

NHS Western Isles

2019/20 Annual Audit Report



 AUDIT SCOTLAND

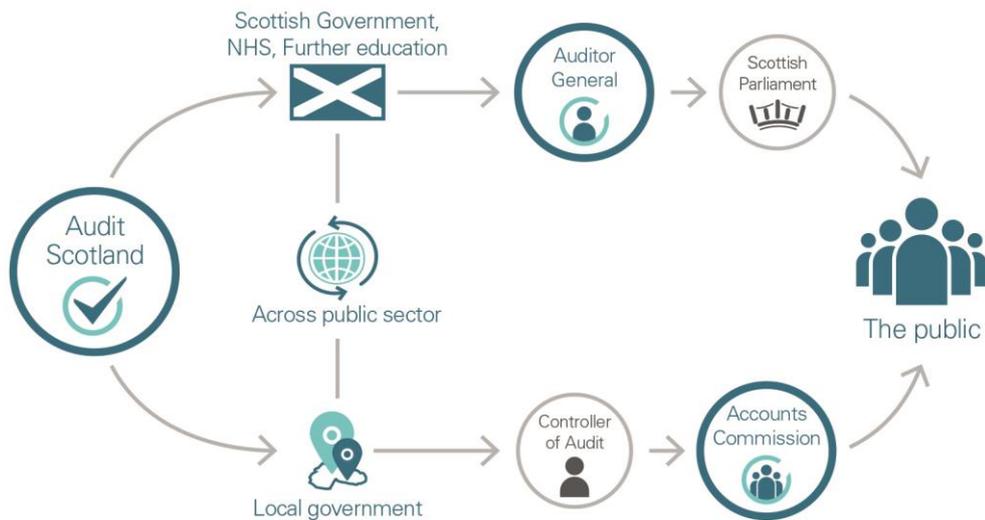
Prepared for the Board of NHS Western Isles and the Auditor General for Scotland

June 2020

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

2019/20 annual report and accounts

- 1 The audit opinions for NHS Western Isles are unmodified.
- 2 Despite the COVID-19 global pandemic, the unaudited annual report and accounts were submitted on 11 May, but these were not complete until 12 June.

Financial management

- 3 NHS Western Isles operated within its Revenue Resource Limit reporting an underspend of £26,000.
- 4 Budget processes were appropriate, but NHS Western Isles continues to rely on significant non-recurring savings and financial flexibility to meet its savings target of £3.5 million.

Financial sustainability

- 5 The 2020/21 funding gap of £3.4 million is to be met by savings. £1.1 million of these are not yet identified.
- 6 NHS Western Isles has a three-year, medium-term financial plan which was prepared prior to the COVID-19 global pandemic, and now needs to be reviewed. It is yet to develop a longer-term financial plan. The medium-term financial plan relies on significant unidentified and non-recurring savings target.

Governance, transparency and value for money

- 7 NHS Western Isles has adequate governance arrangements with some areas for improvement and these were revised in response to the COVID-19 global pandemic.
- 8 NHS Western Isles has an appropriate and effective performance management framework and performance against eight key national targets in 2019/20 has declined slightly but performs well relative to other NHS bodies.
- 9 Workforce challenges are significant and NHS Western Isles is developing a workforce plan.

Adding value through the audit

4. We add value to NHS Western Isles through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides.

5. In so doing, we aim to help NHS Western Isles promote improved standards of governance, better management and decision-making and more effective use of resources.

Responsibilities and reporting

6. NHS Western Isles has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. NHS Western Isles is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

7. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

8. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our 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 any 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 2019/20 audit fee of £69,470, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

11. 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 in due course.

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

17. The audit was conducted remotely due to travel and social distancing restrictions arising from the COVID-19 global pandemic. This meant that we had to revise our audit procedures and were dependent on key staff within NHS Western Isles providing electronic evidence to support the audit. We are grateful for their assistance which allowed the audit to progress to its completion.



Recommendation 1

NHS Western Isles should review its arrangements for preparing the annual report and accounts. The unaudited annual report and accounts and supplementary working papers should be complete and comply with the Financial Reporting Manual.

Overall materiality is £1.4 million

18. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

19. On receipt of the unaudited annual report and accounts we reviewed our materiality levels and concluded that they remained appropriate.

Exhibit 2 Materiality values

| Materiality level | Amount |
|-------------------------|--------------|
| Overall materiality | £1.4 million |
| Performance materiality | £1.0 million |
| Reporting threshold | £70,000 |

Source: Audit Scotland, Annual Audit Plan 2019/20

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

20. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

21. We have no issues to report from the work done on the main risks of material misstatement.

We have a number of significant findings to report on the annual report and accounts

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have no significant findings to report around the qualitative aspects of the annual report covering accounting policies, accounting estimates and financial statements disclosures. The significant findings are summarised in [Exhibit 3](#).

Exhibit 3

Significant findings from the audit of the financial statements

| Issue | Resolution |
|---|---|
| <p>1. Restatement of 2018/19 comparative figures in the 2019/20 Remuneration Report</p> <p>The 2018/19 comparative figures disclosed in the 2019/20 Remuneration Report required to be restated due to the overstatement of total remuneration for all Executive Members as these included employer's national insurance contributions in error.</p> | <p>Management have adjusted for this error in the 2019/20 Annual Report and Accounts with adequate disclosure provided.</p> <p> Recommendation 2 (refer appendix 1, action plan)</p> |
| <p>2. Inventory Adjustment</p> <p>£84,000 of inventory was received prior to the year-end and logged in the JAC stock system. However, this inventory was excluded from the year-end inventory balance per the ledger.</p> | <p>Management have adjusted for this error in the 2019/20 Annual Report and Accounts.</p> <p> Recommendation 3 (refer appendix 1, action plan)</p> |

Source: NHS Western Isles Annual Report and Accounts 2019/20

Identified misstatements were adjusted in the accounts and we did not need to further revise our audit approach

23. Total misstatements identified were £0.2 million, which would have increased net expenditure by £22,000. These consisted of inventory adjustments (per [Exhibit 3](#)) and accrued income and provision adjustments. We have concluded that the misstatements identified arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. Management have adjusted for these items in the annual report and accounts.

Limited progress was made on prior year recommendations

24. NHS Western Isles has made limited progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

The 2020/21 funding gap of £3.4 million is to be met by savings. £1.1 million of these are not yet identified.

42. The Board's estimated RRL budget for 2020/21 is £94.4 million against an initial expenditure budget of £97.8 million resulting in a financial funding gap of £3.4 million to be met by efficiency savings of £2.3 million (67%) and unidentified savings assumed to be delivered in-year of £1.1 million (33%).

43. The efficiency savings identified include long-term project work to deliver ongoing savings on projects that have already commenced.

44. Although unidentified savings targets exist, the Board has identified the main areas requiring recurring transformational savings. These include reviewing hotel services, residences and waste management. However, detailed plans on how these will be delivered have yet to be fully developed. On the basis that there are no details on a significant proportion of savings required to close the financial funding 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 2020/21.

45. A significant risk exists that the Board may not achieve its savings targets or be able to meet recurrent demand challenges in health and social care. This is recognised in the Board's own assessment of the risks it faces in delivering the 2020/21 Annual Operational Plan.



Recommendation 7

NHS Western Isles should ensure that savings plans are developed identifying how the £1.099 million of unidentified savings in 2020/21 will be achieved.

NHS Western Isles has been able to call on IJB reserves, but these are now depleted

46. NHS Western Isles, over the last three years, has been able to rely on Integration Joint Board (IJB) reserves to offset overspends within the delegated budget. These will not be available in 2020/21 as most of the IJB's general reserves have now been fully utilised.

NHS Western Isles has a medium-term financial plan which was prepared prior to the COVID-19 global pandemic, but is yet to develop a longer-term plan

47. In May 2018, The Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS). The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

48. NHS Western Isles three-year financial plan was approved by the Board on 1 May 2020. The plan has been developed on the basis that the Board reflect a breakeven position over a three-year period. Forecasts in the financial plan are based on a number of assumptions including allocation uplifts, inflationary costs and pay growth.

49. Indicative savings targets of £2.9 million for 2021/22 and £2.8 million for 2022/23 have been identified. However, these do not take account of any shortfall in recurring savings from the prior year and could be significantly higher. The targets continue to include significant proportions of unidentified and non-recurrent savings ([Exhibit 8](#)).

Exhibit 8

Savings forecast 2020/21 to 2022/23 (£millions)

| | 2020/21 £m | 2021/22 £m | 2022/23 £m |
|---------------|---------------|---------------|---------------|
| Recurring | 1.1 | 0.8 | 0.7 |
| Non-recurring | 1.2 | 1.0 | 1.0 |
| Unidentified | 1.1 | 1.1 | 1.1 |
| Total | 3.4 | 2.9 | 2.8 |
| % of RRL | 3.6% | 3.0% | 2.8% |

Source: NHS Western Isles Annual Operational Plan 2019/20



Recommendation 8

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 IJB Transformational Plan for the delivery of IJB related services that are provided by the Health Board.

The existing financial plan should be revised following the COVID-19 global pandemic

50. NHS Western Isles three-year financial plan was approved by the Board on 1 May 2020. However, this was prepared prior to the COVID-19 global pandemic. The current three-year financial plan does not consider the financial impact of the COVID-19 global pandemic.



Recommendation 9

NHS Western Isles should prepare a revised medium-term financial plan and longer-term financial plan to consider the financial impact of the COVID-19 global pandemic.

Part 4

Governance and transparency



Main judgements

NHS Western Isles has adequate governance arrangements with some areas for improvement.

Governance arrangements were revised in response to the COVID-19 global pandemic.

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.

Overall governance and transparency arrangements are adequate

51. We commented on governance arrangements in our management report presented to the Healthcare Audit and Governance Committee in May 2020. We concluded that governance arrangements are effective with some areas for improvement.

The Board revised governance arrangements in response to the COVID-19 global pandemic

52. The impact of COVID-19 global pandemic from March 2020 has been set out in the Governance Statement of NHS Western Isles Annual Report and Accounts. Revised governance arrangements were approved in May 2020. Steps taken to allow NHS staff to prioritise their response to the outbreak were:

- The suspension of Board meetings in public in accordance with the Board's legal duty to protect public health and comply with social distancing guidance
- Board and statutory governance committee meetings proceeding using teleconferencing and video conferencing technology
- Members given the ability to review papers for information or assurance and email questions in advance of the meeting to support scrutiny while streamlining meetings
- A review and cancellation of non-critical management meetings
- Additional weekly Board Member briefings attended by the Chief Executive and at least one further Executive Director.

The Health Board's website is still not fully operational and has been under reconstruction for two years

53. Our 2019/20 Management Report outlined that the Board's website has been under reconstruction for the past two years 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 latest annual report and accounts.

54. Management have confirmed that the Board is working with a new website provider and are moving quickly forward with the new website. All relevant and up to date finance reports will be part of the new site.



Recommendation 10

NHS Western Isles should progress development of the website as a matter of priority and make minutes of both the Board and its statutory committees publicly available.

Financial capacity

55. 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.

56. 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 be specifically considered given the changes in the Chief Officer of the Integration Joint Board position in April 2020.



Recommendation 11

NHS Western Isles should undertake a periodic review of the dual role being completed by the Director of Finance and Procurement also acting as Chief Financial Officer of the Integration Joint Board.

Internal audit recommendations

57. 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.

58. 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.

| Target/standard | | Performance at March 2020** | Action being taken by Board |
|---|------|---|--|
| <i>Proportion of patients that started treatment within 18 weeks of referral</i> | | | |
| Patient Treatment Time Guarantee (TTG) <i>Proportion of inpatients or day case that were seen within 12 weeks</i> | 100% |  99.6% | NHS Western Isles was on target to be at 100% mid-March 2020 but the last 10 days of March when all elective surgery was cancelled across Scotland due to COVID 19 resulted in a very small drop in %. |
| Outpatients waiting less than 12 weeks <i>Proportion of patients on the waiting list at month end who have been waiting less than 12 months since referral at month end</i> | 95% |  86.9% | Performance statistics are in some way determined by the capacity of other boards who provide many visiting consultants. The last 10 days of March when all visiting services and outpatient clinics was cancelled across Scotland due to COVID 19 also lowered the % outturn. |
| A & E attendees <i>Proportion of A & E attendees who were admitted, transferred or discharged within 4 hours</i> | 95% |  98.4% | Standard achieved. |
| Drug and Alcohol 21 days <i>Proportion of drug and alcohol patients that started treatment within 21 days</i> | 90% |  91% | Standard achieved. |
| CAMHS Waiting Times <i>Proportion of patients seen within 18 weeks of referral</i> | 90% |  100% | Standard achieved. |

** Figures still to be validated by NHS Information Services Division.

Source: NHS Western Isles Performance Monitoring Reports 2020

Temporary staff costs continue to form a relatively high proportion of total staff expenditure

65. Our 2018/19 Annual Audit Report highlighted spending on temporary staff at NHS Western Isles. As outlined in our 2019/20 Management Report, spending on temporary staff costs during was forecast to be £4.1m. The actual outturn for 2019/20 was £5.2m which represents an increase of 189% since 2014/15. Spending on temporary staff during 2019/20 equates to 11.5% of total staff costs.

66. The use of bank, agency and locum staff provides flexibility to cover for vacancies and staff absence and is monitored closely by the Board. However continued reliance on non-core staff will have a significant impact on the Board's plans to achieve the savings required for longer term financial sustainability. Known pressures that will impact on the Boards financial position for 2020/21 include:

- Consultant grade locums are being used to cover speciality doctors
- Gaps within the Junior Doctor rota resulting in agency and IR35 locums being used to cover the rota
- Agency staff being used to cover gaps within Laboratories and Pharmacy.



Recommendation 13

Reliance on temporary staff is not financially sustainable. The Board need to look at alternative models for service delivery as a matter of priority.

Workforce sustainability is a key issue for the Islands and a workforce strategy is being developed

67. 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. NHS Western Isles workforce statistics as at 31 March 2020 show that 49% (2018/19: 46%) of the NHS Workforce is over fifty years of age and 14% (2018/19: 13%) of that figure are over sixty.



Recommendation 14

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.

National performance audit reports

68. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2019/20 a number of reports were published which are of direct interest to the board and are highlighted in [Appendix 4](#).

69. The NHS Overview Report on the 2019/20 audits will include a review of the response to the COVID-19 global pandemic by the NHS in Scotland along with a report on financial and operational performance. This is due to be published early 2021.

Appendix 1

Action plan 2019/20



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|--|--|---|
| 1 | <p>Financial Statements - Annual Report and Accounts</p> <p>The draft 2019/20 Annual Report & Accounts provided to audit was incomplete and contained numerous arithmetical and consistency errors.</p> <p>Risk – The Board fails to deliver audited financial statements on time.</p> | <p>NHS Western Isles should review its arrangements for preparing the annual report and accounts.</p> <p>Paragraph 17</p> | <p>Management response: This year was exceptional in that NHS Western Isles had only a limited amount of staff working from the office which put huge pressure on the Principal Accountant co-ordinating the production of the accounts. The timetable will be reviewed for 2020/21 but for a small team there will always be a risk that staff absences can affect the annual accounts timetable.</p> <p>Responsible officer: Director of Finance and Procurement</p> <p>Agreed date: 31 March 2021</p> |
| 2 | <p>Financial Statements - Restatement of Remuneration Report</p> <p>The 2018/19 comparative figures disclosed in the 2019/20 Remuneration Report required to be restated due to the overstatement of total remuneration for all Executive Members as these included employer's national insurance contributions in error.</p> <p>Risk – There is a risk that the Annual Report & Accounts do not comply with the Financial Reporting Manual.</p> | <p>NHS Western Isles should ensure that the Annual Report & Accounts are prepared in line with the requirements of the Financial Reporting Manual.</p> <p>Paragraph 22</p> | <p>Management response: The Remuneration Report had been prepared similar to previous years. The methodology had been discussed with the Audit Scotland team in place at the time and disclosures around the means of calculation included in the Annual Accounts as agreed. The Board will ensure that accounts are prepared in line with the requirements of the Financial Reporting Manual.</p> <p>Responsible officer: Principal Financial Accountant</p> <p>Agreed date: 31 March 2021</p> |
| 3 | <p>Financial Statements - Inventory Adjustment</p> <p>£0.084 million of inventory was received prior to the year-end and logged in the JAC stock system. However, this inventory was excluded from</p> | <p>NHS Western Isles should ensure that all inventory received prior to the year-end per the JAC stock system is reconciled to balance held in the ledger.</p> <p>Paragraph 22</p> | <p>Management response: The JAC system had been reconciled throughout the year and various discrepancies had been identified. NHS Western Isles will be doing a review of Pharmacy procedures of the JAC System within 2020/21.</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|--|--|---|
| | <p>the year-end inventory balance per the ledger.</p> <p>Risk – The inventory balance included in the 2019/20 Annual Report & Accounts is understated by £84,000.</p> | | <p>Responsible officer: Principal Financial Accountant</p> <p>Agreed date: 31 March 2021</p> |
| 4 | <p>Financial Management - Financial Reporting</p> <p>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 arrangements.</p> <p>Risk – 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>NHS Western Isles should revise the financial monitoring reports presented to the Board and Healthcare Governance and Audit Committee to include their share of the Integration Joint Board income and expenditure.</p> <p>Paragraph 30</p> | <p>Management response: 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>Responsible officer: Director of Finance</p> <p>Agreed date: 30 June 2020</p> |
| 5 | <p>Financial Management - Non-Recurring Savings</p> <p>£1.6 million (45%) of savings were achieved on a recurring basis, the remaining £1.9 million (55%) were non-recurrent. The level of non-recurring savings achieved in 2019/20 reflects the highest value of non-recurring savings relied upon in a single year since 2015/16.</p> <p>Risk – There is a 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>NHS Western Isles should increase its efforts to reduce its dependency on non-recurring savings to balance its financial position each year.</p> <p>Paragraph 32</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 and Procurement</p> <p>Agreed date: Ongoing</p> |
| 6 | <p>Financial Management - NFI</p> <p>The initial level of engagement with the 2018/19 NFI exercise was disappointing with only 8 from a total of 503 matches</p> | <p>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>Paragraph 40</p> | <p>Management response: 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</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|--|---|--|
| | <p>investigated by the 30 September deadline.</p> <p>Risk – 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 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>Responsible officer: Principal Accountant</p> <p>Agreed date: 30 September 2021</p> |
| 7 | <p>Financial Sustainability - Unidentified Savings</p> <p>The projected funding gap for 2020/21 is £3.370 million and is to be met through efficiency savings. £2.271 million of savings have already been identified but £1.099 million remains unidentified.</p> <p>Risk – NHS Western Isles are unable to maintain a balanced budget for 2020/21.</p> | <p>NHS Western Isles should ensure that savings plans are developed identifying how the £1.099 million of unidentified savings in 2020/21 will be achieved.</p> <p>Paragraph 45</p> | <p>Management response: Due to the COVID-19 pandemic, the Scottish Government are aware that many Board are unable to review services to achieve recurring unidentified savings. However, it is recognised there will be a certain amount of non-recurring savings that will offset some of the unidentified savings required. A revised savings plan will be submitted to the Board in October 2020.</p> <p>Responsible officer: Director of Finance and Procurement</p> <p>Agreed date: 31 October 2020</p> |
| 8 | <p>Financial Sustainability - Transformational Plan</p> <p>NHS Western Isles do not have a transformational plan for the redesign of services to help achieve the required level of efficiency savings.</p> <p>Risk – 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 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>Paragraph 49</p> | <p>Management response: 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>Responsible officer: Chief Executive and Nurse Director</p> <p>Agreed date: Ongoing</p> |
| 9 | <p>Financial Sustainability - Medium to Longer-Term Financial Plan</p> <p>NHS Western Isles three-year financial plan was prepared prior to the COVID-19 global pandemic and does not consider the financial impact of</p> | <p>NHS Western Isles should prepare a revised medium-term financial plan and longer-term financial plan to consider the financial impact of the COVID-19 global pandemic</p> <p>Paragraph 50</p> | <p>Management response: NHS Western Isles will prepare a revised medium to Longer Term Financial Plan as part of budget setting exercise for 2021/22.</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|--|--|---|
| | <p>the COVID-19 global pandemic.</p> <p>Risk – There is a risk that the current three-year financial plan is no longer fit for purpose.</p> | | <p>Responsible officer: Director of Finance and Procurement.</p> <p>Agreed date: 31 March 2021</p> |
| 10 | <p>Governance and Transparency - Website</p> <p>The Board's website has been under reconstruction for the past two years 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 latest annual report and accounts.</p> <p>Risk – There is a risk that NHS Western Isles is failing to meet expectations of openness and transparency.</p> | <p>NHS Western Isles should progress development of the website as a matter of priority and make minutes of both the Board and its statutory committees publicly available.</p> <p>Paragraph 53</p> | <p>Management response: The Board is working with a new website provider and are moving quickly forward with the new website. We had hoped that a version for Management review would be ready for week beginning 11 May 2020 but due to COVID-19 pandemic there has been a short delay and Management review should take place by end of June 2020 and should go live shortly after. All relevant and up to date finance reports will be part of the new site.</p> <p>Responsible officer: Communications Manager</p> <p>Agreed date: 30 September 2020</p> |
| 11 | <p>Governance and Transparency - Financial Capacity</p> <p>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>Risk – There is a risk that the dual role held by the Director of Finance and Procurement has an adverse impact on the</p> | <p>NHS Western Isles should undertake a periodic review of the dual role being completed by the Director of Finance and Procurement also acting as Chief Financial Officer of the Integration Joint Board.</p> <p>Paragraph 56</p> | <p>Management response: 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>Responsible officer: Chief Executive</p> <p>Agreed date: Ongoing</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|---|---|---|
| | finance function within the Health Board. | | |
| 12 | <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>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>Risk – 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>All overdue internal audit recommendations should be addressed as a matter of priority to ensure that there are no weaknesses in the Board's internal control systems.</p> <p>Paragraph 57</p> | <p>Management response: 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>Responsible officer: Director of Finance and Procurement</p> <p>Agreed date: 30 September 2020</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|---|---|--|
| 13 | <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 £5.2m for 2019/20 and this represents an increase of 189% since 2014/15.</p> <p>Risk – 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>Reliance on temporary staff is not financially sustainable. The Board need to look at alternative models for service delivery as a matter of priority.</p> <p>Paragraph 65</p> | <p>Management response: 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 hard to fill posts and where that is not possible to try and employ temporary staff as efficiently as possible</p> <p>Responsible officer: Director of Finance and Procurement, Director of HR and Workforce Development and Nurse Director</p> <p>Agreed date: Ongoing</p> |
| 14 | <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>Risk – There is a risk that NHS Western Isles do not have robust plans in place to address its workforce sustainability issues.</p> | <p>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>Paragraph 67</p> | <p>Management response: 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>Responsible officer: Director of HR and Workforce Development</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|--|---|---|---|
| | | | Agreed date: 31 March 2021 (dependant of any COVID 19 issues) |
| Follow up of prior year recommendations | | | |
| 15 b/f | Financial Statements - Receipt of unaudited accounts | NHS Western Isles should review arrangements for preparing its financial statements. | <p>Ongoing – superseded by Recommendation 1.</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 and Procurement</p> <p>Revised date: 31 March 2021</p> |
| 16 b/f | Financial Statements - Inventory valuation | Discrepancies between the JAC system and the financial ledger require to be resolved to ensure an accurate inventory valuation. | <p>Ongoing – a £16,509 variance remains, and the difference is still under investigation.</p> <p>Management response: The Principal 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 March 2021</p> |
| 17 b/f | Financial Management - Non-Recurring Savings | NHS Western Isles should increase its efforts to reduce its dependency on nonrecurrent savings to balance its financial position each year. | <p>Ongoing – superseded by Recommendation 5.</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 and Procurement</p> <p>Agreed date: Ongoing</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----------|--|--|---|
| 18 b/f | Financial Sustainability - Efficiency Savings | Detailed savings plans should be developed to ensure that NHS Western Isles can deliver the required savings. | <p>Ongoing – superseded by Recommendation 7.</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 and Procurement</p> <p>Agreed date: 31 March 2021</p> |
| 19 b/f | Financial Sustainability - Longer-Term Financial Planning | The board should develop a medium to long-term financial plan | <p>Ongoing - superseded by Recommendation 9.</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 and Procurement</p> <p>Agreed date: 31 March 2021</p> |
| 20 b/f | Governance and Transparency - GDPR Compliance | The Board should undertake periodic internal audits to monitor GDPR compliance and regularly update data protection processes. | <p>Ongoing</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</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----------|---|---|--|
| 21 b/f | Governance and Transparency - Business Continuity Management | The board should ensure that identified weaknesses in business continuity / disaster recovery arrangements are resolved as a matter of urgency. | <p>Information Security Learn Pro module, at least every two years.</p> <p>Responsible officer: Information Governance Officer</p> <p>Agreed date: Ongoing</p> <hr/> <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>Agreed date: 31 March 2021</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](#).

Add in any audit risks arising from COVID-19 along with any new 'standard risks' identified in the revised 2019/20 Audit Planning Guidance

| Audit risk | Assurance procedure | Results and conclusions |
|---|--|--|
| Risks of material misstatement in the financial statements | | |
| <p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that result in fraudulent financial statements.</p> | <ul style="list-style-type: none"> Review of key accounting estimates and critical judgements for bias. This will include both a retrospective review of 31 March 2019 key accounting estimates and critical judgements and a review of corresponding key accounting estimates and critical judgements as at 31 March 2020. Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of financial reporting. | <p>Results: We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>Conclusion: We did not identify any incidents of management override of controls.</p> |
| <p>2 Risk of material misstatement caused by fraud in income and expenditure recognition</p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. However, the majority of the Health Board's income is from the Scottish Government or other public</p> | <ul style="list-style-type: none"> Audit work on the National Fraud Initiative matches. Obtain assurances from the NHS Scotland Counter Fraud Service. Sample testing of expenditure transactions and verification to supporting evidence | <p>Results: The initial engagement with the 2018/19 NFI exercise was disappointing. 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>The Director of Finance and Procurement (as Fraud Liaison Officer) provides an update to each HGAC meeting in relation to the work of CFS in relation to the</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|--|--------------------------------|---|
| <p>sector bodies and the specific risk is rebutted.</p> <p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure.</p> <p>Significant expenditure items include payments for primary care services and patient travel.</p> <p>There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> | <p>and subsequent payment.</p> | <p>board and no significant issues have been highlighted.</p> <p>No significant issues were identified from our testing of expenditure disclosed in the financial statements.</p> <p>Conclusion: We did not identify any incidents of fraud.</p> |

| | | |
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| <p>3 Estimations and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements</p> | <ul style="list-style-type: none"> • Review of reports from the District Valuer to confirm asset valuations. • Sample testing of indexation calculations. • Sample testing of CNORIS claims and associated reimbursements. • Verification of the CNORIS provision recognising the future liability from participating in the scheme with reference to the contribution rate provided by the Central legal Office (CLO). | <p>Results: We reviewed the reports from the District Valuer and confirmed these to asset valuations with no issues identified.</p> <p>No significant issues were identified from our testing on the CNORIS provision.</p> <p>Conclusion: No issues were identified with our testing on estimations and judgements.</p> |
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Risks identified from the auditor's wider responsibility under the Code of Audit Practice

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| <p>4 Financial Sustainability</p> <p>Our 2018/19 Annual Audit Report included comment that NHS Western Isles has not produced a financial plan beyond 2019/20.</p> <p>We also commented on the continued reliance on non-recurring savings to achieve financial balance.</p> <p>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</p> | <ul style="list-style-type: none"> • Undertake follow up work on development of medium / long term financial planning. • Review the reliance on and nature of nonrecurring savings in-year • Consider medium-term financial "gaps" and the assumptions in the plan. • Review progress and achievement of medium-term financial plans. | <p>Results: A medium-term financial plan has been developed for the three-year period 2020/21 to 2021/22 but the Board does not have a long-term financial plan. We have flagged concerns about the lack of identified savings in the opening budget and on-going reliance on non-recurring savings and the pressure this adds to NHS Western Isles financial sustainability.</p> <p>Conclusion: NHS Western Isles financial sustainability continues to be a significant challenge. A medium-term financial plan is in place, but a longer-term financial plan has yet to be developed.</p> |
|---|---|--|

| Audit risk | Assurance procedure | Results and conclusions |
|---|---|--|
| <p>and performance cycle and over the longer term.</p> | | |
| <p>5 Financial Management – Draft Annual Report and Accounts</p> <p>In 2018/19, the Board did not provide a full set of financial statements until 7 June 2019 and a number of issues have been identified with the draft annual report and accounts presented for audit in the past three years.</p> <p>There is a risk that the audited accounts are not completed by 30 June 2020.</p> | <ul style="list-style-type: none"> Review progress and achievement of medium-term financial plans. Clarify the arrangements for the preparation of the 2019/20 annual report and accounts. Confirm arrangements for regular and final clearance meetings during final accounts audit process. | <p>Results: Despite the COVID-19 global pandemic, the unaudited annual report and accounts were submitted on 11 May, but these were not complete until 12 June.</p> <p>Conclusion: This had limited impact on the planned audit process however we have recommended that NHS Western Isles review its arrangements for preparing the annual report and accounts.</p> |
| <p>6 Financial Management – Financial Position</p> <p>The Board’s planned RRL budget for 2019/20 was £91.2 million against an initial expenditure budget of £94.7 million. This presented a funding gap of £3.5 million to be met by identified efficiency savings of £2.2 million (63%) and unidentified savings of £1.3 million (37%). The year-to-date position at the end of October 2019 was a £0.6 million overspend and a forecast year-end overspend of £0.8 million. Of the £1.3 million unidentified savings, plans have now been identified for £1.0 million, however a further £0.3 million remain unidentified.</p> <p>The Board has disputed a planned increase of £0.5 million in its SLA with NHSGGC. This amount has not been included in the forecast yearend overspend figure of £0.8 million.</p> <p>There is a significant risk that NHS Western Isles is unable to deliver the savings needed to achieve its breakeven target.</p> | <ul style="list-style-type: none"> Clarify the arrangements for the preparation of the 2019/20 annual report and accounts. Undertake follow up work on financial management. This includes reviewing progress on the delivery of savings plans and the effectiveness of in-year budget reporting. Monitor the development of the budget projection for the remainder of the financial year. Review progress against identified savings actions. Evaluate progress with developing further savings measures during the year to support the “unidentified savings” in the budget. Consider contingency actions relating to increased SLA charges. | <p>Results: The board achieved an underspend of £26,000 (0.01%) against its total 2019/20 RRL of £92.5 million but this required the application of savings, contingency funds and a cash payment from the Comhairle of £0.8 million to counter cost pressures.</p> <p>Conclusion: The 2019/20 break-even target was achieved.</p> |
| <p>7 Governance and Transparency – Website</p> <p>The Board’s website has been under reconstruction for the</p> | <ul style="list-style-type: none"> Review of the Board’s website to ensure that the minutes of both the Board and its | <p>Results: The Board is working with a new website provider and are moving quickly forward with the new website. All relevant and</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|--|--|--|
| <p>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>There is a risk that NHS Western Isles is failing to meet expectations of openness and transparency.</p> | <p>statutory committees are regularly published.</p> | <p>up to date finance reports will be part of the new site.</p> <p>Conclusion: Our expectation is that minutes and agenda papers for all committees would be available online. NHS Western Isles is currently not meeting this expectation.</p> |
| <p>8 Value for Money</p> <p>We have identified the following risks to achieving value for money at the board:</p> <ul style="list-style-type: none"> • Workforce sustainability – an ageing workforce and recruitment challenges in key specialities. At 31 March 2019, 46% of the NHSWI workforce was over fifty years of age and 13% of that figure were over sixty. 43% of nursing staff were over fifty and 15% of these were over 60. • Spending on temporary staff at NHS Western Isles has increased by 75% over the last five years. Recorded spending on agency staff decreased slightly from £3.2 million (8.1%) in 2017/18 to £3.1 million (7.7%) in 2018/19. <p>There is a significant risk that NHS Western Isles will continue to rely on annual / short term actions and not recognise or plan to respond to significant medium/ long term workforce issues.</p> | <ul style="list-style-type: none"> • Follow up review of workforce planning in NHS Western Isles. • Review of the Board's long-term approach to securing sustainable service transformation. | <p>Results: The findings from our review of performance targets and are included in Part 5.</p> <p>Conclusion: Unless recruitment challenges can be effectively addressed, service sustainability will become a significant risk.</p> |

Appendix 3

Summary of national performance reports 2019/20



**2019/20
Reports**

| | | | |
|--|--|-------------|--|
| | | Apr | |
| Social security: Implementing the devolved powers | | May | |
| Scotland's colleges 2019 | | Jun | Enabling digital government |
| | | Jul | |
| NHS workforce planning - part 2 | | Aug | |
| Finances of Scottish universities | | Sept | |
| NHS in Scotland 2019 | | Oct | |
| | | Nov | |
| Local government in Scotland: Financial overview 2018/19 | | Dec | |
| Scotland's City Region and Growth Deals | | Jan | Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models |
| | | Feb | |
| | | Mar | Early learning and childcare: follow-up |

NHS relevant reports

[NHS workforce planning – part 2](#) – August 2019

[NHS in Scotland 2019](#) – October 2019

Western Isles

2019/20 Annual Audit Report

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