

NHS Western Isles

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared by Audit Scotland
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Key messages

2020/21 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 Late changes of £1 million were made to the accounts, on the 15 June, due to the resolution of national accounting issues related to PPE.

Financial management and sustainability

- 3 NHS Western Isles operated within its revenue resource limit for 2020/21 with underlying funding continuing to grow by 6.8 per cent in 2020/21. NHS Western Isles received £5 million additional funding to deal with Covid-19 and spent it all in 2020/21 on the IJB, staffing, equipment, immunisation costs and winter planning.
- 4 Capital funding was increased in 2020/21, helping to meet deferred demand, but future capital funding is over-committed.
- 5 NHS Western Isles has prepared a one-year financial budget for 2021/22, but this includes unidentified savings of £1 million.
- 6 NHS Western Isles has a medium-term financial plan which is out of date and transformational planning has been paused due to the pandemic.

Governance, transparency and value for money

- 7 The Board has limited compliance with the Network and Information Systems Regulations.
- 8 Covid-19 has impacted significantly on activity and waiting times for services.
- 9 A formal review should be undertaken to demonstrate how NHS Western Isles is achieving best value.

Introduction

1. This report summarises the findings from our 2020/21 audit of NHS Western Isles. The scope of our audit was set out in our Annual Audit Plan presented to the 17 February 2021 meeting of the Healthcare Governance and Audit Committee. This report comprises the findings from:

- an audit of the body's annual report and accounts
- consideration of the wider dimensions that frame the scope of public audit set out in the [Code of Audit Practice 2016](#)

2. The main elements of our audit work in 2020/21 have been:

- an audit of NHS Western Isles 2020/21 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- a review of NHS Western Isles key financial systems
- consideration of the four audit dimensions.

3. The global coronavirus pandemic has had a considerable impact on NHS Western Isles during 2020/21. This has had significant implications not least for the services it delivers but also for the costs of healthcare provision and postponement of minor surgery. Risks related to the pandemic were included in our Annual Audit Plan, and we have adapted our planned audit work to address any new emerging risks.

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
- 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. 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.** The body 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.
- 7.** The body is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.
- 8.** 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.
- 9.** 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.
- 10.** 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.

Auditor Independence

- 11.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.
- 12.** 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 2020/21 audit fee of £71,200 remains unchanged. 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 Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance.

Main judgements

Our audit opinions on the annual accounts are unmodified.

Late changes of £1 million were made to the accounts, on the 15 June, due to the resolution of national accounting issues related to PPE.

Our audit opinions on the annual report and accounts are unmodified

14. The board approved the annual report and accounts for the year ended 31 March 2021 on 23 June 2021. The independent auditor's report identifies that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- 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.

Late changes were made to the accounts, up to the 15 June, due to the resolution of national accounting issues related to PPE

15. As a result of the continuing impact of Covid-19, the Scottish Government again extended the deadline for the submission of all health board audited annual report and accounts from 30 June 2021 to 30 September 2021.

16. The unaudited annual report and accounts of NHS Western Isles were received in line with our agreed audit timetable on 10 May 2021. NHS Western Isles achieved this despite the on-going Covid-19 pandemic. However, both the annual report and accounts and supplementary working papers package were incomplete. They did not include a complete Performance Report and

Accountability Report and there were a number of arithmetical and consistency issues. These outstanding items were provided to external audit during May. On 7 June, we became aware of a national technical accounting issue, concerning the treatment of Personal Protective Equipment (PPE), issued by National Services Scotland to Health Boards during the pandemic. This delayed the accounting and audit process until it was resolved on 15 June 2021 when revised funding and expenditure was reflected in the audited accounts.

Recommendation 1

NHS Western Isles should continue to review its arrangements for preparing the annual report and accounts. The unaudited annual report and accounts and supplementary working papers should be complete when submitted for audit.

17. The audit team received great support from finance staff. We are particularly grateful as remote working arrangements were in place for finance and audit staff.

Overall materiality is £1.4 million

18. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

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

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

19. [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 inform where the efforts of the team are directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

We have significant findings to report on the annual report and accounts

20. 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. Issue that we have identified are included in the action plan at [Appendix 1](#). The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Internal audit opinion</p> <p>Internal audit's annual opinion provides reasonable assurance, with the exception of the system and controls surrounding IT stock, which require significant improvement. This issue is covered in more detail in paragraph 79.</p> <p>The unaudited annual report and accounts presented to audit did not disclose the IT stock issues in the Governance Statement under significant controls weaknesses.</p>	<p>Management have adjusted for this in the audited 2020/21 Annual Report and Accounts with adequate disclosure provided.</p>
<p>2. Estimations and judgements</p> <p>The estimations and judgements disclosure included in the unaudited annual report and accounts presented to audit did not comply with the requirements of the NHS Annual Report & Accounts Manual or follow the good practice identified in Audit Scotland's Good Practice Note.</p>	<p>Management have adjusted for this in the audited 2020/21 Annual Report and Accounts with adequate disclosure provided.</p>
<p>3. Integration Joint Board figures</p> <p>The Integration Joint Board figures were not included in the unaudited annual report and accounts presented to audit.</p>	<p>Management have adjusted for this in the audited 2020/21 Annual Report and Accounts with adequate disclosure provided.</p>
<p>4. PPE and testing kits</p> <p>To protect health staff during Covid-19, NHS NSS ordered supplies of PPE and issued it to health boards across Scotland to use. The Scottish Government had concluded that these products should not be accounted for by health boards and issued these at £nil value.</p>	<p>Management have adjusted for this in the 2020/21 audited Annual Report and Accounts with adequate disclosure provided.</p>

Issue	Resolution
<p>Audit Scotland advised the Scottish Government in April 2021 that they did not agree with this treatment.</p> <p>This issue was not addressed until re-raised in early June 2021. The Scottish Government agreed to revise the accounting treatment on 11 June 2021 and has provided figures to be reflected in each health board's accounts. Revised funding allocation letters have also been issued to cover the cost of these items. The accounts have been updated to reflect costs and corresponding funding of £0.7 million.</p> <p>The costs and funding for Covid-19 testing kits of £0.3 million have also been reflected in the revised accounts.</p>	
<p>5. Backdated pay award</p> <p>The annual report and accounts presented to audit did not include the full impact of the announcement on 14 May 2021, that a 4% pay rise for NHS staff agreed was to be backdated to 1 December 2020. 1% of this pay rise was paid in March 2021 with the remaining 3% paid in April 2021. This April payment had not been accrued to 2020/21.</p>	<p>Management have adjusted for this in the audited 2020/21 Annual Report and Accounts with adequate disclosure provided. This has also been disclosed as an adjusting event following the 31 March 2021.</p>
<p>6. Holiday Pay accrual</p> <p>The Annual Report and Accounts presented for audit included an accrual of £273,000 relating to the potential liability for back-dated annual leave for GP's covering the out of hours rota. However, this amount should be disclosed as a provision rather than an accrual on the basis that the Board have assessed that claims will be probable and have provided a reasonable estimation of costs likely to be incurred as a result.</p> <p>The remaining holiday pay accrual totals £644, 000 and consists of two components</p> <ul style="list-style-type: none"> • Clinical staff – which is estimated by management and has increased by 300% • Non-clinical staff – which is based on actual returns and has increased 108% in 2020/21 	<p>Management have adjusted for this in the audited 2020/21 Annual Report and Accounts.</p> <p>We have considered the basis of the estimate in accordance with ISA (UK) 540 and consider that the increase in estimate for clinical staff is reasonable but “cautious” although we recognise that Covid-19 has increased the uncertainty in this estimate compared to previous years.</p>

Issue	Resolution	
Holiday Pay Accrual	2020/21	2019/20
Qualitative audit assessment	1	3
	£m	£m
Value included in accounts (clinical staff)	0.4	0.1
Value in accounts (non-clinical staff)	0.2	0.1
Total Holiday pay accrual	0.6	0.2

Misstatements of £1.1 million were adjusted in the audited accounts, but we did not need to further revise our audit approach

21. Misstatements adjusted in the audited accounts decreased net expenditure in the Statement of Comprehensive Net Expenditure by £1.1 million and decreased net assets in the Statement of Financial Position by £0.8 million. These consisted of PPE and testing kits and backdated pay award adjustments (per [Exhibit 2](#)).

22. As the misstatements were significant, we considered the need to revise our audit procedures and approach. We reviewed the nature and causes of these misstatements, with the main issue being the national issue of PPE accounting during the unusual circumstances of the Covid-19 pandemic. We concluded that these arose from issues that have been isolated and identified in their entirety and do not indicate further systemic 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, after considering advice from senior officers.

24. Management have adjusted all identified misstatements above our reporting threshold and there are no unadjusted errors to report.

Some progress was made on prior year recommendations

25. NHS Western Isles has made some progress in implementing our prior year audit recommendations, with 8 out of 16 points completed. The focus of NHS Western Isles was directed by the Scottish Government to dealing with Covid-19 during 2020/21. Actions not yet implemented are set out in [Appendix 1](#), with revised responses and timescales that have been agreed with management.

2. Financial management

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

Main judgements

NHS Western Isles operated within its revenue resource limit, reporting an underspend of £110,000.

Budget processes were appropriate, but NHS Western Isles continues to rely significantly on non-recurring savings to achieve a breakeven position.

NHS Western Isles received £5 million additional funding to deal with Covid-19 and spent it all in 2020/21 on staffing, equipment, immunisation costs and winter planning.

Capital funding was increased in 2020/21, helping to meet deferred expenditure demand, but future capital funding is over-committed.

Financial systems of internal control are operating effectively, but NSS shared systems continue to be qualified by the service auditor.

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

26. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements, which NHS boards are required by statute to work within. In response to the pandemic and throughout 2020/21, additional non-recurring funding allocations were received based on the estimated financial impacts of the pandemic.

27. [Exhibit 3](#) shows that NHS Western Isles operated within its limits during 2020/21, recording an underspend of £110,000.

Exhibit 3 Performance against resource limits in 2020/21

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	99.915	99.805	0.110
Non-core revenue resource limit	2.359	2.359	0
Total revenue resource limit	102.274	102.164	0.110
Core capital resource limit	3.064	3.064	0
Non-core capital resource limit	-	-	-
Total capital resource limit	3.064	3.064	0
Cash requirement	97.081	97.081	0

Source: NHS Western Isles Annual Report and Accounts 2020/21

NHS Western Isles is on target to achieve break-even over a rolling three-year period

28. From 2019/20, the Scottish Government introduced a new approach to financial planning and target setting. This removes the requirement for boards to achieve financial balance annually and instead boards are required to achieve a break-even position over a rolling three-year period. NHS boards can exercise annual flexibility within 1% of their revenue resource limit.

29. NHS Western Isles achieved an underspend against its resource limits for the second consecutive year.

Budget processes are appropriate, but monitoring reports do not identify the financial risk associated with the Integration Joint Board

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 members to scrutinise the Board's finances.

31. Our 2019/20 Annual Audit Report highlighted that financial monitoring reports presented to the Board and Healthcare Governance and Audit

Committee did not contain the details of any risk exposure to overspends in the Integration Joint Board, as a result, of the risk-share arrangement in the Integration Scheme.

32. Our review this year identified that financial monitoring reports still do not contain the details of any risk exposure to overspends in the Integration Joint Board, as a result, of the risk-share arrangement.

Recommendation 2

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 forecast outturns.

NHS Western Isles received £5 million additional funding to deal with Covid-19 and spent it all in 2020/21

33. In May 2020 NHS Western Isles draft annual operation plan set an overall budget for 2020/21 of £97.8 million (excluding IJB services). As part of the NHS re-mobilisation exercise, boards estimated the financial impact of the pandemic. This included increased costs for Covid-19 related activity and decreased costs and loss of income due to reduced demand in other areas. These estimates were kept under review and reported in published plans to the Scottish Government on a regular basis.

34. Additional funding in 2021/22 from the Scottish Government to NHS Western Isles for Covid-19 totalled £5 million. This included £1 million for Western Isles IJB. The major areas of additional expenditure as a result of Covid-19 at NHS Western Isles included:

- increased staffing costs of £1.6 million
- an increase in prescribing costs of £0.6 million
- Covid-19 immunisation costs of £0.4 million
- PPE and testing kits totalling £1.0 million
- an increase in costs of supplies and equipment of £0.3 million.

35. Direct Covid-19 related expenditure was tracked using specific account codes in the general ledger and disclosed in the accounts. [Exhibit 4](#) shows the expenditure in these areas compared to additional Covid-19 related funding allocations.

Exhibit 4

Covid-19 Costs compared to additional funding allocations

	Total Funding Received (£m)	Total Expenditure (£m)	Difference (£m)
NHS Board			
Covid-19 Additional Allocations	3.981	4.027	(0.046)
Covid-19 Additional donations by Government	0.303	0.303	0
Health & Social Care			
Covid-19 Additional Allocations	1.031	1.028	0.003

Source: NHS Western Isles

Capital funding was increased in 2020/21, helping to meet deferred expenditure demand, but future capital funding is over-committed

36. At the beginning of the financial year, the Board's baseline Capital Resource Limit (CRL) for 2020/21 was £1.2 million. The Board's capital programme was significantly overcommitted by £0.9 million (75 per cent). Projects were prioritised and forecast spends brought back within the Capital Resource Limit (CRL) however, this left a significant value of projects on a 'deferred list' for 2020/21.

37. Additional CRL of £0.9 million was made available by the Scottish Government in the last quarter of 2020/21. This additional CRL allowed the Board to address some of the higher risk 'deferred' projects and bring forward spend on medical equipment that had been profiled for replacement in 2021/2022.

38. The Board also received capital allocations of £0.9 million for equipment purchased as part of the pandemic response and for the St Brendan's development.

39. There have been significant pressures on the Board's capital budget in recent years resulting in significant capital works being deferred until future years. Many of those previously deferred schemes have now reached a critical stage due to deterioration over time and capital investment is urgently required, however it cannot be financed within the base CRL limit.

40. The Board has identified high priority capital schemes of over £1.4 million in excess of their base allocation over the next three years. Management have confirmed that the programme will be risk-assessed and prioritised, but there is

a risk that emergency capital works may require to be funded by a revenue to capital funding transfer.

41. The NHS Western Isles Performance Report identifies that land and building projects, had been adversely impacted by the Covid-19 pandemic. Project timelines have slipped significantly, and costs are forecast to increase as the construction Industry adapts to new working regulations.

Recommendation 3

NHS Western Isles should prepare a capital investment strategy that has a plausible plan for investing in each priority area together with clarity on what the priorities for investment will be.

Only 35 per cent of efficiency savings were achieved on a recurrent basis. Savings in patient travel were the main non-recurrent savings

42. In its original budget for 2020/21, NHS Western Isles identified planned efficiency savings of £3.4 million or 3.6 per cent of its budget. As the year progressed, the savings target was only achieved through the use of significant non-recurring savings of £2.2 million, in particular patient travel which recorded an underspend of £1.6 million against the original budget of £3.0 million due to much lower numbers of patients being sent to the mainland for treatment and the escalation of 'near me' clinics.

43. The board achieved 35 per cent of savings on a recurring basis with the remainder (65 per cent) on a non-recurring basis. Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

44. Our 2020/21 Management Report highlighted that the level of non-recurring savings achieved in 2020/21 represented the highest value of non-recurring savings since 2015/16. There is therefore a risk that NHS Western Isles will continue to rely on non-recurring savings and may be unable to achieve a balanced budget on a recurring basis over future three-year planning and performance cycles.

45. Management have confirmed that the majority of long-term saving plans and redesigns were put on hold to deal with the pandemic but that work is underway to develop a savings plan with the presumption that there will be the capacity in teams to take this forward from July 2021.

Recommendation 4

NHS Western Isles should progress the development of its savings plan as a matter of priority and increase its efforts to reduce its dependency on non-recurring savings to balance its financial position.

Financial capacity

46. 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.

Financial systems of internal control are operating effectively

47. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that NHS Western Isles has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

48. Our management report presented to the Audit Committee on 19 May 2021 concluded our findings from the review of systems of internal controls. No significant internal control weaknesses were identified, except for controls over payroll validation. Management have accepted this risk, and the audit approach was amended to ensure adequate audit assurance could be obtained over staff costs.

NSS controls over Practitioner and Counter Fraud Services did not operate effectively during the year

49. The NHS in Scotland procures a number of service audits each year for shared systems. NHS National Services Scotland (NSS) procures service audits covering Practitioner and Counter Fraud Services and the national IT contract. NHS Ayrshire & Arran procures a service audit of the National Single Instance (NSI) eFinancials service.

50. The 2020/21 NSS service auditor report covering Practitioner and Counter Fraud Services was qualified. This related to the design or operating effectiveness of controls to meet the stated control objectives.

51. NHS Western Isles has included a reference to the qualification in its Governance Statement.

52. We have reviewed the qualifications contained within the service auditor reports and have undertaken additional substantive audit procedures including analytical review of GMS payments to conclude that the qualification did not have an adverse impact on our audit opinion.

Standards of conduct for prevention and detection of fraud and error are appropriate

53. There are appropriate arrangements for the prevention and detection of fraud, error and irregularities and covering standards of conduct. NHS Western Isles is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. The board is

responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

54. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. NHS Western Isles has started work to investigate the identified matches for the 2020/21 exercise.

3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services.

Main judgements

Underlying funding continued to grow by 6.8 per cent in 2020/21.

NHS Western Isles has prepared a one-year financial budget for 2021/22, but this includes unidentified savings of £1 million.

NHS Western Isles has a medium-term financial plan which is out of date.

Transformational planning has been paused due to the pandemic.

Underlying funding continued to grow by 6.8 per cent in 2020/21

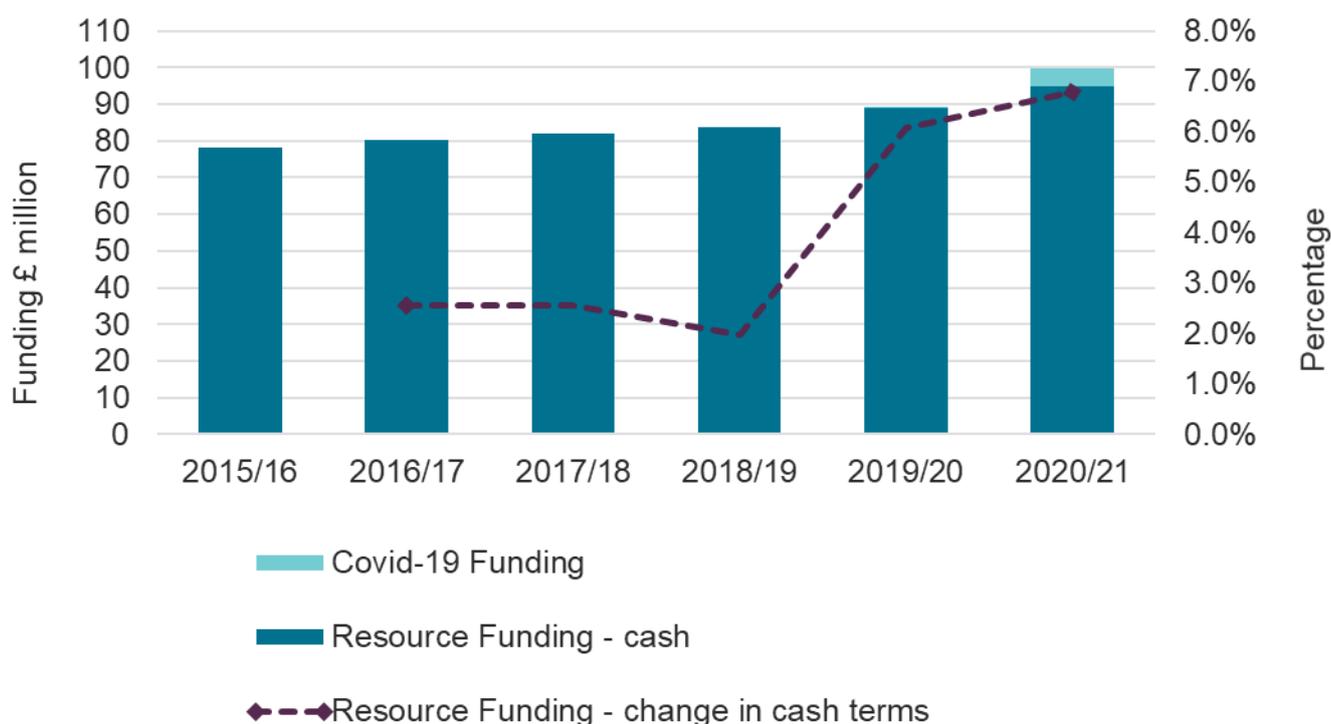
55. Core revenue funding (excluding additional Covid-19 funding) in 2020/21 to NHS Western Isles from the Scottish Government increased by 6.8 per cent (£6 million) in cash terms compared to 2019/20 per [Exhibit 5](#). There was also a further £5 million additional funding for Covid-19 in 2020/21.

56. NHS Western Isles baseline core revenue funding for 2021/22 is £81 million which represents an increase of 1.2 per cent (£1 million) compared to the similar baseline in 2020/21.

57. A further £869 million of additional Covid-19 funding will also be distributed across NHS Scotland in 2021/22.

Exhibit 5

Movement in cash terms core revenue funding to NHS Western Isles excluding Covid-19 funding



Source: NHS Western Isles Annual Report and Accounts 2020/21/ Audit Scotland

Staff costs have increased significantly over the last two years

58. Staff costs at NHS Western Isles now total £48.8 million and these have grown by 18 per cent over the last two years (2018/19 £41.2 million). During the last year staff costs increased by £3.6m, with the main elements consisting of:

- Bank and agency costs increases (£0.7 million)
- Increase in permanent staff (£0.8 million)
- £500 staff bonus (£0.5 million)
- 2020/21 backdated pay award (£1.2 million)
- Reduction in ongoing vacant posts (£0.2 million).

NHS Western Isles has prepared a budget for 2021/22, but this includes unidentified savings of £1 million

59. The requirement to produce three-year financial plans as part of the medium-term financial framework has been paused due to the pandemic. NHS boards were asked to complete a one-year plan for 2021/22.

- 60.** Due to the ongoing pandemic, NHS Boards have replaced Annual Operational Plans (AOPs) for 2021/22 with Remobilisation Plans (RMPs). The RMP is supported by the board's 2021/22 financial plan.
- 61.** Covid-19 costs and remobilisation costs have not been included within core budget plans. The assumption is that Covid-19 expenditure will be funded by the Scottish Government.
- 62.** Our 2020/21 Management Report highlighted that a significant proportion of 2021/22 savings are unidentified. The Board's estimated RRL budget for 2021/22 is £95.5 million against an initial expenditure budget of £99.9 million resulting in a financial funding gap of £4.4 million to be met by identified efficiency savings of £3.4 million (77 per cent) and unidentified savings assumed to be delivered in-year of £1.0 million (23 per cent).
- 63.** Within the identified efficiency savings targets, many of the savings are non-recurring in nature including vacancies (£0.5 million), reduction in patient travel (£0.75 million), financial flexibility (£0.5 million) and release of IJB reserves (£0.75 million).
- 64.** Management have confirmed that NHS Western Isles expects some non-recurring savings due to the continued pandemic which will offset the revised £1.0 million of unidentified savings. They have also confirmed that the identified savings will be monitored at the end of Quarter 1 and revised monthly thereafter.
- 65.** A significant risk exists that the Board may not achieve its savings targets or be able to meet recurrent medium-term challenges in health and social care.

Recommendation 5

NHS Western Isles should ensure that savings plans are developed identifying how the £1.0 million of unidentified savings will be achieved in 2021/22.

NHS Western Isles has a medium-term financial plan which is out of date

- 66.** NHS Western Isles current three-year financial plan (2020/21 - 2022/23) was prepared prior to the Covid-19 pandemic. The plan was 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.
- 67.** Indicative savings targets of £2.9 million for 2021/22 and £2.8 million for 2022/23 were identified. However, these do not take account of any shortfall in recurring savings from the prior year and are already proving to be significantly higher (paragraph 62. .

68. Our 2020/21 Management Report highlighted that a revised medium to longer-term financial plan has yet to be agreed and implemented. Management have confirmed that although NHS Western Isles was only asked to submit a one-year core plan, work was being undertaken to draft a core three-year plan which will continue to be refined during 2021/22.

Recommendation 6

NHS Western Isles should prepare a revised medium-term financial plan.

Transformational planning has been paused due to the pandemic

69. In our 2019/20 Annual Audit Report, we recommended that in order to bridge the recurring funding gap and achieve the required level of efficiency savings, the 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 services.

70. Our 2020/21 Management Report highlighted that a transformational plan has yet to be implemented mainly due to the ongoing pressures as a result of the Covid-19 pandemic and that reliance continues to be placed on previous Annual Operational Plans for identifying services that can be re-designed in order to achieve efficiency savings.

71. The Board recognises that the current circumstances and Covid-19 pandemic make it unlikely that a Transformational Plan will be developed based on current business as usual service configuration. A number of short-term working groups will recommence work which was paused due to the impact of Covid-19, including Patient Pathways, Mental Health Off Island referrals and Off Island Therapeutics.

Recommendation 7

NHS Western Isles 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 services.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information.

Main judgements

NHS Western Isles has not yet agreed and concluded a revised integration scheme with all partners.

The Board has limited compliance with the Network and Information Systems Regulations.

Internal audit identified significant weaknesses around IT stock control.

Governance arrangements have been appropriate

72. We reported in [last year's annual report](#) on the revised governance arrangements introduced by NHS Western Isles due to Covid-19.

73. Impacts of Covid-19 have been set out in the Corporate Governance Report in NHS Western Isles annual report and accounts.

NHS Western Isles has not yet agreed and concluded a revised integration scheme with all partners

74. Health Boards and their partner Councils have a statutory duty under the Public Bodies (Joint Working) (Scotland) Act 2014 to review the integration scheme every five years. The current Integration scheme was approved on 16 June 2015 and should therefore have been reviewed by 16 June 2020.

75. Recognising the pressures placed on partner bodies in responding to the Covid-19 pandemic, the Scottish Government has recommended an initial review is carried out prior to completion of a full review in due course. In September 2020, the IJB approved planned to carry out an initial review that will inform the subsequent full review. The full review was scheduled for completion by 1 April 2021 but has been delayed due to Covid-19 with a revised completion date of 30 September 2021.

The Board has limited compliance with the Network and Information Systems Regulations (NIS Regulations)

76. The EU NIS Directive was transposed into UK law as the NIS Regulations, which came in to force on 10 May 2018. The Regulations provide legal measures to protect essential services and infrastructure by improving the security of their Network and Information Systems and maturing their resilience. All territorial and special health boards are classified as essential services and are required to comply with the NIS Regulations.

77. In September 2020, NHS Western Isles were subject to an interim audit by Cyber Security Scotland to assess compliance against the 435 requirements of the NIS Regulations. Due to the Covid-19 pandemic, the interim audit was conducted as a desktop analysis of the documentation, with key aspects deferred until an on-site visit can be undertaken.

78. NHS Western Isles achieved an overall compliance score of 35%. This also included 119 recommendations of which, 26 are risk prioritised as critical and urgent. An on-site follow-up audit was carried out in May 2021 but the results from this have yet to be reported. A significant risk exists that the Board may continue to be non-compliant with the NIS Regulations and be subject to financial penalties.

Recommendation 8

The Health Board should address all areas of non-compliance with the NIS Regulations with priority given to the 26 recommendations that are categorised as critical and urgent.

Internal audit identified significant weaknesses around IT stock control

79. At the request of the Director of Finance and Procurement, internal audit reviewed IT Stock Control within NHS Western Isles during 2020/21, which included receipt of delivery of IT assets, storage and security arrangements, asset tagging and reconciliation procedures. They also reviewed IT stock management procedures during the initial response to the Covid-19 pandemic.

80. The review identified significant control weaknesses relating to the controls around IT stock and the logging of equipment on the asset database following its delivery to the IT department. They recorded that many of these control weaknesses are linked to the absence of documented procedures for IT stock control, including procedures relating to ordering, receipting, storage, asset tagging and distribution.

81. The report arising from their review was presented to the May 2021 Healthcare Governance and Audit Committee meeting and identified the following areas for improvement:

- developing documented procedures for IT stock control within the IT department
- ensuring that receipting and asset-tagging of new devices is completed without delay
- implementing regular physical stock audits to ensure that IT equipment can be traced and accounted for
- review of the Paxton key card access lists for the IT office and IT store with a view to rationalising access
- ensuring that asset-tagging is followed by a reconciliation of the updated asset register and delivery notes or receipts.

82. As noted in [Exhibit 2](#), the unaudited annual report and accounts presented to audit did not disclose these IT stock issues in the Governance Statement under significant controls weaknesses. Management have now adjusted for this in the audited 2020/21 Annual Report and Accounts with adequate disclosure provided.

83. Implementation of the internal audit recommendations will be monitored via the Healthcare Governance and Audit Committee Audit Recommendations Tracker.

5. Value for money

Using resources effectively and continually improving services.

Main judgements

Covid-19 has impacted significantly on activity and waiting times for services.

A formal review should be undertaken to demonstrate how NHS Western Isles is achieving best value.

High costs of temporary staff continue within total staff expenditure.

The remobilisation plan has a series of actions designed to address backlogs caused by the Covid-19 pandemic and restore performance levels

84. The Scottish Government has requested NHS boards produce, and regularly revise, remobilisation plans for the restoration of normal health services.

85. The first draft of the NHS Western Isles Remobilisation Plan (RMP) was submitted to the Scottish Government on 25 May 2020 and the final draft on 31 July 2020. The Board has identified a series of planned actions to address backlog/waiting times caused by Covid-19. These include:

- timeous treatment of urgent and emergency referrals
- phased resumption of some GP services
- managed recovery of all in-patient elective surgery.

86. The challenge facing NHS Western Isles is to remobilise healthcare services and increase capacity whilst providing a safe and equitable service for staff, visitors and patients.

Covid-19 has impacted significantly on activity and waiting times for services

87. The 2020/21 annual report and accounts identifies performance against national waiting time standards. These are not currently the primary focus for performance monitoring, but they provide context for the scale of the impact of the pandemic on the delivery of health services. [Exhibit 6](#) demonstrates how activity and waiting times for acute services have been impacted by Covid-19

and [Exhibit 7](#) provides a comparison of current waiting times compared to prior years.

88. The largest increases in [Exhibit 6](#) are in waiting times, with the most significant being the number of people waiting more than 12 weeks for an inpatient or day case admission. This has increased from 2 to 135 patients from March 2020 to March 2021. The impact of this increase is reflected in [Exhibit 7](#) which shows the percentage of inpatient or day case admission waiting no more than 12 weeks has reduced from 99.6 per cent in March 2020 to 59.5 per cent in March 2021.

89. As highlighted earlier in this report, the board's RMP sets out the areas where the board will focus its collective responses and actions to address backlogs caused by Covid-19.

Exhibit 6 Trends in demand and activity per acute services

Demand		% change
Number waiting for diagnostic tests	<p>Monthly Dec 2019 to March 2021</p> <p>202</p> <p>349</p>	72.8%
Number of patients waiting for an inpatient or day case admission	<p>Quarterly Dec 2019 to March 2021</p> <p>7,408</p> <p>8,203</p>	10.7%
Number of patients waiting for a new outpatient appointment	<p>Quarterly Dec 2019 to March 2021</p> <p>1,001</p> <p>1,010</p>	0.9%
Activity		
Number of scheduled elective operations in theatre system	<p>Monthly Dec 2019 to March 2021</p> <p>98</p> <p>69</p>	-29.6%
Number of inpatient and day case admissions	<p>Quarterly Dec 2019 to March 2021</p> <p>453</p> <p>119</p>	-73.7%
Number of new outpatient appointments	<p>Quarterly Dec 2019 to March 2021</p> <p>1,774</p> <p>1,278</p>	-28.0%
Length of waits		
Number waiting longer than 6 weeks for diagnostic tests	<p>Monthly Dec 2019 to March 2021</p> <p>36</p> <p>61</p>	69.4%
Number of patients waiting longer than 12 weeks for an inpatient or day case admission	<p>Quarterly March 2020 to March 2021</p> <p>2</p> <p>135</p>	6650.0%
Number of patients waiting longer than 12 weeks for a new outpatient appointment	<p>Quarterly Dec 2019 to March 2021</p> <p>135</p> <p>336</p>	148.9%

Source: Public Health Scotland

Exhibit 7

Impact of Covid-19 on national waiting time standards

Target/standard	Performance at March 2019	Performance at March 2020	Performance at March 2021 ¹
Cancer 62 Day RTT Proportion of patients that started treatment within 62 days of referral	87.5%	73%	77%
18 Weeks RTT Proportion of patients that started treatment within 18 weeks of referral	92.4%	91.7%	81.7%
Patient Treatment Time Guarantee Proportion of inpatients or day case that were seen within 12 weeks	100%	99.6%	59.5%
New Outpatients waiting no more than 12 weeks Proportion of patients who have been waiting no more than 12 weeks since referral	91.6%	86.9%	65.9%
A & E attendees Proportion of A & E attendees who were admitted, transferred or discharged within 4 hours	98.7%	98.4%	96.5%
Cancer 31 Days RTT Proportion of patients who started treatment within 31 days of decision to treat	100%	100%	100%
Drug and Alcohol 21 days Proportion of drug and alcohol patients that started treatment within 21 days	86%	91%	96%
CAMHS Waiting Times Proportion of patients seen within 18 weeks of referral	100%	100%	100%

Note. 1: Figures still to be validated by NHS Information Services Division.
 Source: NHS Western Isles Performance Monitoring Reports 2021

A formal review should be undertaken to demonstrate how NHS Western Isles is achieving Best Value

90. [*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. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

91. Whilst there is evidence of elements of best value being demonstrated by NHS Western Isles, across a range of areas, the mechanism for formally reviewing and reporting on the arrangements to secure best value is not formalised and published.

Recommendation 9

A formal review of the Best Value assurance framework, and an assessment of the Board's Best Value arrangements should be completed in 2021/22. The outcome of the assessment should be reported to the Board.

High costs of temporary staff continue within total staff expenditure

92. Our 2019/20 Annual Audit Report highlighted spending on temporary staff at NHS Western Isles. The actual outturn for 2020/21 was £6.2m which represents an increase of 19% since 2019/20. Spending on temporary staff during 2020/21 equates to 12.7% of total staff costs (11.5% 2019/20).

93. 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.

94. The financial position for 2021/22 will continue to be further impacted as:

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

Recommendation 10

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

95. Our 2020/21 Management Report outlined that 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.

96. A draft workforce plan was prepared in April 2021. However, management acknowledge that they cannot address the depopulation of the islands together with a sizable increase in the over 65's and a marked decrease in the workforce population. They have also confirmed that due to the pandemic, certain groups investigating the change in population demographics have not been able to complete their work.

National performance audit reports

97. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of direct interest to the board and are highlighted in [Appendix 3](#).

98. The NHS Overview Report on the 2020/21 audits will include a review of the response to the Covid-19 pandemic by the NHS in Scotland along with a report on financial and operational performance. This is due to be published early 2022.

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Financial Statements – Annual Report & Accounts</p> <p>The unaudited 2020/21 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 16</p>	<p>NHS Western Isles always work hard to complete annual accounts within agreed deadlines and will continue to strive to improve year on year. This is against a backdrop of the Pandemic where Boards did not receive final allocation letters until after the audit deadline, very small finance team who also had other responsibilities during the Pandemic including vaccination clinic work.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: Ongoing</p>
<p>2. Financial Management – Financial Reporting</p> <p>Financial monitoring reports presented to the Board and Healthcare Governance and Audit Committee still do not contain the details of any risk exposure to overspends in the Integration Joint Board, as a result, of the risk-share arrangement.</p> <p>Risk – There is a risk that financial monitoring reports are incomplete and do not</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.</p> <p>Paragraph 31-32</p>	<p>Until the financial year 2021/22 there was a low risk of the Local Authority Partner needing a contribution from NHS Western Isles this is monitored on a monthly basis. However, the risk was included in the AOP for 2021/22 as pressures on the Social Care budget are high. The risk will be monitoring in the appropriate section of the NHS Western Isles Board report monthly.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>transparently report the overall financial position of NHS Western Isles.</p>		<p>Responsible officer: Director of Finance</p> <p>Agreed date: 31 July 2021</p>
<p>3. Financial Management – Capital Programme</p> <p>NHS Western Isles has identified high priority capital schemes of over £1.4 million in excess of their base allocation over the next three years. Management have confirmed that the programme will be risk-assessed and prioritised, but there is risk that emergency capital works may require to be funded by a revenue to capital funding transfer.</p> <p>Risk – Failing to carry out repairs and invest in modern equipment and technology puts at risk the quality of patient care and is likely to undermine ambitions to transform the health service in the Western Isles.</p>	<p>NHS Western Isles should prepare a capital investment strategy that has a plausible plan for investing in each priority area together with clarity on what the priorities for investment will be.</p> <p>Paragraph 36-41</p>	<p>Through NHS Western Isles Capital Group, a formal capital investment strategy will be documented. To note, NHS Western Isles is already part of the regional asset management plan.</p> <p>The Board puts a lot of effort into proactive capital programming, assessing backlog maintenance issues (which is already documented in the Property Asset Management Strategy); there is an element of uncertainty associate with capital planning such as the un-expectant breakdown of equipment, etc. Therefore, the capital programme has to be assessed continuously throughout the year responding to emergency situations, etc. And funding allocated on a risk-based priority. For any matters which are critical, these are reported to Scottish Government.</p> <p>In general, capital planning & programming alongside risks associated with the Board’s capital investment programme are routinely communicated to the Corporate Management Team and Executive Directors.</p> <p>Responsible officer: Principal Accountant</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>4. Financial Management – Non-Recurring Savings</p> <p>£1.2 million (35%) of savings were achieved on a recurring basis, the remaining £2.2 million (65%) were non-recurrent. The level of non-recurring savings achieved in 2020/21 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 progress the development of its savings plan as a matter of priority and increase its efforts to reduce its dependency on non-recurring savings to balance its financial position.</p> <p>Paragraph 42-44</p>	<p>Agreed date: 31 December 2021</p> <p>NHS Western Isles together with its Social Care partner will start work on transformational work. If vaccination slows the Pandemic down the Board anticipates adequate capacity to start scoping this work by the end of September 2021.</p> <p>Responsible officer: Director of Finance and Chief Officer</p> <p>Agreed date: 1 October 2021 over a three-year plan</p>
<p>5. Financial Sustainability – Unidentified Savings</p> <p>The projected funding gap for 2021/22 is £4.4 million and is to be met through efficiency savings. £3.4 million of savings that have already been identified but £1.0 million remains unidentified.</p> <p>Risk – NHS Western Isles are unable to maintain a balanced budget for 2021/22.</p>	<p>NHS Western Isles should ensure that savings plans are developed identifying how the £1.0 million of unidentified savings in 2021/22 will be achieved.</p> <p>Paragraph 59-62</p>	<p>NHS Western Isles has commenced identifying savings to clear the £1m balance of unidentified savings. The 1st quarter report will see this figure reduce. Work will continue and we aim to clear the unidentified savings by 31 December</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: 31 December 2021</p>
<p>6. Financial Sustainability – Medium -Term Financial Plan</p>	<p>NHS Western Isles should prepare a revised medium-term financial plan.</p> <p>Paragraph 64-65</p>	<p>A three-year plan has been updated but due to the Pandemic the uncertainties of funding and level of patient activity fluctuating the plan</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Our 2020/21 Management Report highlighted that a revised medium to longer-term financial plan has yet to be agreed and implemented and the existing three-year plan is out of date.</p> <p>Risk – The current three-year financial plan is no longer fit for purpose and financial sustainability is at risk.</p>		<p>was not submitted to the Board. A revised plan will go to Board at month 6 and thereafter quarterly. The Board will not include Covid funding but will include earmarked recurring awarded as part of recovery.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: 30 September 2021</p>
<p>7. Financial Sustainability – Transformational Plan</p> <p>Our 2020/21 Management Report highlighted that a transformational plan has yet to be implemented mainly due to the Covid-19 pandemic. Reliance continues to be placed on the Annual Operational Plan for identifying services that can be re-designed in order to achieve efficiency savings.</p> <p>Risk – There is a significant risk that transformational change for Board services does not progress as planned.</p>	<p>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 services.</p> <p>Paragraph 66-68</p>	<p>The Board hopes to have adequate capacity to start scoping this work by the end of September 2021 (subject to Pandemic activity). This will feed into the IJB Strategic Plan. However, until the Pandemic allows a “normal” level of activity the Board may not know exactly what services can be redesigned. The Board also will have to take on the possibility of increased activity due to the disease burden caused by the Pandemic.</p> <p>Responsible officer: Chief Executive and Chief Officer</p> <p>Agreed date: 31 March 2022</p>
<p>8. Governance and Transparency - NIS Regulations</p> <p>NHS Western Isles achieved an overall compliance score of 35% with the NIS Regulations. This also included 119 recommendations of which, 26 are risk prioritised as critical and urgent. An on-site follow-up audit was carried</p>	<p>The Health Board should address all areas of non-compliance with the NIS Regulations with priority given to the 26 recommendations that are categorised as critical and urgent.</p> <p>Paragraph 73-75</p>	<p>A further onsite review has indicated the Board to have achieved an increased level of compliance. The Board will be working through all the recommendation with advice from NSS, concentrating on the critical and urgent ones. to ensure NHS Western Isles is compliant.</p> <p>Responsible officer: Director of Public Health</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>out in May 2021 but the results from this have yet to be reported.</p> <p>Risk – A significant risk exists that the Board may continue to be non-compliant with the NIS Regulations and be subject to financial penalties.</p>		<p>Agreed date: 31 March 2022</p>
<p>9. Value for Money – Best Value Arrangements</p> <p>The mechanism for formally reviewing and reporting on arrangements to secure best value should be formalised and published.</p> <p>Risk - Opportunities for improvement through Best Value review may be missed.</p>	<p>A formal review of the Best Value assurance framework, and an assessment of the Board's Best Value arrangements should be completed in 2021/22. The outcome of the assessment should be reported to the Board.</p> <p>Paragraph 82-83</p>	<p>A formal review of the Best Value assurance framework will take place and be reported to the Board.</p> <p>Responsible officer: Director of Finance and Business Manager</p> <p>Agreed date: 31 December 2021</p>
<p>10. Value for Money – Workforce Sustainability</p> <p>Our 2019/20 Annual Audit Report outlined that 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. Spending on temporary staff costs was £6.2m for 2020/21 which represents an increase of 19% since 2019/20. Spending on temporary staff during 2020/21 equates to 12.7% of total staff costs (11.5% 2019/20).</p> <p>Risk – There is a risk that NHS Western Isles does not have robust plans in place to</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 84-86</p>	<p>The workforce issues the Western Isles face are linked primarily to the aging population and the reduction in workforce population to fill Health and Social care positions. The ageing population also increases Health and Social Care need putting services at risk of non-sustainability. Reducing the trend and improving the population demographics cannot be undertaken by NHS Western Isles alone and would need intervention and aid from all partners and the Scottish Government. Where work force challenges result from a national shortage of clinical specialists the Executive team work in partnership with other Scottish Boards looking to</p>

Issue/risk	Recommendation	Agreed management action/timing
address its workforce sustainability issues.		<p>provide services differently and where we have been successful is training our own staff for example, the shortened Midwifery Programme.</p> <p>Responsible officer: All key stakeholder organisations</p> <p>Agreed date: Ongoing</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
11. Financial Statements – Annual Report & Accounts	NHS Western Isles should review its arrangements for preparing the annual report and accounts.	<p>Ongoing – superseded by Recommendation 1.</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>
12. Financial Statements – Restatement of Remuneration Report	NHS Western Isles should ensure that the Annual Report & Accounts are prepared in line with the requirements of the Financial Reporting Manual.	Complete.
13. Financial Statements – Inventory Adjustment	NHS Western Isles should ensure that all inventory received prior to the year-end per the JAC stock system is	Complete.

Issue/risk	Recommendation	Agreed management action/timing
	reconciled to balance held in the ledger.	
14. Financial Management – Financial Reporting	<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>Ongoing – superseded by Recommendation 2.</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>
15. Financial Management – Non-Recurring Savings	<p>NHS Western Isles should increase its efforts to reduce its dependency on nonrecurring savings to balance its financial position each year.</p>	<p>Ongoing – superseded by Recommendation 4.</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>
16. Financial Management – NFI	<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>Ongoing – not yet due.</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 the same postcodes, staff also being patients and therefore claiming expenses. We will for the next NFI</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>exercise increase the % of matches that we examine.</p> <p>Responsible officer: Principal Accountant</p> <p>Agreed date: 30 September 2021</p>
<p>17. Financial Sustainability – Unidentified Savings</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>Ongoing – superseded by Recommendation 5.</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>18. Financial Sustainability – Transformational Plan</p>	<p>In order to bridge the funding gap and achieve the required level of efficiency savings, the Health Board should develop a transformational plan for the redesign of services. This should be developed alongside the medium to longer-term financial plan and consistent with the Integration Joint Board (IJB) Transformational Plan for the delivery of IJB related services that are provided by the Health Board.</p>	<p>Ongoing – superseded by Recommendation 7.</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>

Issue/risk	Recommendation	Agreed management action/timing
19. Financial Sustainability – Medium to Longer-Term Financial Plan	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.	Ongoing – superseded by Recommendation 6. Management response: NHS Western Isles will prepare a revised medium to Longer Term Financial Plan as part of budget setting exercise for 2021/22.
20. Governance and Transparency - Website	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.	Complete.
21. Governance and Transparency – Financial Capacity	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.	Complete.
22. Governance and Transparency – Internal Audit Recommendations	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.	Complete.
23. Value for Money – Temporary Staff Costs	Reliance on temporary staff is not financially sustainable. The Board need to look at alternative models for service delivery as a matter of priority.	Ongoing – superseded by Recommendation 10. 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

Issue/risk	Recommendation	Agreed management action/timing
		<p>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>24. Value for Money – Workforce Sustainability</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>Ongoing – superseded by Recommendation 10.</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. 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>25. Governance and Transparency – Business Continuity Management</p>	<p>The board should ensure that identified weaknesses in business continuity / disaster recovery arrangements are</p>	<p>Complete.</p>

Issue/risk	Recommendation	Agreed management action/timing
	resolved as a matter of urgency.	
26. Governance and Transparency – GDPR Compliance	The Board should undertake periodic internal audits to monitor GDPR compliance and regularly update data protection processes.	Complete.

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 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 financial statements and those relating to our wider responsibility under the Code of Audit Practice 2016.

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement caused by management override of controls</p> <p>International 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 results in fraudulent financial statements.</p>	<p>Review of key accounting estimates and critical judgements for bias. This included both a retrospective review of 31 March 2020 key accounting estimates and critical judgements and a review of corresponding key accounting estimates and critical judgements as at 31 March 2021.</p> <p>Test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.</p> <p>Focused testing of accruals made at the year-end including unspent funding allocations.</p> <p>Focused cut-off testing of invoices received and paid around the year-end.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Results: We undertook detailed testing of journal entries, accruals and invoices. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>Conclusion: We did not identify any incidents of management override of controls.</p>

Audit risk	Assurance procedure	Results and conclusions
<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 Scottish Government or other public 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, ordering via the purchase ledger and patients travel.</p> <p>The vast majority of transactions covered by this risk are high volume/ low value and the risk of material misstatement is remote.</p>	<p>Audit work on the National Fraud Initiative matches.</p> <p>Obtain assurances from the NHS Scotland Counter Fraud Service.</p> <p>Sample testing of expenditure transactions and verification to supporting evidence and subsequent payment.</p>	<p>Results: The Director of Finance and Procurement (as Fraud Liaison Officer) provides an update to each HGAC meeting in relation to the work of Counter Fraud Services 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>
<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>	<p>Review of reports from the District Valuer to confirm asset valuations.</p> <p>Review of asset expenditure to ensure any elements overtaken by professional revaluation are adjusted.</p> <p>Sample testing of indexation calculations.</p> <p>Centralised assurance over the system of CNORIS claims</p>	<p>Results: We discussed the valuation process with the District Valuer, reviewed the reports and confirmed these to asset valuations in the accounts with no issues identified.</p> <p>We gained assurance over the CLO processes and tested provisions to the CLO reports.</p> <p>Conclusion: No issues were identified with our</p>

Audit risk	Assurance procedure	Results and conclusions
	<p>and associated reimbursements.</p> <p>Verification of the CNORIS provision recognising the future liability from participating in the scheme with reference to the contribution rate provided by the CLO.</p>	<p>testing on estimations and judgements.</p>

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

Audit risk	Assurance procedure	Results and conclusions
<p>4. Financial management</p> <p>Our 2019/20 Annual Audit Report commented that 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.</p> <p>In addition, NHS Western Isles continues to place reliance on non-recurring savings. 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>There is a risk that financial monitoring reports are incomplete and do not transparently report the overall financial position of NHS Western Isles. There is also 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</p>	<p>Review of financial monitoring reports presented to Healthcare Governance and Audit Committee.</p> <p>Undertake follow up work on the delivery of savings plans and the effectiveness of in-year budget reporting.</p> <p>Monitor the development of the budget projection for the remainder of the financial year.</p> <p>Assess the funding and costs associated with Covid-19 in 2020/21.</p> <p>Review progress against identified savings actions.</p> <p>Evaluate progress with developing further savings measures during the year to support the “unidentified savings” in the budget.</p>	<p>Results: Financial monitoring reports presented to the healthcare Governance and Audit Committee still do not contain details of any risk exposure to overspends in the Integration Joint Board.</p> <p>The board achieved an underspend of £110,000 (0.01%) against its total 2020/21 RRL of £102.3 million.</p> <p>Savings achieved during the year included a significant level of non-recurring savings of £2.2 million (65 per cent).</p> <p>Conclusion: Financial monitoring reports presented to the Healthcare Governance and Audit Committee still exclude the financial risk of IJB overspends and depend on significant levels of non-recurrent savings.</p> <p>See Recommendation 2 and 4.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>recurring basis over the new three-year planning and performance cycle.</p>		
<p>5. Financial sustainability</p> <p>Our 2019/20 Annual Audit Report included comment that the Board's three-year financial plan was prepared prior to and does not consider the financial impact of the Covid-19 global pandemic. In addition, the Board do not have a transformational plan for the redesign of services to help achieve the required level of efficiency savings.</p> <p>We also commented on the level of unidentified savings required to enable financial balance to be achieved.</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 and performance cycle and over the longer term.</p>	<p>Undertake follow up work on development of medium / longer-term financial planning.</p> <p>Review progress and achievement of transformational plan / redesign of services.</p> <p>Review progress against and achievement of unidentified savings.</p> <p>Consider medium-term financial "gaps" and the assumptions in the plan.</p>	<p>Results: A revised medium - term financial plan has yet to be agreed.</p> <p>A transformational plan has yet to be implemented mainly due to the Covid-19 pandemic. Reliance continues to be placed on the Annual Operational Plan for identifying services that can be re-designed in order to achieve efficiency savings.</p> <p>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 revised medium-term financial plan and transformational plan have yet to be developed.</p> <p>See Recommendation 6 and 7.</p>
<p>6. Governance and transparency</p> <p>Our 2019/20 Annual Audit Report identified a number of risks in relation to governance and transparency. As part of our 2020/21 audit, we will assess progress in the following areas:</p>	<p>Undertake follow-up work on progress against all agreed management actions.</p>	<p>Results: Financial capacity is monitored on an ongoing basis.</p> <p>There has been a significant improvement in actioning the number of outstanding and overdue internal audit recommendations.</p> <p>A GDPR compliance audit was undertaken by internal</p>

Audit risk	Assurance procedure	Results and conclusions
<ul style="list-style-type: none"> • Financial capacity • Internal audit recommendations • GDPR compliance • Business continuity management. 		<p>audit during the financial year with no significant issues identified.</p> <p>Business continuity management arrangements have now been subject to testing with no significant issues identified.</p> <p>Conclusion: No issues were identified.</p>
<p>7. Value for money</p> <p>Our 2019/20 Annual Audit Report identified a number of risks in relation to value for money. As part of our 2020/21 audit, we will assess progress in the following areas:</p> <ul style="list-style-type: none"> • Temporary staff costs • Workforce sustainability. 	<p>Undertake follow-up work on progress against all agreed management actions.</p>	<p>Results: Temporary staff costs increased in 2020/21 mainly due to the impact of Covid-19.</p> <p>A Workforce Strategy was implemented in April 2021, however the Health Board acknowledge that the Strategy alone will not address its workforce challenges.</p> <p>Conclusion: Significant workforce challenges remain. See Recommendation 10.</p>

Appendix 3. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

NHS Western Isles

2020/21 Annual Audit Report

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