

NHS Western Isles

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared by Audit Scotland
June 2022

Contents

Key messages	3
Introduction	4
1. Audit of 2021/22 annual report and accounts	6
2. Financial management	13
3. Financial sustainability	19
4. Governance and Transparency	22
5. Value for money	25
Appendix 1. Action plan 2021/22	31
Appendix 2. National performance reports and briefings	39

Key messages

2021/22 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 Some limited progress was made on prior year recommendations.

Financial management and sustainability

- 3 NHS Western Isles operated within its revenue resource limit.
- 4 NHS Western Isles received £9.4 million additional funding to deal with Covid-19. £2.6 million of this was transferred to IJB reserves and £1.7 million was transferred to Social Care.
- 5 NHS Western Isles continues to rely significantly on non-recurring savings.
- 6 Capital funding was increased in 2021/22, but future capital funding remains over-committed.
- 7 Internal financial controls are operating effectively, but with some identified weaknesses.
- 8 The medium-term financial plan indicates the Board's cost base is not sustainable in the future and transformational planning has been paused due to the pandemic.

Governance, transparency, and value for money

- 9 There is limited compliance with the Network and Information Systems Regulations.
- 10 High costs of temporary staff and workforce sustainability are key issues for the Islands.

Introduction

1. This report summarises the findings from our 2021/22 audit of NHS Western Isles. The scope of our audit was set out in our Annual Audit Plan presented to the 18 May 2022 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

Adding value through the audit

2. We add value to NHS Western Isles 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 2](#)) and good practice guides.

3. 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

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

5. 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. Further details of the respective responsibilities of management and the auditor can be found in the Code.

6. This report identifies 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.

7. 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 actions from last year and notes the progress that has been made.

Auditor Independence

8. 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 2021/22 audit fee of £72,590, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

9. 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.

Audit appointment from 2022/23

10. The Auditor General for Scotland is responsible for the appointment of external auditors to Scottish health bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or private firms of accountants. The financial year 2021/22 was a one-year extension and is the last year of the current audit appointment round.

11. The procurement process for the new round of audit appointments was completed in May 2022. From next year (2022/23) Audit Scotland will remain the appointed auditor for NHS Western Isles, but there will be changes in audit staff in order to achieve rotation and avoid long-standing relationships. We will work closely with the new audit team to ensure a well-managed transition.

12. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

13. We would like to thank board members, HGAC members, executive directors, and other staff, particularly those in finance, for their co-operation and assistance over the last six years.

1. Audit of 2021/22 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.

The unaudited accounts were submitted on 9 May, but a complete version was not provided until 1 June, with some control issue disclosures and transactions omitted until then.

Some limited progress was made on prior year recommendations

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 2022 on 22 June 2022. Our independent auditor's report identifies:

- 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.

The unaudited accounts were submitted on 9 May, but a complete version was not provided until 1 June.

15. The unaudited annual report and accounts of NHS Western Isles were received in line with our agreed audit timetable on 9 May 2022. 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 arithmetical and

consistency issues and omitted transactions, balances and disclosures. These outstanding items were provided to external audit during May. Whilst we acknowledge that some of the delay is due to finalising the IJB's results, improvements are required in future years to ensure that a clear timetable is agreed between the NHS and IJB. We have previously recommended that NHS Western Isles review its arrangements for preparing the annual report and accounts.

16. The audit team received good support from finance staff.

Overall materiality is £1.6 million

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

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£1.6 million
Performance materiality	£1.1 million
Reporting threshold	£80,000

Source: Audit Scotland

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

18. 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. 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 records that NHS Western Isles' framework of governance, risk management and controls has a number of weaknesses, particularly covering stock control and the recording of staff leave. This issue is covered in more detail in paragraph 67.</p> <p>The unaudited annual report and accounts presented for audit did not disclose the stock control and staff leave issues in the Governance Statement.</p>	<p>Management have adjusted for this in the audited 2021/22 Annual Report and Accounts with adequate disclosure provided in the Governance Statement.</p> <p>We considered the impact of these issues on our audit and concluded that neither of these areas are considered to represent risks of material misstatement to the amounts in the financial statements.</p>
<p>2. 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 corrected this in the audited 2021/22 Annual Report and Accounts.</p>
<p>3. Transfers between reserves</p> <p>The amount transferred from the revaluation reserve to the general fund to compensate for increased depreciation charges due to revaluation and indexation was not correct. The balance on the revaluation reserve was understated by £186,000 and the balance on the general fund overstated by the same amount. There was no impact on the overall reserves balance.</p>	<p>Management have corrected this in the audited 2021/22 Annual Report and Accounts.</p>

19. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3**Identified Significant risks of material misstatement in the financial statements**

Audit risk	Assurance procedure	Results and conclusions
<p>1. Management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Assess the design and implementation of controls over journal entry processing.</p> <p>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Test journals at the year-end and post-closing entries and focus on significant risk areas.</p> <p>Consider the need to test journal entries and other adjustments during the period.</p> <p>Evaluate significant transactions outside the normal course of business.</p> <p>Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Focussed testing of accounting accruals and prepayments.</p>	<p>Results: We made inquiries of staff.</p> <p>We undertook detailed control and substantive testing of journal entries, accruals and invoices.</p> <p>Our journal testing included a data analytics review to identify key risk factors.</p> <p>We also reviewed accounting estimates and transactions for appropriateness.</p> <p>Conclusion: We did not identify any incidents of management override of controls.</p>
<p>2. Estimation in the valuation of land and buildings.</p>	<p>Review the information provided to the external valuer to assess for completeness.</p>	<p>Results: Our review of experts engaged to provide valuations for non-current</p>

Audit risk	Assurance procedure	Results and conclusions
<p>NHS Western Isles held land and buildings with a NBV of £49 million at 31 March 2021. All land and buildings are undergoing a full revaluation at 31 March 2022. An external valuer carries out valuations of land and buildings. There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p> <p>We were advised that the valuations at 31 March 2022 were expected to show a significant increase over those at 31 March 2021.</p>	<p>Evaluate the competence, capabilities, and objectivity of the professional valuer.</p> <p>Complete a walkthrough of the valuation process to obtain an understanding of the process, including the methodologies and assumptions applied.</p> <p>Review of reports from the valuer to confirm overall asset valuation movements.</p> <p>Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.</p> <p>Sample testing of individual asset valuations and lives.</p>	<p>assets found them to be independent and competent.</p> <p>Walkthrough testing of valuation procedures adopted by management experts was satisfactory and we reviewed data provided by staff and management and assessed management's process for reviewing valuation changes, including any determination of fair value for assets not specifically revalued in 2021/22.</p> <p>Conclusion:</p> <p>No material issues have been identified in estimation in the valuation of land and buildings in 2021/22.</p> <p>We were unable to determine the detailed data provided to valuers to support the valuation process, but the valuer's longstanding experience of NHS Western Isles, the limited number of properties involved and the fact that all assets were physically inspected by valuation staff meant that we are able to conclude that there is no material risk. In addition, whilst management review of the individual changes in valuations notified in the valuer's report was not particularly evident, audit review identified apparent outliers and we received good explanations from management to support the changes.</p>

Other areas of audit focus

20. In addition, as part of our 2021/22 Annual Audit, we identified other areas where we considered there to be risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of these risks, we did not however consider these to represent significant risks. The area of specific audit focus covered FHS expenditure, as the NHS NSS service auditor control reports had been qualified in the previous two years.

21. The conclusions from the 2021/22 service auditor report are identified in [paragraph 45](#). We concluded that the issues were not material nor significant to NHS Western Isles as

- the majority of NHS Western Isles expenditure was not related to the three areas where post payment verification checking was suspended (Dental, Ophthalmic and GMS and these totalled £7.9 million of total expenditure of £116.5 million or 6.8 per cent); and
- the service auditor identified that “Minimal overall payments are determined by individual patient claims, and therefore post payment verification checking and analysis of levels of claims has not been considered an integral part of some of the payment calculations.”

Misstatements of £186,000 were adjusted in the audited accounts and we did not need to further revise our audit approach

22. Misstatements adjusted in the audited accounts decreased the balance on the General Fund by £186,000 and increased the balance on the Revaluation reserve by the same amount ([Exhibit 2 “Transfers between reserves”](#)). There was no impact on the total reserves balance.

23. 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 an error in the calculation of the impact of revaluation and indexation on future depreciation charges. We concluded that this error arose from an isolated issue that has been identified in its entirety and does not indicate further systemic error.

Late notification of donated assets resulted in an unadjusted misstatement of £409,000. This does not affect the overall outturn.

24. Very late in the audit process, an issue arose which identified that LFD testing kits issued to NHS Western Isles by NHS NSS were received free of charge from the UK government and had not been reflected in the accounts. This was discussed at the Healthcare Governance and Audit Committee on 22 June 2022. These kits require to be accounted for as a donation with the associated income and expenditure recognised in the

accounts and no net effect on outturn. Due to late notification by Scottish Government of the issue and the amounts involved management have elected not to adjust for this in the financial statements. Operating income and Other healthcare expenditure are therefore understated by £409,000.

Some limited progress was made on prior year recommendations

25. NHS Western Isles has made some limited progress in implementing our prior year audit recommendations, with 3 out of 11 points completed. The focus of NHS Western Isles was directed by the Scottish Government to dealing with Covid-19 during 2021/22. 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.

NHS Western Isles received £9.4 million additional funding to deal with Covid-19. £2.6 million of this was transferred to IJB reserves and £1.7 million was transferred to Social Care.

NHS Western Isles continues to rely significantly on non-recurring savings.

Capital funding was increased in 2021/22, but future capital funding remains over-committed.

Internal financial controls are operating effectively, but with some identified weaknesses

NHS Western Isles operated within its Revenue Resource Limit (RRL) of £109 million

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 throughout 2021/22, additional non-recurring funding allocations were provided based on the estimated financial impacts of the pandemic on the board. [Exhibit 5](#) shows that NHS Western Isles operated within its limits during 2021/22, recording an underspend of £87,000.

Exhibit 5

Performance against resource limits in 2021/22

Performance against resource limits set by SGHSCD	Resource Limit £000	Actual £000	Underspend £000
Core revenue resource limit	109,314	109,227	87
Non-core revenue resource limit	3,282	3,282	0
Total revenue resource limit	112,596	112,509	87
Core capital resource limit	2,762	2,762	0
Non-core capital resource limit	0	0	0
Total capital resource limit	2,762	2,762	0
Cash requirement	112,336	112,336	0

Source: NHS Western Isles Annual Report and Accounts 2021/22

IJB outturn and impact on NHS western Isles

27. Western Isles Integration Joint Board (IJB) underspent by £8.7 million in 2021/22 (unaudited). NHS Western Isles funded £8.2 million of this with the remaining £0.5 million coming from Comhairle nan Eilean Siar. Scottish Government has allowed unspent Covid funding to be carried forward in IJB reserves which account for £2.6 million of the underspend.

28. The IJB now holds reserves of £16.7 million, of which £10.9 million relate to specific reserves. These are monies allocated by the Scottish Government for example to Primary Care Improvement, Mental Health Transformation, and unspent Social Care winter pressure monies.

29. Officers have confirmed that many of the specific reserves will be used in 2022/23 and that an updated investment strategy will be submitted for approval in 2022 which fully utilises the reserves over a 3-year investment period.

NHS Western Isles received £9.4 million additional funding to deal with Covid-19

30. In March 2021, NHS Western Isles draft annual operational plan set an overall budget for 2021/22 of £99.9 million. As part of the NHS re-mobilisation exercise, boards estimated the financial impact of the pandemic. This included increased costs for Covid-19 activity and decreased costs and loss of income. These estimates were kept under

review and reported in published plans to the Scottish Government on a regular basis.

31. Additional funding in 2021/22 from the Scottish Government to NHS Western Isles for Covid-19 was £9.4 million. £2.6 million of this was transferred to IJB reserves and £1.7 million was transferred to Social Care. The major areas of additional expenditure, as a result of Covid-19 included:

- increased staffing costs of £1.4 million
- contact tracing costs of £0.5 million
- Covid-19 vaccination costs of £1.0 million
- PPE and testing costs totalling £1.5 million.

32. Direct Covid-19 related expenditure was tracked using specific account codes in the general ledger and disclosed in the accounts. [Exhibit 6](#) shows the expenditure in these areas compared to additional Covid-19 related funding allocations.

Exhibit 6 Covid-19 Costs compared to additional funding allocations

	Total Funding Received (£m)	Total Expenditure (£m)	Difference (£m)
NHS Board			
Covid-19 Additional Allocations	5.1	5.1	0
NHS IJB			
Covid-19 Additional Allocations	2.6	2.6	0
Additional donations by Government	0.4	0.4	0
Social Care			
Covid-19 Additional Allocations	1.7	1.7	0

Source: NHS Western Isles

£4.4 million of efficiency savings were achieved but only 38 per cent were achieved on a recurrent basis

33. In its original budget for 2021/22, NHS Western Isles identified planned efficiency savings of £4.4 million or 4.4 per cent of its budget. The board achieved £1.7 million (38 per cent) of savings on a recurring basis with the remaining £2.7 million (62 per cent) on a non-recurring basis. Non-

recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years, for example unfilled vacancies.

34. Our 2020/21 Report on the Audit highlighted that the level of non-recurring savings achieved in 2020/21 represented the highest value of non-recurring savings since 2015/16. The level of non-recurring savings in 2021/22 was even higher at £2.7m (£2.2m in 2020/21).

35. 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 will begin when capacity is available to take forward saving plans started pre-pandemic ([paragraph 60.](#)). We have previously recommended that NHS Western Isles progress the development of its savings plan as a matter of priority and reduce its dependency on non-recurring savings as part of its medium-term financial planning

Capital funding was increased in 2021/22, but future capital funding remains over-committed

36. At the beginning of the financial year, the Board's baseline Capital Resource Limit (CRL) for 2021/22 was £1.2 million. Additional CRL of £1.7 million was made available by the Scottish Government which 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 2022/23.

37. There have been significant pressures on the Board's capital budget in recent years resulting in 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 they cannot be financed within the base CRL limit.

38. The current plan for 2022/23 is over-committed by £0.7 million. This is after deferral of 12 projects totalling £1.8 million until 2023/24. This deferral results in a further over-commitment of £0.3 million in 2023/24. 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 revenue to capital funding transfers. We have previously recommended that 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.

Internal financial controls are operating effectively, but with some identified weaknesses

39. 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

40. Significant internal control weaknesses were identified, from our work and the work of the internal auditor in the following areas

- payroll existence, accuracy and changes validation. Although budget reporting includes details of staffing for each department, there is not a positive confirmation process in place to attest to the validity and accuracy of employee details. We do however note that evidence is available to demonstrate that issues have been identified and addressed. The process does not confirm that there are no issues in the remaining population.
- payroll changes validation. Once payroll change forms have been completed by HR (termination form, starter forms) and input into eESS, these are automatically transferred to NHS GG&C. However, there is no confirmation that the information has been received and actioned by NHS GG&C.
- stock control (internal audit) and
- recording of staff leave (internal audit).

41. We revised our audit procedures due to the weaknesses in payroll and our testing identified two issues which did not have a monetary impact on the financial statements, as these record the related expenditure correctly, but they do highlight the control risks:

- One member of staff was identified as working increased hours and remunerated for this, but the change was meant to be only a temporary change in hours and had continued, effectively meaning that an element of the additional expenditure was unbudgeted
- Another member of staff was recorded as having a temporary acting-up but with an open-ended date

42. Management have previously accepted the risks associated with the payroll weaknesses.

43. In the case of the weaknesses identified from internal audit work, we considered their impact on the financial statements and concluded that these did not represent risks of material misstatement on the basis of the values involved. More detail is included at [paragraph 67](#).

The service auditor's assurance report on practitioner services was unqualified, but post-payment verification services were suspended

44. The NHS in Scotland has a number of shared systems. NHS National Services Scotland (NSS) provides Practitioner and Counter Fraud Services

covering the payments to primary care practitioners and the national IT contract. NHS Ayrshire & Arran provides a general ledger reporting service (the National Single Instance (NSI) eFinancials service).

45. The service auditor's assurance report for the 2021/22 service audit of Practitioner and Counter Fraud Services was not qualified and almost all of the previous years' issues were resolved. It did identify that post-payment verification services were not performed for three of the four payment streams (medical, dental and ophthalmic) throughout the year (1 April 2021 to 31 March 2022). This was as a result of Scottish Government circulars, which were issued in response to the COVID pandemic. As we note in [paragraph 21](#), we do not consider this represented a material risk to the financial statements.

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

46. There are appropriate arrangements for the prevention and detection of fraud, error and irregularities and covering standards of conduct, taking into consideration the suspension of post-payment verification services.

47. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Of the total 517 matches identified for NHS Western Isles as part of the 2020/21 exercise, 514 have been actioned and 3 remain under investigation. No frauds have been identified through this 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

The 2022/23 budget includes unidentified savings of £1.2 million.

The medium-term financial plan indicates the Board's cost base is not sustainable in the future.

Transformational planning has been paused due to the pandemic.

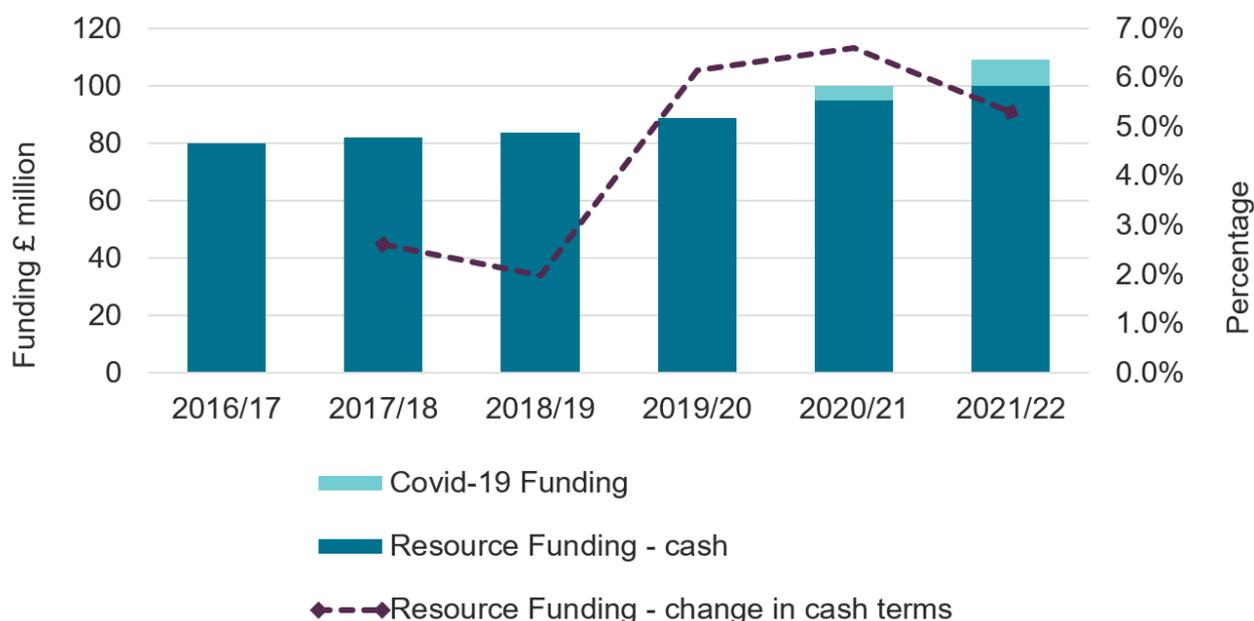
Underlying funding continued to grow by 5.3 per cent in 2021/22

48. Core revenue funding (excluding additional Covid-19 funding) to NHS Western Isles in 2021/22 from the Scottish Government increased by 5.3 per cent in cash terms compared to 2020/21 ([Exhibit 8](#)) with £9.4 million extra for Covid-19 in 2021/22.

49. NHS Western Isles baseline core revenue funding for 2022/23 is £101 million which represents an increase of 5.7 per cent (£5.5 million) compared to the similar baseline in 2021/22.

Exhibit 8

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



Source: NHS Western Isles accounts/ Audit Scotland

The 2022/23 budget includes unidentified savings of £1.2 million

50. 2022/23 budget papers were emailed to Board members for agreement on 24 March 2022 and the decision homologated at the Board meeting in April. The Board's estimated RRL budget for 2022/23 is £101 million against an initial expenditure budget of £105 million resulting in a financial funding gap of £3.9 million to be met by identified efficiency savings of £2.7 million (69 per cent) and unidentified savings assumed to be delivered in-year of £1.2 million (31 per cent).

51. Within the identified efficiency savings targets, many of the savings are non-recurring in nature including vacancies (£1.0 million), reduction in patient travel (£0.2 million) and financial flexibility (£0.9 million). 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.

52. Management have confirmed that NHS Western Isles expects some non-recurring savings due to the continued pandemic which will offset the revised £1.2 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. However a significant risk exists that the Board may not achieve its required savings targets in 2022/23. We have previously recommended that NHS Western Isles should ensure that savings plans are developed identifying how unidentified savings will be achieved.

The medium-term financial plan indicates the Board's cost base is not sustainable in the future

53. NHS Western Isles current three-year financial plan (2022/23 - 2024/25) 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.

54. Indicative savings targets of £4.6 million for 2023/24 and £5.0 million for 2024/25 were identified. However these include unidentified savings of £2.9 million (63 per cent) and £3.3 million (66 per cent) respectively.

55. NHS Western Isles has a recurring deficit of £2.1million which has previously been met by non-recurring savings such as in year vacancies.

56. Management have also identified that there is an underlying deficit of £2.5 million in the Integration Joint Board, which is funded by NHS Western Isles and Comhairle nan Eilean Siar. The new Social Care complex at Goathill has a planned phased opening during 2022/23 and has a recurring funding gap from 2023/24.

57. Given the Board's own assessment of the risks it faces in delivering the three-year financial plan, financial sustainability is more challenging than in previous years.

Transformational planning has been paused due to the pandemic

58. In previous Annual Audit Reports, we recommended that 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.

59. A transformational plan has yet to be implemented mainly due to the ongoing pressures as a result of the Covid-19 pandemic and reliance continues to be placed on remobilisation plans for identifying services that can be re-designed in order to achieve efficiency savings.

60. 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. Work will begin when capacity is available to take forward the work started pre-pandemic for example on patient pathways, mental health off Island referrals and off-island therapeutics.

4. Governance and Transparency

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

Main judgements

NHS Western Isles has appropriate governance arrangements.

Internal audit identified significant weaknesses around theatre stock control and recording of annual leave/TOIL

There is limited compliance with the Network and Information Systems Regulations

NHS Western Isles shows a strong commitment to promoting and complying with equality legislation

61. *Exhibit 4* sets out the audit dimension risks relating to governance and transparency we identified in our 2021/22 audit. It summarises the audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 4

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

Audit risk	Assurance procedure	Results and conclusions
<p>Fairness and Equality</p> <p>In accordance with annual planning guidance issued by Audit Scotland, auditors may carry out specific audit work covering the seven BV characteristics set out in the Scottish Public Finance</p>	<p>We will review recent NHS Western Isles activity on Fairness and Equality including a review of biennial reporting and action plans,</p>	<p>Results & Significant Judgements: The latest report (April 2021) demonstrates that pro-active steps are being taken across the area and targeted initiatives and activities are being developed to address</p>

Audit risk	Assurance procedure	Results and conclusions
Manual. There is an expectation that equalities will be advanced through the audit process, and auditors have been advised to carry out work on the Fairness and Equality characteristic at least once during the audit appointment. Auditors should therefore aim to cover that area in 2021/22 if they have not done so in an earlier year.		what are perceived to be the local priorities. NHS Western Isles shows a strong commitment to promoting and complying with equality legislation and has achieved a number of significant outcomes in promoting equalities to its staff, and service users.

Governance arrangements are appropriate

62. We reported in previous Annual Audit Reports on the revised governance arrangements introduced by NHS Western Isles due to Covid-19. We concluded that NHS Western Isles has appropriate governance arrangements in place.

63. 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

64. 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.

65. 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.

66. We reported last year that the full review was scheduled for completion by 1 April 2021 but had been delayed due to Covid-19 with a revised completion date of 30 September 2021. An initial review of the integration scheme has recently been completed and is expected to be approved by the IJB in July/August 2022.

Internal audit identified significant weaknesses around theatre stock control and recording of annual leave/TOIL

67. NHS Western Isles' framework of governance, risk management and controls have a number of weaknesses, particularly in relation to stock

control in theatres and the use of the SSTS system for recording staff leave.

- Theatre stock - a lack of documented policies for the management and control of stock, no processes for the management of stock, no reconciliations of stock and issues with stock security.
- SSTS - poor recording of annual leave and TOIL (time off in lieu) balances within SSTS.

68. The reports arising from their reviews were presented to the May 2022 HGAC meeting and identified a number of areas for improvement. HGAC members agreed that the management responses to action points within the reports were inadequate, particularly for the theatre stock report. It was agreed that the responses in these reports should be reassessed and revised by the Executive Director Lead. The Executive Team are now assessing the reports in detail and aim to have update responses together with improvement plans by the end of July 2022. These updated recommendations will be monitored through the Audit Recommendations Tracker presented to each HGAC meeting.

There is limited compliance with the Network and Information Systems Regulations (NIS Regulations)

69. Our 2020/21 Annual Audit Report highlighted that 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. The Board achieved an overall compliance score of 35%. This review also included 119 recommendations of which, 26 are prioritised as critical and urgent.

70. An on-site follow-up audit was carried out in May 2021, however the findings do not differ significantly from the interim report, with 118 recommendations, 26 of which remain risk prioritised as critical or urgent. A further follow-up review was undertaken in April 2022 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.

5. Value for money

Using resources effectively and continually improving services.

Main judgements

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.

Workforce sustainability is a key issue for the Islands.

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

71. The Scottish Government has requested NHS boards to produce and regularly revise Remobilisations plans outlining plans for the restoration of normal health services.

72. NHS Western Isles Remobilisation Plan (RMP4) was submitted to the Board in January 2022 and provides an update to actions and processes identified in previous plans. Planned actions to address backlog/waiting times caused by Covid-19 include:

- Integration of key services with focus on prevention and service efficiencies
- Review of community nursing staffing
- Expansion of hospital at home service.

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

73. The 2021/22 annual report and accounts include performance against national waiting time standards. They provide context for the scale of the impact of the pandemic on the delivery of health services. [Exhibit 9](#) demonstrates demand and activity data and [Exhibit 10](#) provides a comparison of current waiting times compared to prior years.

74. The largest increases in Exhibit 9 are in waiting times, with one of the most significant being the number of people waiting more than 12 weeks for an inpatient or day case admission. This has increased from 94 to 194

patients between December 2020 and December 2021. The impact of this increase is reflected in Exhibit 10 which shows the percentage of inpatient or day case admission waiting no more than 12 weeks has reduced from 59.5 per cent in March 2021 to 52.0 per cent in March 2022.

Exhibit 9 Trends in demand and activity per acute services

Demand		% change
Number waiting for diagnostic tests	<p>Monthly Dec 2020 to December 2021</p> <p>311 486</p>	56.3%
Number of patients waiting for an inpatient or day case admission	<p>Quarterly Dec 2020 to December 2021</p> <p>283 468</p>	65.4%
Number of patients waiting for a new outpatient appointment	<p>Quarterly Dec 2020 to December 2021</p> <p>996 1,042</p>	4.6%
Activity		
Number of scheduled elective operations in theatre system	<p>Monthly Dec 2020 to March 2022</p> <p>84 115</p>	36.9%
Number of inpatient and day case admissions	<p>Quarterly Dec 2020 to Dec 2021</p> <p>351 363</p>	3.4%
Number of new outpatient appointments	<p>Quarterly Dec 2020 to Dec 2021</p> <p>1,152 1,619</p>	40.5%
Length of waits		
Number waiting longer than 6 weeks for diagnostic tests	<p>Monthly Dec 2020 to Dec 2021</p> <p>44 112</p>	154.5%
Number of patients waiting longer than 12 weeks for an inpatient or day case admission	<p>Quarterly Dec 2020 to Dec 2021</p> <p>94 194</p>	106.4%
Number of patients waiting longer than 12 weeks for a new outpatient appointment	<p>Quarterly Dec 2020 to Dec 2021</p> <p>131 372</p>	184.0%

Source: Public Health Scotland

Exhibit 10

Impact of Covid-19 on national waiting time standards

Target/standard	Performance at March 2020	Performance at March 2021	Performance at March 2022 ¹
Cancer 62 Day RTT Proportion of patients that started treatment within 62 days of referral	73%	77%	56%
18 Weeks RTT Proportion of patients that started treatment within 18 weeks of referral	91.7%	81.7%	86.0%
Patient Treatment Time Guarantee (TTG) Proportion of inpatients or day case that were seen within 12 weeks	99.6%	59.5%	52.0%
Outpatients waiting less than 12 weeks Proportion of patients on the waiting list at month end who have been waiting less than 12 weeks since referral at month end	86.9%	65.9%	78.9%
A & E attendees Proportion of A & E attendees who were admitted, transferred, or discharged within 4 hours	98.4%	96.5%	NA ¹
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	91%	96%	NA ¹
CAMHS Waiting Times Proportion of patients seen within 18 weeks of referral	100%	100%	100%

Source: NHS Western Isles

1: Data unavailable at time of reporting

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

75. *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.

76. Our 2020/21 Report on the Audit highlighted that 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.

77. A formal review of the Best Value assurance framework and an assessment of the Board's Best Value arrangements has still to be completed mainly due to the ongoing pressures as a result of the Covid-19 pandemic.

High costs of temporary staff continue within total staff expenditure

78. Our 2020/21 Annual Audit Report highlighted spending on temporary staff at NHS Western Isles. In 2021/22 this was £6.4m which represents an increase of 3 per cent on 2020/21, but spending on temporary staff as a proportion of total staff costs has reduced to 12.2 per cent of total staff costs (12.7 per cent in 2020/21).

79. 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.

Workforce sustainability is a key issue for the Islands

80. Our 2020/21 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.

81. An Interim Workforce Plan was submitted to the Scottish Government (SG) in May 2021. The information will be used by the SG to build and triangulate a developing national picture of workforce demand across the short and medium term, as influenced by the Covid-19 pandemic and ongoing efforts around mobilisation. At the request of the SG, a wider 3-Year Workforce Plan (2022-2025) is currently being developed by NHS Western Isles by 31 July 2022.

82. Management acknowledge that the workforce issues the Western Isles face are linked primarily to the ageing population and the reduction in workforce population to fill health and social care positions.

83. Where workforce challenges result from a national shortage of clinical specialists, the executive teamwork in partnership with other Scottish health boards to provide services and training differently for example, the shortened midwifery programme.

National performance audit reports

84. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2021/22 several reports were published which may be of direct interest to the board and are highlighted in [Appendix 2](#).

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. Financial Statements – Annual Report & Accounts</p>	<p>NHS Western Isles should review its arrangements for preparing the annual report and accounts.</p>	<p>Ongoing</p> <p>The unaudited 2020/21 Annual Report & Accounts provided to audit was incomplete and contained numerous arithmetical and consistency errors</p> <p>Management response: NHS Western Isles always work hard to complete annual accounts within agreed deadlines and will continue to strive to improve year-on-year.</p> <p>This is against a backdrop of the Pandemic, where Boards did not receive final allocation letters until after the audit deadline and a very small finance team who also had other responsibilities during the Pandemic including vaccination clinic work</p> <p>NHS Western Isles should continue to review its arrangements for preparing the annual report and accounts for 2022/23. The unaudited annual report and accounts and supplementary working papers should be complete when submitted for audit.</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>Responsible officer: Director of Finance and Procurement</p> <p>Revised date: 31 December 2022</p>
<p>b/f 2. Financial Management – Financial Reporting</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>Complete</p> <p>All reports presented to the HGAC in 2021/22 contained a paragraph documenting the underlying deficit in the IJB, the high risk of overspend, and the requirement for NHSWI to bear 50% of any payment required to meet this overspend. An estimated value for the risk is included and revised over the course of the year.</p>
<p>b/f 3. Financial Management – Capital Programme</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>Ongoing</p> <p>The current capital plan for 2022/23 is over-committed by £0.730m. This is after deferral of 12 projects totalling £1.770m to 2023/24.</p> <p>Management response:</p> <p>Through NHS Western Isles Capital Group, a formal capital investment strategy will be documented. 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 unexpected breakdown of equipment. Therefore, the capital programme has to be assessed continuously throughout the year responding to emergency situations and funding allocated on a risk-based priority. For any matters which</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>are critical, these are reported to Scottish Government. 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>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>Responsible officer: Director of Finance and Procurement</p> <p>Revised date: 30 September 2022</p>
<p>b/f 4. Financial Management – Non-Recurring Savings</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>Ongoing</p> <p>In 2021/22, £1.7 million (38%) of savings were achieved on a recurring basis, the remaining £2.7 million (62%) were non-recurrent. The level of non-recurring savings achieved in 2021/22 reflects the highest value of non-recurring savings since 2015/16.</p> <p>Management response:</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>NHS Western Isles should progress the development of its savings plan as a matter of priority and reduce its</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>dependency on non-recurring savings as part of its medium-term financial planning</p> <p>Responsible officer: Director of Finance and Procurement and Chief Officer</p> <p>Revised date: Ongoing</p>
<p>b/f 5. Financial Sustainability – Unidentified Savings</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>Ongoing</p> <p>The projected funding gap for 2022/23 is £3.9 million and is to be met through efficiency savings. £2.7 million of savings have already been identified but £1.2 million remains unidentified.</p> <p>Management response:</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>NHS Western Isles should ensure that savings plans are developed identifying how the £1.2 million of unidentified savings in 2022/23 will be achieved.</p> <p>Responsible officer: Director of Finance and Procurement</p> <p>Revised date: 30 September 2022</p>
<p>b/f 6. Financial Sustainability – Medium - Term Financial Plan</p>	<p>NHS Western Isles should prepare a revised medium-term financial plan.</p>	<p>Complete</p> <p>NHS Western Isles current three-year financial plan (2022/23 - 2024/25) has been developed. Forecasts in the financial plan are based on a number of assumptions including allocation uplifts, inflationary costs and pay growth. The plan includes</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 7. Financial Sustainability – Transformational Plan</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>savings targets of £4.6 million for 2023/24 and £5.0 million for 2024/25 with unidentified savings of £2.9 million (63 per cent) and £3.3 million (66 per cent) respectively.</p> <p>Ongoing</p> <p>Work has not yet started on this.</p> <p>Management response:</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>NHS Western Isles should develop a transformational plan for the redesign of services. This should be developed alongside the medium-term financial plan and consistent with the IJB Transformational Plan for the delivery of IJB services.</p> <p>Responsible officer: Executive Team and Chief Officer</p> <p>Revised date: 31 March 2023</p>
<p>b/f 8. Governance and Transparency - NIS Regulations</p>	<p>The Health Board should address all areas of non-compliance with the NIS Regulations with priority given to the</p>	<p>Ongoing</p> <p>An on-site follow-up audit in May 2021 identified 118 recommendations, 26 of which remain risk prioritised as critical or urgent. A further follow-up</p>

Issue/risk	Recommendation	Agreed management action/timing
	<p>26 recommendations that are categorised as critical and urgent.</p>	<p>review was undertaken in April 2022 but the results from this have yet to be reported</p> <p>Management response:</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>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>Responsible officer: Director of Public Health</p> <p>Revised date: 31 March 2023</p>
<p>b/f 9. Value for Money – Best Value Arrangements</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>Ongoing</p> <p>The arrangements have not been developed</p> <p>Management response:</p> <p>A formal review of the Best Value assurance framework will take place and be reported to the Board.</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 2022/23. The outcome of the assessment should be reported to the Board.</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>Responsible officer: Director of Finance and Procurement</p> <p>Revised date: 31 December 2022</p>
<p>b/f 10. Value for Money – Workforce Sustainability</p>	<p>Reliance on temporary staff is not financially sustainable. The Board need to look at alternative models for service delivery as a matter of priority.</p>	<p>Ongoing:</p> <p>Spending on temporary staff at NHS Western Isles was £6.4m in 2021/22 which equates to 12.2% of total staff costs. At the request of SG, a 3-Year Workforce Plan (2022-2025) is currently being developed by the Board with a submission timescale of 31 July 2022.</p> <p>Management response:</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.</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>Responsible officer: Executive Team and Chief Officer</p> <p>Revised date: 31 March 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
b/f 11. Financial Management – NFI	A proportionate and risk-based approach should be applied to following up matches in a reasonable timescale for the 2020/21 NFI exercise.	Complete. Of the total 517 matches identified for NHS Western Isles as part of the 2020/21 exercise, 514 have been actioned and 3 remain under investigation. No frauds have been identified through this exercise.

Appendix 2. National performance reports and briefings

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

NHS Western Isles

2021/22 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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
www.audit-scotland.gov.uk