reports

83. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 a number of reports were published which are of direct interest to the board and are highlighted in [Appendix 4](#).

84. A number of Audit Scotland and Scottish Government reports were presented and discussed at the Healthcare Governance and Audit Committee meetings during the year. These included Audit Scotland's NHS Workforce Planning report and NHSScotland Chief Executive's Annual Report for 2016/17. The Scottish Government's Technology and Innovation in Health and Social Care report was discussed by the Committee in February 2018.

# Appendix 1

## Action plan 2017/18

### 2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Inventory valuation</b></p> <p>An irreconcilable variance of £71,120 exists between the JAC pharmacy system and the financial ledger. The lower valuation (financial ledger) of £327,316 has been reflected in the board's accounts. Discrepancies between the systems require to be resolved to ensure an accurate inventory valuation.</p>	<p>Discrepancies between the JAC system and the financial ledger require to be resolved to ensure an accurate inventory valuation.</p> <p><a href="#">Paragraph 20</a></p>	<p>The Board will aim to produce a full reconciliation. We will be working with JAC, other Boards and our Internal Auditors to produce an operating procedure for year end reconciliations.</p> <p><b>Responsible Officer</b></p> <p>Head of Finance and Procurement</p> <p><b>Agreed date</b></p> <p>30<sup>th</sup> September 2018</p>
2	<p><b>Business continuity management</b></p> <p>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. Their review identified that significant improvements are required.</p>	<p>The board should ensure that identified weaknesses in business continuity / disaster recovery arrangements are resolved as a matter of urgency.</p> <p><a href="#">Paragraph 44</a></p>	<p>There have been significant discussions regarding the size and complexity of the Board's Business Continuity Plans (BCP) since the Internal Audit Review. It has been agreed that a more concise BCP template will be developed and assurances on the delivery of all plans will be presented to the HGAC on a regular basis.</p> <p><b>Responsible officer</b></p> <p>Director of Public Health</p> <p><b>Agreed date</b></p> <p>First update to the HGAC 19<sup>th</sup> September 2018</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p><b>Unidentified savings</b></p> <p>The 2018/19 budget agreed by the Board in March 2018 requires to achieve efficiency savings of 3.0% of baseline RRL. This is equivalent to a saving of £2.2 million. This is a significant challenge for the board given that £0.7 million of savings (32%) have yet to be identified for 2018/19.</p>	<p>The board should ensure that savings plans are developed identifying how the £0.7 million of unidentified savings in 2018/19 will be made.</p> <p><a href="#">Paragraph 45</a></p>	<p>From reporting Month 3, work will be undertaken to reduce the unidentified savings. Monthly reports will be presented to CMT with saving recommendations made in co-operation with Service Managers.</p> <p><b>Responsible officer</b></p> <p>Head of Finance and Procurement</p> <p><b>Agreed date</b></p> <p>Ongoing from July 2018</p>
4	<p><b>Longer term financial planning</b></p> <p>The board has not produced a financial plan beyond 2018/19.</p>	<p>The board should develop a medium to long term financial plan</p> <p><a href="#">Paragraph 57</a></p>	<p>The Board has produced a 5 year plan for inclusion in the North of Scotland Regional Plan. This plan will be updated on a six monthly basis and reported to the Board.</p> <p><b>Responsible officer</b></p> <p>Head of Finance and Procurement</p> <p><b>Agreed date</b></p> <p>31<sup>st</sup> December 2018</p>
5	<p><b>Openness of committees</b></p> <p>Although Board meetings are held in public, the Board's other committees (including the Health Governance and Audit Committee) are not.</p>	<p>All papers/ meetings should be open to the public with sensitive or confidential items held in private session/ restricted.</p> <p><a href="#">Paragraph 60</a></p>	<p>Minutes from the Board's Statutory Committees are presented to the Board's public meetings and are available on the website.</p> <p>Other papers can be accessed via a Freedom of Information request.</p> <p>We will review at Board level the risks and benefits of these meetings being open to public attendance.</p> <p><b>Responsible officer</b></p> <p>Chief Executive</p> <p><b>Agreed date</b></p> <p>31<sup>st</sup> October 2018</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
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### Follow up of prior year recommendations

b/f	<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 board reviewed finance staffing arrangements and we received the unaudited annual report and accounts on 14 May in line with the agreed timetable.</p> <p>The board's group accounts however did not include the financial results of the IJB.</p> <p>The working papers provided were of a good standard and finance staff provided good support to the audit team.</p>
b/f	<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. audit opinion on the financial statements.</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>A detailed review of the fixed asset register was carried out by the Principal Accountant Technical, to ensure asset classifications are correct and disclosure in the financial statements is accurate.</p>
b/f	<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>Depreciation was reviewed and recalculated by the Principal Accountant Technical for all assets in the register. Information provided to audit for verification was consistent with the Board's depreciation methodology and accurately calculated.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f	<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>To address this issue all assets were reviewed by the Principal Accountant Technical, and values re-assessed from the date of the last valuation. The review also removed any assets which are no longer held by the Board.</p>
b/f	<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>To address this issue the Board now accrue for RTA income in accordance with the Department of Health's Guidance.</p>
b/f	<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 any reserve balance is allocated to individual assets.</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>Values were re-assessed from the date of the last valuation. Where an asset was not revalued in year, indices were applied in accordance with the Accounting Policy in this area. The revaluation reserve adjustments have been calculated for the first time and agreed for inclusion in the 2017/18 financial statements. The adjustments have resulted in an overall £114k credit to the Revaluation Reserve</p>
b/f	<p><b>7. Openness of committees</b></p> <p>Although Board meetings are held in public, the Board's other committees (including the Health Governance &amp; Audit Committee) are not.</p>	<p>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.</p>	<p>This recommendation has not been implemented and public access remains the same as the previous year.</p>

# 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 report and 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>		
<p><b>1 Risk of management override of controls</b></p> <p>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 consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>We did not identify any incidents of management override of controls.</p>
<p><b>2 Risk of fraud over expenditure</b></p> <p>Audit Scotland's Code of Audit Practice extends the scope of ISA240 and we are required to consider the risk of fraud over expenditure in NHSWI.</p> <p>Significant expenditure items include FHS, pay and non-pay expenditure, including patient travel expenditure.</p>	<p>Internal controls over expenditure which operate effectively.</p> <p>Effective budgetary control procedures.</p> <p>Appropriate and effective measures to detect and prevent fraud.</p> <p>Partnership with NHS Scotland Counter Fraud Services.</p>	<p>No significant issues were identified from our testing of the family health services expenditure disclosed in the financial statements.</p> <p>We concluded that the board is proactive in following up NFI matches.</p> <p>The Head of Finance provides an update to each HGAC meeting in relation to the work of CFS in relation to the board and no significant issues have been highlighted.</p>
<p><b>3 Non-Current Assets</b></p> <p>Our audit of the 2016/17 financial statements identified the following issues:</p> <ul style="list-style-type: none"> <li>Differences between disclosures in categories of assets and the fixed asset register</li> <li>A net difference in the calculation of depreciation charge.</li> <li>Incorrect treatment of revaluation adjustments</li> </ul>	<p>Our findings were considered by the Healthcare Governance and Audit Committee on 28 June 2017.</p> <p>Updated internal procedures.</p>	<p>We reviewed work undertaken on the asset register by the Principal Accountant Technical, to ensure asset classifications are correct and disclosure in the financial statements is accurate.</p> <p>No issues were identified.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>There is a risk that the value of non-current assets is materially misstated.</p>		
<p><b>4 Transactions with Curam Is Slainte Nan Eilean Siar (CISNES) Integration Joint Board</b></p> <p>The timing of CISNES accounts is later than the required timing on NHSWI. This may impact on the accuracy of NHS Western Isles group accounts.</p>	<p>NHSWI Director of Finance is also the IJB's Chief Finance Officer.</p> <p>Regular meetings and discussions with Curam Is Slainte Nan Eilean Siar.</p>	<p>We received the board's unaudited annual report and accounts on 14 May. This was in line with the agreed timetable of 14 May 2018 included in the Annual Audit Plan 2017/18. The board's group accounts however did not include the financial results of the IJB. Following receipt of the full set of unaudited accounts we confirmed that the IJB accounts were correctly consolidated into the group accounts.</p>
<p><b>5 Implementation of JAC e Prescribing</b></p> <p>A new system has been implemented in NHSWI for the management of pharmacy stock. There is a risk that discrepancies may exist in reconciling the new system with the previous system used by the board.</p>	<p>A comprehensive process to ensure balancing and testing was put in place to provide assurance prior to the go live date. This was signed off by management and the system provider.</p>	<p>We conducted an initial review of the new system and agreed the process for transfer of balances to the new system (JAC) from the old system (Ascribe).</p> <p>Our verification and agreement of values disclosed in the financial statements has identified an irreconcilable variance of £71,120 between the JAC system and the financial ledger. We have recommended that these discrepancies require to be resolved to ensure an accurate inventory valuation.</p>
<p><b>Wider dimension risks</b></p>		
<p><b>6 Financial sustainability</b></p> <p>Our 2016/17 Annual Audit Report included comment that NHSWI does not have a long term financial plan but has produced a limited medium term financial plan as part of the LDP.</p> <p>We also commented on the increasing reliance on non-recurring savings to achieve financial balance.</p>	<p>Agreement of the medium term financial plan with SGHSCD.</p> <p>Scenario planning of possible financial positions.</p> <p>Ongoing discussions with SGHSCD to agree service targets and financial allocations.</p> <p>Ongoing support from SGHSCD for national projects and initiatives.</p>	<p>The board has not produced a financial plan beyond 2018/19. The board is of the view that it is more realistic to wait until the national and regional financial frameworks are published, to provide clarity around some important areas.</p> <p>We have recommended that the board should develop a medium to long term financial plan.</p> <p>The board continues to rely on an element of non-recurrent savings although this is less than the previous financial year.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>7 Financial position</b></p> <p>The Financial Monitoring Report for month 6 is predicting a potential overspend of £556k. The Report also notes that some savings will not be achieved and that savings of £781k remain to be identified.</p> <p>There is a risk that NHSWI may not achieve financial balance in year.</p>	<p>Timely and accurate monthly financial monitoring.</p> <p>Ongoing review of the forecast outturn.</p>	<p>The board achieved an underspend of £0.013 million (0.01%) against its total 2017/18 RRL of £84 million. The risk share arrangement with the Comhairle provided additional funding of £0.5 million</p>

# Appendix 3

## Summary of uncorrected misstatements

**We report all uncorrected misstatements that are individually greater than our reporting threshold of £26,000.**

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 2. We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Stock purchases		(72)		
	Inventories			72	
	<b>Net impact</b>		<b>(72)</b>	<b>72</b>	

Notes:

1. Entry 1 relates to an irreconcilable variance between the JAC pharmacy system and the financial ledger.

# Appendix 4

## Summary of national performance reports 2017/18



		2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

### NHS relevant reports

[NHS workforce planning](#) – July 2017

[Self-directed support: 2017 progress report](#) – August 2017

[NHS in Scotland 2017](#) – October 2017

# NHS WESTERN ISLES

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