

# NHS WESTERN ISLES

Annual Audit Report 2018/19



 AUDIT SCOTLAND

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

26 June 2019

## 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.

---

# Contents

---

Key messages	4
Introduction	5
Part 1 Audit of 2018/19 annual report and accounts	7
Part 2 Financial management	10
Part 3 Financial sustainability	15
Part 4 Governance and transparency	19
Part 5 Value for money	22
Appendix 1 Action plan 2018/19	26
Appendix 2 Significant audit risks identified during planning	30
Appendix 3 Summary of national performance reports 2018/19	34

---

# Key messages

---

## 2018/19 annual report and accounts

- 1 Our audit opinions on the annual report and accounts are all unmodified.
- 2 A complete version of the annual report and accounts was received much later than planned. A review is required of the process of preparing the financial statements.

## Financial management

- 3 NHS Western Isles achieved targeted savings of £2.2 million and used this to meet demand and cost pressures. It also benefited from £1 million transfer from the IJB reserves to meet overspends in health services.

## Financial sustainability

- 4 There are no detailed plans for 37% of the 2019/20 savings included in the budget and additional pressures and reduced reserves in health and social care mean this is a significant challenge for NHS Western Isles to achieve. NHS Western Isles has now developed a three-year financial plan although long term planning at a regional level is still unclear.
- 5 NHS Western Isles needs to meet its workforce challenges if it is to maintain services when demand is growing but the working age population is falling.

## Governance and transparency

- 6 NHS Western Isles has appropriate governance arrangements, but its website is currently being restructured and minutes of both the board and its statutory committees have not been publicly available since June 2018. Our previous recommendation on transparency of sub-committee meetings has been rejected.

## Value for money

- 7 NHS Western Isles performance against eight key national targets in 2018/19 has improved slightly and performs well relative to other NHS bodies.
- 8 Temporary staff costs form a significant proportion of total staff costs.

---

# Introduction

---

1. This report summarises the findings from our 2018/19 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 Healthcare Governance and Audit Committee on 13 December 2018. The main elements of our audit work in 2018/19 have been:
  - a review the Board's main financial systems
  - an audit of the Board's annual report and consolidated accounts for 2018/19
  - consideration of the four audit dimensions that form the wider scope of public audit set out in the [Code of Audit Practice 2016](#) ([Exhibit 1](#)).

---

## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

---

## Adding value through the audit

3. 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
  - reporting our findings and conclusions in public
  - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides

- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

4. 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

5. NHS Western Isles has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and consolidated accounts that are in accordance with the accounts direction. The Board's annual report and consolidated accounts includes:

- a Performance Report
- an Accountability Report (including the Corporate Governance Report; Remuneration & Staff Report and Parliamentary and Accountability Report)
- Financial statements and supporting notes.

6. The Board 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; the [Code of Audit Practice 2016](#) and International Standards on Auditing in the UK.

8. As public sector auditors we give independent opinions on the annual report and consolidated accounts. Additionally, we conclude on:

- the financial position and arrangements for securing financial sustainability,
- the suitability and effectiveness of corporate governance arrangements,
- the appropriateness and effectiveness of the performance management arrangements.

9. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

10. Weaknesses or risks identified in this report 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.

11. This 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.

12. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We also confirm that we have not undertaken any non-audit related services. We are not aware of any relationships that could compromise our objectivity and independence.

13. This report is addressed to the Board and the Auditor General for Scotland and will be published on our website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

14. 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 2018/19 annual report and accounts



### Main judgements

**Our audit opinions were all unmodified.**

**A complete version of the annual report and accounts was received much later than planned. A review is required of the process of preparing the financial statements.**

**NHS Western Isles has made reasonable progress in implementing our prior year audit recommendations.**

The annual report and consolidated accounts are the principal means of accounting for the stewardship of resources and performance.

### Our audit opinions on the annual report and accounts are all unmodified

**15.** The annual report and accounts for the year ended 31 March 2019 were approved by the Board on 26 June 2019. As reported in our independent auditor's report:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance
- 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 relevant legislation and directions made by Scottish Ministers.

### A complete version of the annual report and accounts was received much later than planned.

**16.** We received a full set of unaudited annual accounts on 7 June 2019, almost 4 weeks later than the agreed audit timetable of 13 May 2019 identified within our Annual Audit Plan. Although accounts for some areas were provided earlier, these were incomplete. In particular, the unaudited financial statements submitted on 10 May 2019 did not contain either the funding transactions to/from the Integration Joint Board (which significantly increases gross income and expenditure reported in the financial statements), nor the Board's share of the Integration Joint Board's net assets. These transactions were included in a revised set of statements received on 7 June 2019.

**17.** The audit process was also affected by the unplanned absence of a key member of staff although the effect of this was mitigated by the support provided by other finance staff and the standard of working papers provided.

18. These issues combined had a significant impact on the planned audit process and we have recommended that the Board should review its arrangements for preparing the financial statements.



Recommendation 1

---

## NHS Western Isles should review arrangements for preparing its financial statements

---

### Appendix 2 identifies the audit work we did to address risks of material misstatement

19. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and consolidated accounts 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.

### Overall materiality is £1.3 million

20. 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 report and accounts we reviewed our planning materiality and concluded that no changes to the materiality levels were required. These are shown at [Exhibit 2](#).

---

## Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£1.3 million
Performance materiality	£0.8 million
Reporting threshold	£50,000

Source: NHS Western Isles Annual Audit Plan 2018/19

---

### There is one significant finding from the audit

21. 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.
22. 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

Issue	Resolution
<p><b>1. Stock variance</b></p> <p>A variance of £62,543 exists between the JAC pharmacy system and the financial ledger. The difference has been investigated by Finance who have been unable to establish the reason because data cannot be re-created to enable a reconciliation to be performed. We have accepted the lower valuation (financial ledger) amount of £209,407, reflected in the board's accounts. Use of the higher (JAC) valuation would result in an increase in the underspend against total revenue resource limit. The variance represents almost 30% of the total recorded value of pharmacy stock. This issue was also raised last year.</p>	<p>The difference is not material and the lower ledger balance has not been amended in the audited financial statements.</p> <p> <a href="#">Recommendation 2 (refer appendix 1 action plan)</a></p>

Source: 2018/19 annual accounts

### There are no unadjusted misstatements and there was no evidence of further systematic error

- 23.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Total misstatements identified were £40,000, none of these exceeded our reporting threshold of £50,000
- 24.** We have concluded that the errors identified arise from issues that have been isolated and identified in their entirety and do not indicate further systematic error within the account areas or more pervasively within the financial statements. We considered the impact of these misstatements on our audit approach and decided that further audit procedures were not required

### Follow up of prior year recommendations

- 25.** NHS Western Isles has made reasonable progress in implementing our prior year audit recommendations with 1 fully achieved, 2 partially achieved, 1 outstanding and 1 closed. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in Appendix 1.

# Part 2

## Financial management



### Main judgements

NHS Western Isles operated within its revenue resource limit reporting an underspend of £0.010 million.

NHS Western Isles achieved targeted savings of £2.2 million and used this to meet demand and cost pressures. It also benefitted from £1m transfer from the IJB reserves to meet overspends in health services.

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

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

### NHS Western Isles operated within its Revenue Resource Limit (RRL)

26. 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](#), it operated within its limits during 2018/19, recording an underspend of £0.010 million.

### Exhibit 4

Performance against resource limits in 2018/19

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	83.7	83.7	0.010
Non-core revenue resource limit	2.5	2.5	0
<b>Total revenue resource limit</b>	<b>86.2</b>	<b>86.2</b>	<b>0.010</b>
Core capital resource limit	2.1	2.1	0
Non-core capital resource limit	0	0	0
<b>Total capital resource limit</b>	<b>2.1</b>	<b>2.1</b>	<b>0</b>
<b>Cash requirement</b>	<b>90.8</b>	<b>90.8</b>	<b>0</b>

Source: NHS Western Isles Annual Accounts 2018/19, subject to rounding for presentation purposes

### **The final outturn was achieved after £1 million was transferred from the IJB reserves to meet overspends in health services.**

27. The 2018/19 Annual Operational Plan (AOP) forecast a breakeven position against its RRL, and required total efficiency savings of £2.2 million (3.0%) to be delivered. The actual outturn for the year is an underspend of £0.010 million.
28. The outturn incorporates some overspends against budget. This includes mental health acute placements and mainland placements (£0.8 million), Laboratories (£0.3 million), Patient Access Scheme (PAS) drugs (£0.5 million), Hospital pharmacy (£0.4 million), GP prescribing (£0.2 million) and full recovery of Service Level Agreements with mainland boards (£0.6 million).
29. These were offset by use of the centrally-held contingency of £1.9 million for specific pressures. However the main factor in achieving the underspend against RRL, which reversed a projected overspend of £1.0 million at December 2018, was the £1.0 million cash transfer between the Health and Social Care Partners, reflecting the use of accumulated reserves. This had not been factored into earlier outturn projections.

### **Budgetary processes are appropriate**

30. 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.
31. Operational budgets for 2018/19 were adjusted downwards, to address the financial gap of £2.2 million, but with a centrally held contingency as noted above. A tracker system of specific savings projects was maintained for the savings.

### **Efficiency savings target of £2.2 million was achieved and this was applied to meet demand and cost pressures**

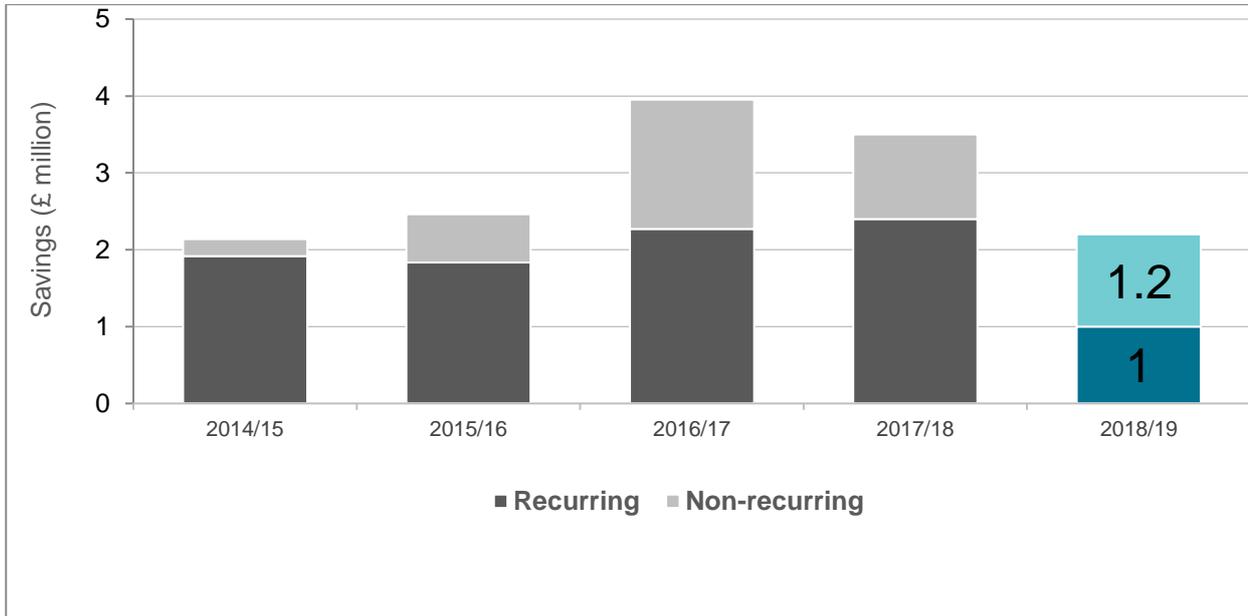
32. NHS Western Isles 2018/19 budget required efficiency savings of 3% (£2.2 million) to be delivered, Savings targets to address the budgeted financial gap were allocated in initial budgets between NHS Western Isles (£1.6 million) and Comhairle is Slainte nan Eilean Siar (CISNES), the integration joint board (£0.6 million), both of which were delivered in full. As outlined in paragraph 27 above, the actual outturn for the year is an underspend of £0.010 million but this required the application of savings, contingency funds and a cash payment from the Comhairle of £1 million to counter cost pressures.

### **NHS Western Isles continues to rely on an element of non-recurring savings**

33. As illustrated in [Exhibit 5](#), £1.0 million (45%) of savings were achieved on a recurring basis this year, the remaining £1.2 million (55%) were non-recurrent. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.
34. Although, the total savings target was lower than in the previous two financial years (£3.5 million in 2017/18 and £3.9 million 2016/17), the proportion of savings being delivered on a recurring basis has fallen.

## Exhibit 5

### Savings – recurring and non-recurring



Source: Audit Scotland Annual Audit Reports



### Recommendation 3

#### NHS Western Isles should increase its efforts to reduce its dependency on non-recurrent savings to balance its financial position each year

#### Systems of internal control operated satisfactorily

- 35.** As part of our audit we identify and inspect the key internal controls in the accounting systems. 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.
- 36.** Our findings from the review of systems of internal controls were included in the management report presented to the Healthcare Governance and Audit Committee on 9 May 2019. We concluded that the financial controls put in place by management operated satisfactorily. We highlighted that a number of our payroll tests (including reperformance of internal audit payroll work) remained incomplete because of difficulties gaining access to NHS Greater Glasgow and Clyde payroll services who provide the payroll services to NHS Western Isles. This issue is now resolved following further work undertaken at NHS Greater Glasgow and Clyde payroll services in May 2019. We did not identify any control weaknesses..

#### We were able to place planned reliance on the work of Internal audit

- 37.** The board's internal audit function is carried out by Scott Moncrieff. We reviewed the board's internal audit arrangements and concluded that we would place reliance on aspects of internal audit work in their reviews of payroll and stock control.

38. In relation to our wider dimension audit responsibilities we placed reliance on a number of their reviews including Risk Management, Treatment Time Guarantees, Service level Agreements and IT and records security.

### There are appropriate standards of conduct and arrangements for the prevention and detection of fraud and error

39. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
40. NHS Western Isles 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.

### NHS Western Isles has made good progress with National Fraud Initiative matches

41. 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.
42. NFI activity is summarised in Exhibit 6 and highlights that the board has completed its investigation of the payroll match issued to the board in January 2019 that was recommended for investigation. It should be noted that NHS creditors data was not included in the matches released to participating bodies in January 2019 and were only released to relevant bodies in early May 2019. As a result, NHS creditors matches are not included in Exhibit 6. There is an expectation that match investigation work should be largely completed by 30 September 2019 and the results recorded on the NFI system, although it is recognised that some investigations may continue beyond this date.
43. The NFI secure website lists a total of 25 data matches. From this total, 1 is classed as a 'recommended' match (high risk) for investigation. Both the high risk and medium risk matches were investigated; no frauds or errors were identified.
44. Updates on NFI activity are reported regularly by the Fraud Liaison Officer to the Healthcare Governance and Audit Committee. We concluded that the board is proactive in investigating matches and reporting the outcomes of NFI activity.

## Exhibit 6 NFI activity



25  
Matches



1 high risk, 1 medium risk, 6  
low risk and 17 nil risk  
Risk levels of matches



2  
Completed/closed  
investigations

## **There are no significant issues reported by the service auditors of shared systems**

- 45.** The NHS in Scotland procures a number of service audits each year for shared systems: NHS National Services Scotland (NSS) procures service audits covering primary care payments and the national IT contract; and NHS Ayrshire & Arran procure a service audit of the National Single Instance eFinancials service. We considered the content of the service auditor assurance reports and did not identify any significant issues in these shared services.

# Part 3

## Financial sustainability



### Main judgements

There are no detailed plans for 37% of the 2019/20 savings included in the budget. Additional pressures and reduced reserves in health and social care mean this is a significant challenge for NHS Western Isles to achieve.

NHS Western Isles has now developed a three-year financial plan although long term planning at a regional level is still unclear.

NHS Western Isles needs to meet its workforce challenges if it is to maintain services when demand is growing and yet the working age population is falling .

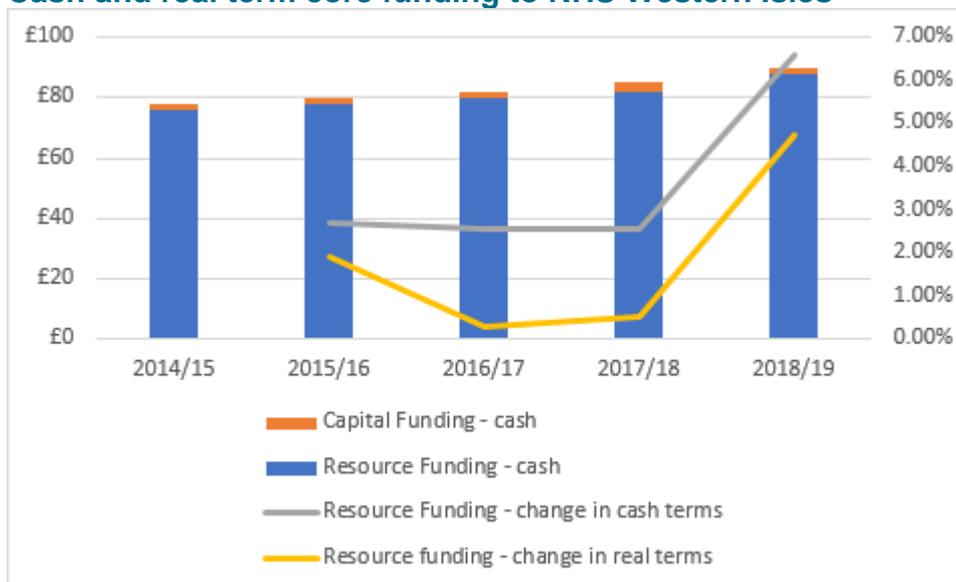
Financial sustainability looks forward to the medium and long term to consider whether the board is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Over the last four years revenue funding in real terms to NHS Western Isles has grown, last year by 4.7%.

46. Revenue funding to NHS Western Isles from the Scottish Government has grown by 6.6% in cash terms and 4.7% in real terms compared to 2017/18 ([Exhibit 7](#)). NHS Western Isles received a 2.5% uplift on base funding which includes funding for the pay increase.

### Exhibit 7

#### Cash and real term core funding to NHS Western Isles



Source: NHS Western Isles accounts/ Audit Scotland

**The short term funding gap for 2019/20 is £3.5 million. 37% of this has not been specifically identified in the initial financial plan and pressures as well as reduced reserves in health and social care mean this is a significant challenge for NHS Western Isles.**

47. The Board's estimated RRL budget for 2019/20 is £91.2 million against an initial expenditure budget of £94.7 million resulting in a funding gap of £3.5 million to be met by efficiency savings of £2.2 million (63%) and unidentified savings assumed to be delivered in-year of £1.3 million (37%).
48. The expenditure budget has been increased for ongoing pressures from 2018/19 which has resulted in the increased funding gap for 2019/20 (£2.2 million 2018/19). The main areas are:
- Increases in mental health long term placements both for CAMHS and Adult
  - Increase in PAS drugs in oncology and haematology
  - Increase in SLA provision, specifically to NHS Greater Glasgow and Clyde.
49. The efficiency savings identified include long term project work to deliver ongoing savings on projects that have already commenced, for example SLA referrals.
50. For the unidentified savings assumed to be delivered in-year, the Board has identified the main areas requiring recurring transformational savings. These include reviewing hotel services, reviewing theatre supplies, reducing length of stay, and regional efficiencies. However, detailed plans on how these will be delivered have yet to be fully developed. 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 2019/20.



#### **Recommendation 4**

**NHS Western Isles should ensure that savings plans are developed identifying how the £1.3 million of unidentified savings in 2019/20 will be achieved.**

---

51. The Board acknowledge that for 2017/18 and 2018/19 it has been able to rely on IJB reserves to offset overspends within the delegated budget. They also acknowledge however that it is unlikely that these will be available in 2019/20 due to pressures on both the social care part of the pooled budget and ongoing pressures within the NHS budget.
52. Whilst the Board does have a good track record in achieving its efficiency savings targets, the position is extremely challenging for 2019/20 and 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 2019/20 AOP.

**NHS Western Isles has now developed a three-year financial plan**

53. A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year

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

54. In March 2019, the Board considered a financial plan for the three-year period 2019/20 to 2021/22. This included details of the underpinning assumptions and methodology adopted to inform the financial planning process for 2019/20 and beyond, and was the basis for the financial aspects of the Annual Operational Plan for 2019/20.
55. Indicative savings of £4.9 million for 2020/21 and £6.3 million for 2021/22 have been identified. However, these do not take account of any shortfall in recurring savings from the prior year and could be significantly higher.

### Long term planning at a regional level is still unclear

56. The development of long term financial planning is dependent on the work of the regional programme and regional partners. As reported in 2017/18, a Budget Scenario has been developed as part of the North of Scotland Regional Delivery Plan (RDP) for the five-year period 2018 – 2023. This models inflationary and other predicted uplifts to expenditure against uplifts to RRL (0%, 0.5% and 1.5%). However, this is at an early stage and most of the savings required in 2020/21 and beyond have yet to be identified.

### NHS Western Isles needs to meet its workforce challenges if it is to maintain services when demand is growing and yet the working age population is falling

57. Last year we reported that the Board is facing a number of workforce challenges. These include an ageing workforce, vacancy rates, spending on agency staff and sickness absence levels.
58. Further analysis by the Board has established that at 31 March 2019, 46% of the NHSWI workforce is over fifty years of age and 13% of that figure are over sixty. 43% of nursing staff are over fifty and 15% of these are over 60. The Board also recognise that outward migration is rising specifically among young women who predominantly make up the NHS Workforce. They therefore acknowledge that this will make recruitment from the local population ever more difficult.
59. The Board also estimate that the overall population within the Western Isles is expected to drop from the midpoint estimate in 2017 of 26,950 to 24,698 by 2027 and a further predicted decrease to 23,855 by 2037. By 2027 the elderly population (65+) is expected to rise by 44% and the 20-64 age population set to decrease by 17% whilst the age group with the most comorbidity (80+) is expected to increase by 40%. These population changes will result in a year on year reduction in the available workforce to nurse, care and attend to the most vulnerable people whose numbers are increasing year on year.
60. The impact of these issues has been highlighted by the Board as;
  - High cost agency staff used to cover vacancies;
  - Increased cost of covering sickness absence as there is a direct correlation between hours lost through sickness and the age of workforce;
  - Possibility of having to use mainland providers for treatment if there are service weakness due to absences and the inability to recruit from amongst the local population and from the mainland.
61. The Board acknowledge that unless recruitment challenges can be effectively addressed, service sustainability will become a significant risk. Scenario planning is currently being undertaken by the Director of Finance and

Procurement, together with the Director of HR and Workforce to assess the impact the recruitment challenges pose on sustaining the full range of services on Western Isles.

# Part 4

## Governance and transparency



### Main judgements

**NHS Western Isles has appropriate governance arrangements.**

**The Board's website is currently being restructured and minutes of both the board and its statutory committees have not been publicly available since June 2018. Our previous recommendation on transparency of sub-committee meetings has been rejected.**

**The Board should undertake periodic internal audits to monitor GDPR compliance and regularly update data protection processes.**

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 NHS Western Isles has appropriate governance arrangements

**62.** The Board meets every month and is supported by three governance committees:

- Staff Governance
- Patient Focus Public Involvement
- Healthcare Governance and Audit

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

### NHS Western Isles Board meetings are open, but we have recommended improvements to assist transparency of other committees, which have been rejected

**64.** We reported last year that although Board meetings are held in public, the Board's other committees (including the Healthcare Governance and Audit Committee) are not. The board subsequently agreed that apart from board meetings, no other committee meetings would be open to the public. Minutes of these committee meetings are, however, normally made available on the Board's website as part of the papers for subsequent Board meetings. However, the website is currently being restructured and minutes of both the board and its statutory committees have not been publicly available since June 2018.

**65.** Work to repair the website has been underway for a number of months. This has been extended to establish a new visual redesign. The work is to be completed in June 2019. The Communications Manager is reviewing the format and content to ensure that relevant updated documents are held on the site.

66. Whilst we remain of the view that the board can increase openness and transparency by holding more committee meetings in public and by making available minutes and agenda papers for all committees online, the board is not yet convinced of this approach. Overall, we concluded that the board conducts its business in an open and transparent manner, but we believe that there are areas where the board could improve current arrangements.

## **NHS Western Isles continues to progress compliance with General Data Protection Regulations**

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

68. 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.

69. NHS Western Isles have documented and are in the process of implementing an action plan to achieve compliance with GDPR. An update report was submitted to the Board in August 2018 informing Board Members on progress towards compliance with the GDPR requirements. This included:

- Roll out of the Information Security Management System (ISMS)
- Development of a range of in-house training materials
- Updating of the Information Governance intranet section
- Approval of Staff Privacy Notice, and local Staff leaflet
- Approval of Freedom of Information Policy

70. In their December 2018 Payroll Report, Internal Audit recommended that NHS Western Isles should ensure that sufficiently robust processes are in place and that they receive ongoing reassurance of compliance on the management of payroll/personal information handled by external providers, in line with GDPR Article 28.

71. We have concluded that the board continues to make progress on implementing the GDPR requirements. However GDPR compliance is an ongoing project and we have recommended that the Board should undertake periodic internal audits and regularly update data protection processes. This includes checking records of processing activities and consent, testing information security controls, and conducting Data Protection Impact Assessments.



### **Recommendation 5**

**NHS Western Isles should undertake periodic internal audits to monitor GDPR compliance and regularly update data protection processes.**

---

## **Key dependencies exist with a small number of suppliers, with reliance on NSS and local monitoring**

72. The impact of underperformance or failure of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services.

- 73.** We obtained a list of the top 12 suppliers by value in 2017/18 excluding payments to public sector bodies and pharmaceutical suppliers. The major suppliers were:
- Travel firms – Chambers Travel (£2.0 million) and Loganair (£0.8 million)
  - Goods and services supplied under a national contract or framework agreement. This includes Canon Medical Systems (£0.8 million), agency services provided by Ayr Clinic (£0.5 million), Healthcare at Home Limited (£0.5 million), Templars (£0.3 million) and Huntercombe (£0.4 million), and energy suppliers Scottish Fuels (£0.5 million) and EDF (£0.4 million).
- 74.** A number of suppliers have been identified by the Board as Operational Supply Chain Risks:
- Loganair – Patient Travel
  - Cal Mac Ferries – Patient travel and freight carriage
  - National Distribution Centre (NDC) – Supplies 84% of stocked general medical consumables.
  - AAH – Main pharmaceutical supplier
- 75.** A range of services are provided by NSS National Procurement for national contracts and reliance is placed on the governance and business continuity arrangements within that organisation. NHS Western Isles carries out its own financial viability checks before awarding local contracts.

### **NHS Western Isles has set up governance processes to review, assess and manage risks associated with EU withdrawal**

- 76.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business.
- 77.** The Scottish Resilience EU Exit Sub Group are currently compiling a contingency plan to provide guidance in the case of a “no deal” EU exit. The Board also has a Brexit Contingency Group, responsible for adequate preparation to meet the identified risks arising from EU withdrawal. The Chief Executive chairs the group. The group meets on a regular basis to discuss the implications for the Board on guidance received from the Government. The Group has identified and considered a number of areas which could be affected by EU withdrawal, including workforce, medicines and medical technologies and procurement and supply chain. To date the group has not identified any issues that would affect service delivery. Their main concern relates to possible interruption to transport networks (road, sea and air) which could impact significantly on the Board.
- 78.** The board, in common with all other Scottish health boards, has not been holding increased stocks of drugs or medical equipment as a consequence of EU withdrawal. Drugs and medical equipment stock levels are being managed nationally.
- 79.** From February 2019, EU withdrawal has been a standing agenda item of the Healthcare Governance and Audit committee. We have concluded that it is evident that the board is liaising with the Scottish Government and is taking action on the advice provided on the planning and preparation required for EU withdrawal.

---

# Part 5

## Value for money

---



### Main judgements

---

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

---

**NHS Western Isles performance against eight key national targets in 2018/19 has improved slightly and performs well relative to other NHS bodies.**

---

**Temporary staff costs form a significant proportion of total staff costs.**

---

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

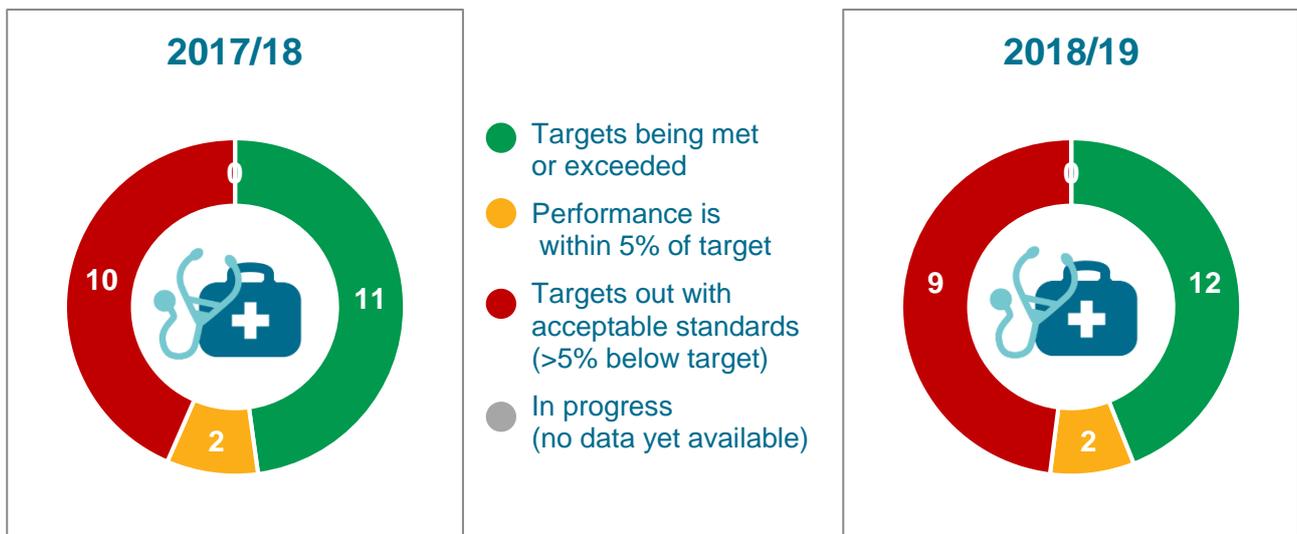
### NHS Western Isles has a Best Value Framework

80. Ministerial [guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the Accountable Officer's duty to ensure that arrangements are in place to secure best value.
81. The board is informed of performance across all areas through the quarterly Performance and Patient Activity Reports. Performance is reported using 23 LDP Standards and Patient Activity trends for key hospital settings.
82. 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.
83. We concluded that the NHS Western Isles has an effective performance management framework in place to help the board achieve value for money and continually improve how it delivers services.

## 12 of the 23 LDP standards are being met

84. NHS Western Isle's performance against the 23 LDP Standards as reported in the 2018/19 annual accounts and based on the most up-to-date position at the end of March 2019 (where data available) is summarised in [Exhibit 8](#).

### Exhibit 8 Overall performance against LDP standards



Source: Annual Report and Accounts

85. NHS Western Isles performance against the standards has improved slightly but it continues to face a number of challenges in delivering performance targets. [Exhibit 8](#) above shows 9 targets (39%) categorised as red and outwith acceptable standards.

### NHS Western Isles met five of the eight key LDP targets, this is relatively good compared to other NHS bodies

86. In our [NHS overview report](#) in 2017/18, we reported that no board had met all eight of the key LDP targets. NHS Western isles met six of the indicators, the highest level achieved in Scotland. [Exhibit 9](#) shows NHS Western Isles performance against these eight key targets in 2018/19 has improved slightly with five targets this year being met or exceeded, two being within 5% of target and one not yet achieving acceptable standards (in the previous year six were met and two were not yet achieving acceptable standards).

## Exhibit 9

### Performance against eight key LDP standards

Target	standard	performance	Action being taken
<b>Cancer 62 Day RTT</b>	95%	 75%	An improvement in performance is outwith the Board's control. All are referred timeously from NHS Western Isles to mainland health boards. The Board will continue to raise concerns via SLA monthly meetings.
<b>18 Weeks RTT</b>	90%	 92.4%	Standard achieved
<b>Patient Treatment Time Guarantee (TTG)</b> Proportion of inpatients or day case that were seen within 12 weeks	100%	 100%	Standard achieved
<b>Outpatients waiting less than 12 weeks</b>	95%	 91.6%	The Planning Office continues to push for these patients to be discharged after 2 or more reasonable offers if deemed clinically appropriate by the responsible clinician. The Board also continue to request extra capacity utilising waiting times monies in specialties where visiting SLA does not provide sufficient slots to meet ongoing demand
<b>A &amp; E attendees</b>	95%	 98.7%	Standard achieved
<b>Cancer 31 Days RTT</b>	95%	 100%	Standard achieved
<b>Drug and Alcohol 21 days</b>	90%	 86%	Slipping of target attainment due to unplanned staff absence
<b>CAMHS Waiting Times</b>	90%	 100%	Standard achieved

Note: Figures still to be validated by NHS Information Services Division.

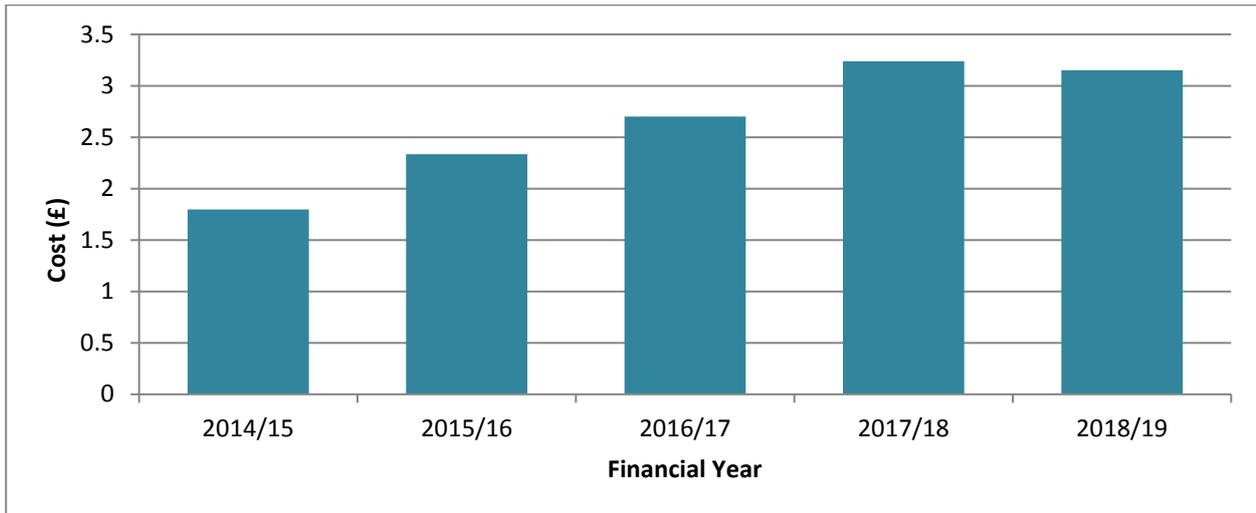
Source: NHS Western Isles Performance Monitoring Reports 2019

### Temporary staff costs form a relatively high proportion of total staff expenditure

87. Spending on temporary staff at NHS Western Isles has increased by 75% over the last five years as illustrated in Exhibit 10. It has however decreased slightly as a proportion of staff costs from £3.2 million (8.1%) in 2017/18 to £3.1million (7.7%) in 2018/19.

## Exhibit 10

### Temporary staff costs have decreased slightly in 2018/19



Source: NHS Western Isles annual report and accounts

**88.** 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 2019/20 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.

### **Sickness absence levels have not improved and continue to exceed the national standard**

**89.** NHS Western Isles, like most NHS boards is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence despite measures to maximise attendance at work. The sickness absence rate was 5.5% in 2018/19, compared to 5.49% last year.

**90.** As outlined at paragraph 60 above, the board consider that there is a direct correlation between hours lost through sickness and the age of workforce in NHS Western Isles. They consider that achieving and sustaining a 4% sickness target is not feasible.

### **National performance audit reports**

**91.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 a number of reports were published which are of direct interest to the board and are highlighted in [Appendix 3](#).

**92.** 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 2018 reports on the National Fraud Initiative in Scotland and Children and young people's mental health, and the Health and Sport Committee of the Scottish Parliament's report on The Governance of the NHS in Scotland.

# Appendix 1

## Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Receipt of unaudited accounts</b></p> <p>The board did not provide a full set of financial statements till 7 June 2019.</p> <p><b>Risk:</b> The Board fails to deliver audited financial statements on time.</p>	<p>NHS Western Isles should review arrangements for preparing its financial statements.</p> <p>Paragraph 18</p>	<p>As reported at paragraph 18 the IJB figures were not submitted by 10 May 2019. The Comhairle had not closed their accounts at that point and Comhairle journals were still be undertaken by 23 May 2019. Figures had still not been provided by 25 May when unfortunately the CFO went off on unplanned absence. For 2019/20 closing accounts NHS Western Isles will ask the Comhairle to provide their data earlier but it is unlikely they will change their closing timetable to 10 May 2020. The Social Care element is part of the overall Comhairle closing timetable.</p> <p><b>Responsible officer:</b> Director of Finance and Procurement</p> <p><b>Agreed date:</b> 31 March 2020</p>
2	<p><b>Inventory valuation</b></p> <p>A variance of £62,543 exists between the JAC pharmacy system and the financial ledger. The difference has been investigated by Finance who have been unable to establish the reason because data cannot be re-created to enable a reconciliation to be performed. We have accepted the lower valuation (financial ledger) amount of £209,407, reflected in the board's accounts. Use of the higher (JAC) valuation would result in an increase in the underspend against total revenue resource limit. The variance represents almost 30% of the total recorded value of pharmacy</p>	<p>Discrepancies between the JAC system and the financial ledger require to be resolved to ensure an accurate inventory valuation.</p> <p>Paragraph 22</p>	<p>JAC is not a financial system but a drug control system. The £62,543 relates to an overstatement of the opening stock when the stock was transferred from the previous system to JAC in 2017. This figure will remain unless the Board can find a way of removing the £62,543 value from JAC without affecting the drug stock count which is correct. The Board will work with the software suppliers to correct the opening balance</p> <p><b>Responsible officer:</b> Principal Accountant</p> <p><b>Agreed date:</b> 31 March 2020</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>stock. This issue was also raised last year.</p> <p><b>Risk:</b> The inventory valuation is not accurate.</p>		
3	<p><b>Non-recurring savings</b></p> <p>£1.0 million (45%) of savings were achieved on a recurring basis this year, the remaining £1.2 million (55%) were non-recurrent. Although, the total savings target was lower than in the previous two financial years, the proportion of savings being delivered on a recurring basis has fallen.</p> <p><b>Risk:</b> There is a significant risk that NHS Western Isles will continue to rely on non-recurring savings and be unable to deliver the savings required to achieve a balanced budget on a recurring basis over the new three-year planning and performance cycle.</p>	<p>NHS Western Isles should increase its efforts to reduce its dependency on non-recurrent savings to balance its financial position each year.</p> <p>Paragraph 34</p>	<p>The Board is sighted on the necessity of achieving recurring savings and has already got a number of groups set up to achieve an increase in recurring savings, i.e. Patient Pathways Group (reduce reliance of travel by providing appointment using VC) and a focussed SLA group. There has already been the first meeting on the IJB Strategic Finance Group to discuss recurring savings over the next 3 years, and further meetings are scheduled</p> <p><b>Responsible officer:</b> Director of Finance and Procurement</p> <p><b>Agreed date:</b> 31 March 2020</p>
4	<p><b>Efficiency savings</b></p> <p>The Board's has a funding gap of £3.5 million in 2019/20 to be met by efficiency savings of £2.2 million (63%) and unidentified savings assumed to be delivered in-year of £1.3 million (37%).</p> <p>For the unidentified savings the Board has identified the main areas requiring recurring transformational savings. However detailed plans on how these will be delivered have yet to be fully developed.</p> <p><b>Risk:</b> Financial targets will not be met as there is a lack of clarity in how the required savings will be achieved.</p>	<p>Detailed savings plans should be developed to ensure that NHS Western Isles can deliver the required savings.</p> <p>Paragraph 50</p>	<p>The Board will by the end of July 2019 set up small short life working groups (SLWGs), where relevant, to tackle each one of the areas where we believe further efficiencies could be made (briefing note provided). Each group would be supported by finance and led by the appropriate manager of the service. The Nurse Director has started the process to set up a focussed work SLA group to tackle both identified savings and contribute further to efficiencies over the next 3 years. We may second an appropriate person to aid with this focussed work.</p> <p>The governance of the SLWGs will be accountable to the Nurse Directors monthly operational management meeting. The SLWGs will update, escalate and be directed as necessary</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
5	<p><b>GDPR compliance</b></p> <p>GDPR compliance is an ongoing project and the Board should undertake periodic internal audits and regularly update data protection processes. This includes checking records of processing activities and consent, testing information security controls, and conducting Data Protection Impact Assessments.</p> <p><b>Risk:</b> Infringement of the EU GDPR can result in administrative fines or a range of corrective actions.</p>	<p>The Board should undertake periodic internal audits to monitor GDPR compliance and regularly update data protection processes.</p> <p>Paragraph 71</p>	<p><b>Responsible officer:</b> Director of Finance and Procurement and Nurse Director</p> <p><b>Agreed date:</b> 1 August 2019 (for set up)</p> <p>NHS Western Isles will monitor finance assets at least annually on the Boards asset register, making sure all processing has an appropriate legal basis under GDPR. Any new suppliers processing personal data will complete a Data Processing Agreement/Data Protection Impact Assessment prior to any change. A Data Protection Impact Assessment template was created by the National Information Governance Forum for use, and the hope is that an electronic version will be available in 2019. All staff receive Information Governance corporate induction training, and are expected to complete a Safe Information Handling Learn Pro module and will soon be asked to complete an Information Security Learn Pro module, at least every two years.</p> <p><b>Responsible officer:</b> Information Governance Manager</p> <p><b>Agreed date:</b> 31 March 2020</p>

### Follow up of prior year recommendations

b/f	<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</p>	<p>Discrepancies between the JAC system and the financial ledger require to be resolved to ensure an accurate inventory valuation.</p>	<p><b>Outstanding</b></p> <p>A variance of £62,543 remains between the JAC pharmacy system and the financial ledger. The difference has been investigated by Finance who have been unable to establish the reason because data cannot be re-created to enable a reconciliation to be performed.</p>
-----	---	--	---



No.	Issue/risk	Recommendation	Agreed management action/timing
	to ensure an accurate inventory valuation.		See Action Point 1 above
b/f	<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><b>In progress</b></p> <p>The Corporate Risk Register now includes a requirement to ensure that a business continuity management system is in place. This risk is assessed at each Board meeting.</p> <p>The Board's Business Continuity Strategy will be updated in July 2019 and will include clear guidance on roles and responsibilities as well as expectation of governance arrangements for business continuity. A timetable for completion of the business continuity plans has yet to be agreed.</p>
b/f	<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><b>Completed</b></p> <p>Savings targets to address the budgeted financial gap were allocated in initial budgets between NHS Western Isles (£1.6 million) and CISNES, the integration joint board (£0.6 million), both of which were delivered in full.</p>
b/f	<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><b>In progress</b></p> <p>A medium term financial plan has been developed but the development of long term financial planning is dependent on the work of the regional programme and regional partners.</p>
b/f	<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><b>Closed</b></p> <p>The Board has agreed that apart from Board meetings, no other committee meetings will be open to the public.</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 to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments including holiday pay accrual and unspent funding allocations.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> <li>Testing of transactions after the year end.</li> </ul>	<p><b>Results:</b> We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p><b>Conclusion:</b> We did not identify any incidents of management override of controls.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>ISA240 includes an assumption of fraud over income. The majority of the board's income is from Scottish Government or other public sector bodies and this specific risk is rebutted.</p> <p>Audit Scotland's Code of Audit Practice extends the scope of ISA240 to specific fraud risks that are relevant to a public sector audit. These include taxation receipts, welfare benefits, grants and other claims made by individuals and organisations on the public purse.</p> <p>Significant expenditure items include payments for primary care services and patients travel. For example, prescribing, where claims are made by practitioners after issuing medicines and medical items to the public. We</p>	<ul style="list-style-type: none"> <li>Audit work on the National Fraud Initiative matches.</li> <li>Obtain assurances from the NHS Scotland Counter Fraud Service.</li> <li>Walkthrough of patients travel scheme following recent changes.</li> </ul>	<p><b>Results:</b> No significant issues were identified from our testing of the family health services expenditure disclosed in the financial statements.</p> <p>The board is proactive in following up NFI matches.</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 board and no significant issues have been highlighted</p> <p><b>Conclusions:</b> We did not identify any incidents of fraud.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>therefore identify the risk of fraud over expenditure in NHS Western Isles.</p>		
<p><b>3 Estimation and judgements</b></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. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>Review of reports from the District Valuer to confirm asset valuations.</li> <li>Sample testing of indexation calculations.</li> <li>Sample testing of CNORIS claims and associated reimbursements.</li> <li>Verification of the CNORIS provision recognising the future liability from participating in the scheme with reference to the contribution rate provided by the CLO.</li> </ul>	<p><b>Results:</b> We reviewed the reports from the District Valuer and confirmed these to asset valuations with no issues identified.</p> <p>Our testing of indexation calculations identified issues with values applied to CNORIS provisions.</p> <p><b>Conclusion:</b> We identified a minor error that was not material and below our clearly trivial threshold.</p>

### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p><b>4 Financial position</b></p> <p>The 2018/19 NHS Annual Operational Plan (AOP) identified a break-even position dependent on NHS Western Isles achieving savings of £2.2 million. The year-to-date position at the end of September 2018 was a £1.3 million overspend and a forecast year-end overspend of £1.5 million. Of the required savings of £2.2 million, £0.5 million are classed as high risk and a further £0.5 million remain unidentified.</p> <p>There is a significant risk that NHS Western Isles is unable to deliver the savings needed to achieve its statutory break-even target.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>Monitor the development of the budget projection for the remainder of the financial year.</li> <li>Consider any contingency actions if financial balance is not to be achieved.</li> </ul>	<p><b>Results:</b> The board achieved an underspend of £0.026 million (0.01%) against its total 2018/19 RRL of £84 million but this required the application of savings, contingency funds and a cash payment from the Comhairle of £1 million to counter cost pressures.</p> <p><b>Conclusion –</b> The 2018/19 break-even target was achieved.</p>
<p><b>5 Financial sustainability</b></p> <p>Our 2017/18 Annual Audit Report included comment that NHS Western Isles has not produced a financial plan beyond 2018/19.</p> <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</p>	<ul style="list-style-type: none"> <li>Undertake follow up work development of medium / long term financial planning.</li> </ul>	<p><b>Results:</b> A medium term financial plan has been developed for the three-year period 2019/20 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>

Audit risk	Assurance procedure	Results and conclusions
<p>significant medium/ long term issues.</p>		<p><b>Conclusions</b> - NHS Western Isles financial sustainability continues to be a significant challenge. A medium term financial plan has been developed but the development of long term financial planning is dependent on the work of the regional programme and regional partners.</p>
<p><b>6 Best value</b></p> <p>NHS Board Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value (BV). We have identified the following BV risks at the board:</p> <ul style="list-style-type: none"> <li>• Performance management – ongoing challenges in meeting key national performance targets with 10 targets outwith acceptable standards at the end of March 2018. NHS Western Isles had one of the highest sickness absence rates (5.5%) among the territorial boards for 2017/18.</li> <li>• Workforce sustainability – an ageing workforce and recruitment challenges in key specialities. At the end of September 2018, 11% of funded posts were vacant and 13% of staff in post were over 60.</li> <li>• Spending on temporary staff at NHS Western Isles has increased by 97% over the last five years. Recorded spending on agency staff increased from £2.7 million (6.9%) in 2016/17 to £3.2 million (8.1%) in 2017/18.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of a sample of performance targets considering what improvement action is being taken and how planned improvements are monitored.</li> <li>• Review of workforce planning in NHS Western Isles incorporating a review of spend on agency staff to consider the difficulties in filling vacancies on a substantive basis, requirements to meet activity pressures and safe staffing levels, and reporting progress.</li> </ul>	<p><b>Results:</b> The findings from our review of performance targets and are included in Part 5 and workforce planning in Part 3.</p> <p><b>Conclusions:</b> NHS Western Isles performance against the standards has improved slightly but it continues to face a number of challenges in delivering performance targets.</p> <p>Unless recruitment challenges can be effectively addressed, service sustainability will become a significant risk. Scenario planning is currently being undertaken to assess the impact the recruitment challenges pose on sustaining the full range of services on Western Isles.</p>
<p><b>7 Dependency on key suppliers</b></p> <p>NHS Western Isles is dependent on a number of key suppliers to support essential operational activities e.g. the Patient Management System. There is a risk that hospital services may be disrupted if</p>	<ul style="list-style-type: none"> <li>• We will establish the extent, value and nature of any key supplier dependencies.</li> <li>• We will review business continuity arrangements for a sample of key systems.</li> </ul>	<p><b>Results:</b> Travel firms are the main key suppliers by value.</p> <p><b>Conclusions:</b> We did not find any significant issue with dependency on key suppliers.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>any of these suppliers encountered financial difficulties.</p>	<ul style="list-style-type: none"> <li>We will consider the arrangements in place, within NHS Western Isles, to monitor the ongoing financial position of key suppliers.</li> </ul>	
<p><b>8 EU withdrawal</b></p> <p>The UK will leave the European Union on 29 March 2019. The impact on NHS Western Isles may be significant.</p> <p>There is a risk that NHS Western Isles is not adequately prepared for EU withdrawal.</p>	<ul style="list-style-type: none"> <li>We will assess the Board's consideration of significant issues and preparations related to EU withdrawal.</li> </ul>	<p><b>Results:</b> The Board has a Brexit Contingency Group, responsible for adequate preparation to meet the identified risks arising from EU withdrawal. The Chief Executive chairs the group. The group meets on a regular basis to discuss the implications for the Board on guidance received from the Government. To date the group has not identified any issues that would affect service delivery.</p> <p><b>Conclusions:</b> We did not find any significant issues with the preparedness of NHS Western Isles for EU withdrawal.</p>
<p><b>9 Governance and transparency</b></p> <p>Our 2017/18 Annual Audit Report included comment that papers from some committees are not routinely made available on the Board's website. However ongoing issues with the website means papers cannot be accessed.</p> <p>There is a risk that the unavailability of information to public and stakeholders leads to the Board not being sufficiently transparent.</p>	<ul style="list-style-type: none"> <li>Continue to consider whether transparency expectations are being met.</li> <li>Discussion with Non-executive members.</li> <li>Review of website and accessibility of documents.</li> </ul>	<p><b>Results:</b> The holding of committee meetings in public was discussed with the Healthcare Governance and Audit Committee in June 2018. It has been agreed by the Board that apart from Board meetings, no other committee meetings would be open to the public.</p> <p>We highlighted in our 2018/19 Management Report that the Board's website is currently being restructured and minutes of both the Board and its statutory committees have not been publicly available since June 2018.</p> <p>Work to repair the website has been underway for several months and should be completed in June 2019. The Communications Manager is reviewing the format and content to ensure that relevant updated documents are held on the site.</p> <p><b>Conclusions:</b> 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>

# Appendix 3

## Summary of national performance reports 2018/19

		 <b>2018/19 Reports</b>	
Local government in Scotland: Challenges and performance 2018		<b>Apr</b>	
Councils' use of arm's-length organisations		<b>May</b>	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		<b>Jun</b>	
		<b>Jul</b>	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		<b>Aug</b>	 Major project and procurement lessons
Children and young people's mental health		<b>Sept</b>	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		<b>Oct</b>	
Health and social care integration: update on progress		<b>Nov</b>	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		<b>Mar</b>	 Local government in Scotland: Challenges and performance 2019

### NHS relevant reports

[Children and young people's mental health](#) – September 2018

[NHS in Scotland 2018](#) – October 2018

[Health and social care integration: update on progress](#) – November 2018

# NHS WESTERN ISLES

## Annual Audit Report 2018/19 2018/19

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

For the latest news, reports and updates, follow us on:



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