



# NHS Orkney

2015/16 Annual Audit  
Report for the Board of  
NHS Orkney and the  
Auditor General for  
Scotland



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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively ([www.audit-scotland.gov.uk/about/](http://www.audit-scotland.gov.uk/about/)).

Stephen Boyle, Assistant Director, Audit Scotland is the appointed external auditor of NHS Orkney for the period 2013/14 to 2015/16.

This report has been prepared for the use of NHS Orkney and no responsibility to any member or officer in their individual capacity or any third party is accepted.

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# Key messages

Audit of 2015/16 financial statements	<ul style="list-style-type: none"><li>The independent auditor's report on the 2015/16 financial statements is unqualified.</li><li>Audited financial statements were submitted to the Scottish Government by 30 June 2016.</li></ul>
Financial management & sustainability	<ul style="list-style-type: none"><li>The board improved its financial management arrangements during 2015/16.</li><li>The board met all its financial targets.</li><li>The board recorded an underspend of £0.172 million against its Revenue Resource Limit of £50.290 million.</li><li>The board also recorded an underspend of £0.147 million against its Capital Resource Limit of £2.688 million.</li><li>The board achieved its overall savings target of £1.229 million (£0.999 million on a recurrent basis).</li></ul>
Governance & transparency	<ul style="list-style-type: none"><li>The Board has appropriate governance arrangements in place. Governance arrangements for the new Integrated Joint Board have been established but it is too early to comment on their effectiveness.</li><li>Appropriate systems of internal control, including anti-fraud arrangements, were in place during 2015/16.</li><li>The Board's internal audit service complies with Public Internal Audit Standards.</li></ul>
Best Value	<ul style="list-style-type: none"><li>The Board has a well developed performance management framework in place.</li><li>The Finance and Performance Committee receives regular updates on all aspects of performances and the actions being taken to improve performance.</li><li>NHS Orkney reported a mixed performance against Local Delivery Plan standards during 2015/16. The board is aware of the need to improve its performance against the outpatient waiting time target.</li><li>During 2015/16, the board made improvements to its reporting of service performance. The new reports link to the 2020 Vision and provide more clarity on where the board is performing well and where improvement is required.</li></ul>
Outlook	<ul style="list-style-type: none"><li>The next few years will see significant changes in the way NHS Orkney delivers healthcare to its patients. Its role as a key partner in the newly established Integrated Joint Board and the forthcoming development of the new hospital and healthcare facility in Kirkwall provide opportunities to change and improve the way healthcare is provided to Orkney's residents. These changes bring challenges as the board will continue to operate in a period of tightening budgets, with rising costs and demand for services, whilst working to meet increasingly demanding standards. The Scottish Government's 2020 vision is intended to provide services on a more sustainable footing by shifting the balance of care from hospitals to community settings. These changes may take several years to have a noticeable impact.</li></ul>

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of NHS Orkney.

## Our annual audit report

2. Our report is divided into the following sections to reflect our public sector audit model. These are:

- Audit of the 2015/16 financial statements
- Financial management and sustainability
- Governance and transparency
- Best value

3. [Appendix 1](#) highlights significant audit risks and our corresponding audit work. In addition, a number of reports, both local and national, were issued by Audit Scotland during the course of the year. These reports, summarised at [appendix II](#) and [appendix III](#), include recommendations for improvements. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit.

4. The management of NHS Orkney is responsible for:

- preparing financial statements which give a true and fair view
- implementing appropriate internal control systems
- putting in place proper arrangements for the conduct of its affairs

- ensuring that the financial position is soundly based.
5. NHS Orkney's officers have considered the issues and agreed to take the specific steps in the column headed '*Management action/response*'. We recognise that not all risks can be eliminated or even minimised although it is important that NHS Orkney understands its risks and has arrangements in place to manage these. The board should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
6. Our report includes only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

## Our appointment as external auditors

7. Our responsibility, as the external auditor of NHS Orkney, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
8. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a

- true and fair view. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. This is the final year of the current five-year audit appointment. From 2016/17, Audit Scotland will continue as external auditors of NHS Orkney although the appointed auditor and audit team will change. In accordance with agreed protocols and International Standards on Auditing we will liaise closely with the new audit team during this transition.

## Outlook

10. The next few years will see significant changes in the way NHS Orkney delivers healthcare to its patients. Its role as a key partner in the newly established Integrated Joint Board and the forthcoming development of the new hospital and healthcare facility in Kirkwall provide significant opportunities to change and improve the way healthcare is provided to Orkney's residents. These changes bring challenges as the board will continue to operate in a period of tightening budgets, with rising costs and demand for services, whilst working to meet increasingly demanding standards.
11. Our 2016 national report, [Changing models of health and social care](#), highlighted that current models of care in Scotland are unsustainable. The Scottish Government's 2020 vision is intended to provide services on a more sustainable footing by shifting the balance of care from hospitals to community settings. These changes may take several years to have a noticeable impact.
12. The Board is predicting recurring surpluses in four out of five years from 2016/17 to 2020/21. This is dependent on efficiency savings each year to bridge the gap between available funding from current sources and the cost of services. With each year, finding new savings becomes increasingly more difficult to ensure budgets are balanced. Staff costs account for approximately 47 per cent of the board's expenditure. This means good workforce planning is essential, not only for providing an effective service, but also for ensuring costs, such as spending on medical locums, are minimised and savings are achievable.
13. Embedding robust governance arrangements will be an essential element in meeting these challenges and maintaining accountability. All stakeholders including patients, clinicians, the public, staff, executive and non-executive directors and the Scottish Government, benefit from the assurance and confidence good governance arrangements bring.
14. Good governance will be particularly important where resources and service delivery are devolved to third party organisations. It will be crucial that the board implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an ongoing focus on governance and assurance to ensure that the national and local priorities are being addressed.

# Audit of the 2015/16 financial statements

<b>Audit opinion</b>	<ul style="list-style-type: none"><li>• We have completed our audit and issued an unqualified opinion that the financial statements of NHS Orkney for 2015/16 give a true and fair view of the state of the affairs of the board and its group and of their net operating cost for the year.</li></ul>
<b>Regularity of income and expenditure</b>	<ul style="list-style-type: none"><li>• In our opinion, in all material respects the expenditure and income in the financial statements was incurred or applied in accordance with relevant legislation and guidance.</li></ul>
<b>Other information</b>	<ul style="list-style-type: none"><li>• We review and report on other information published with the financial statements notably the Performance Report and Accountability Report which includes the Governance Statement and the Remuneration and Staff Report. We consider whether these reports have been properly prepared, comply with extant guidance and are consistent with the financial statements.</li><li>• We report any material errors or omissions, any material inconsistencies with the financial statements or any otherwise misleading content. We have nothing to report in respect of the other information published as part of the annual report and accounts.</li></ul>
<b>Consolidation template</b>	<ul style="list-style-type: none"><li>• The Board's consolidation template has been audited to confirm that the figures are consistent with the audited financial statements. The template and accompanying assurance statement will be submitted to the Scottish Government by 30 June 2016. These templates are used to compile the national NHS financial position.</li></ul>

## Submission of financial statements for audit

15. We received the unaudited financial statements on 9 May 2016, in accordance with the agreed timetable. The working papers were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit by the deadline.
16. The financial statements of the Board are prepared in accordance with the Government Financial Reporting Manual (FReM). This year, there were considerable changes to the annual report to include a performance report (which has replaced the management commentary) and an accountability report which includes the governance statement and the renamed remuneration and staff report. These changes have been reflected in the Board's accounts.
17. In 2015/16, for the first time, health boards' group accounts are required to include the financial results of Integration Joint Boards (IJBs) in their area, where material. Orkney Health and Care, the IJB, was established as a legal entity on 6 February 2016 and became operational on 1 April 2016. Minimal expenditure was incurred to 31 March 2016 and this was mainly on staff costs. Consequently, management decided not to include the financial transactions of the IJB in the health board's group accounts although appropriate disclosures to this effect were included.

18. The accounts reflect good practice as set out in the Audit Scotland publication 'Improving the Quality of NHS Annual Report and Accounts' (December 2014).

## Overview of the scope of the audit of the financial statements

19. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 7 January 2016.
20. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
21. The concept of audit risk is central to our audit approach. We focus on those areas that are most at risk of causing material misstatement in the financial statements. In addition, we consider what risks are present in respect of our wider responsibility, as public sector auditors, under Audit Scotland's Code of Audit Practice.
22. During the planning phase of our audit we identified a number of risks and reported these to you in our Annual Audit Plan along with the work we proposed doing in order to obtain

appropriate levels of assurance. [Appendix I](#) sets out the significant audit risks identified and how we addressed each risk.

23. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

24. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
25. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
26. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of NHS Orkney we set our planning materiality for 2015/16 at £0.532 million (or one per cent of gross expenditure).

Performance materiality was calculated at £0.266 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level. Additionally, we set a misstatement threshold of £5,000 (around one per cent of planning materiality). Amounts below this value are considered trivial.

27. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculations remained appropriate.

## Evaluation of misstatements

28. All misstatements identified during the audit which exceeded our misstatement threshold have been amended in the financial statements except for two items: the impairment of the existing Balfour Hospital (discussed in detail at paragraph 33); and an under-accrual of prescribing costs.
29. Prescribing costs for February and March 2016 were under-accrued by £39,412. Prescribing information is received from the Practitioners Services Division two months in arrears so an estimated cost is accrued at the year end. The actual prescribing costs were £39,412 more than the accrued amount.
30. It is our responsibility to request that all errors be corrected, although the final decision on this matter rests with those charged with governance taking into account advice from officers and materiality. Management do not propose to adjust

as these amounts are not material to the financial statements; we agree that these are immaterial amounts.

31. The audit also identified some presentational and monetary adjustments which were discussed and agreed with management. There was one significant monetary adjustment which increased total liabilities by £624,000 and equity by the same amount. This was an isolated error as a result of a mis-posting of the year-end bank balance. The adjustment had no impact on net assets, nor, on the Statement of Comprehensive Net Expenditure.

## Significant findings from the audit

32. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
  - Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - Written representations requested by the auditor.

- Other matters which in the auditor's professional judgment are significant to the oversight of the financial reporting process.
- 33. During the course of the audit we identified the following matters that, in our view, require to be communicated to you, as those charged with governance in accordance with ISA 260.
  - **Impairment of the existing Balfour Hospital in Kirkwall:** NHS Orkney estimates the completion of the new hospital and healthcare facility project will take seven months longer than originally planned. The expected completion date is now March 2019. The delay was caused by extra work required to resolve issues relating to the financing of the new project as a result of the European Systems of Accounts 2010 (ESA10) ruling which changed how public procurement projects are to be recorded on the public balance sheet. The existing Balfour Hospital, along with the land and an associated health centre, were impaired in 2014/15 from a net book value of almost £10.4 million to approximately £2.1 million.
  - This remaining value was to be depreciated over the rest of the estimated useful life (effectively the time for the new hospital to be built). Due to the delay, the depreciation period is extended by seven months. As a result, this now means that the original impairment charged in 2014/15 was approximately £276,000 too high. The correct

- accounting treatment would be to reverse this by increasing the net book value of the asset.
- Management decided to extend the life of the existing asset in line with the new project timeline. They have included additional disclosures within the accounts to explain the extension of the asset life and the effect of the 2014/15 impairment. They do not propose adjusting the net book value of the asset as the precise impact on the revaluation reserve is difficult to determine as it would depend on how much each asset was held in the reserve initially. The amount is also not material to the financial statements.
  - Extra work required on resolving the contract financing structure resulted in additional staff costs and consultancy fees of around £300,000. The Scottish Government provided an additional £125,000 in capital resource to help manage these costs.
  - **Off-island payments:** Costs of approximately £117,000 were incurred by the board in relation to former Orkney residents receiving long-term care off-island. The underlying cases are complex and have been ongoing for a number of years. In previous years, the board established a provision where it hoped that its costs can be re-charged to the relevant local authority once responsibility for funding these cases is agreed. One longstanding case was resolved in 2015/16 which reduced the balance of the provision by £279,000 to reflect amounts unlikely to be re-imbursed.
  - We have agreed the accounting treatment on the basis of evidence obtained and this is consistent with previous years. Given the longevity of this issue, we recommend that the board seeks to resolve the outstanding cases during 2016/17. **Action point 1.**

## Future accounting and auditing developments

### Health and Social Care Integration

34. From 1 April 2016 IJBs will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom. The Accounts Commission have appointed auditors to audit the financial statements of IJBs.
35. As stated at paragraph 17, Orkney Islands Integrated Joint Board (also known as Orkney Health and Care), was not operational during 2015/16. The Board did not reflect the financial results of the IJB in its group accounts on the basis of materiality. From 1 April 2016, Orkney IJB became fully operational and their financial results should be reflected in the Board's group accounts for 2016/17.

36. NHS Orkney and Orkney IJB have different reporting requirements. NHS Orkney is required to submit its audited accounts by 30 June each year, whereas, Orkney IJB does not have to submit its audited accounts until 30 September each year. The Board will have to ensure that procedures are in place for Orkney IJB to provide both financial and non-financial information by a mutually agreed date to allow the Board to meet its statutory reporting obligations. In addition, the board will need to consider what assurances are required from the IJB for its Governance Statement. **Action point 2.**

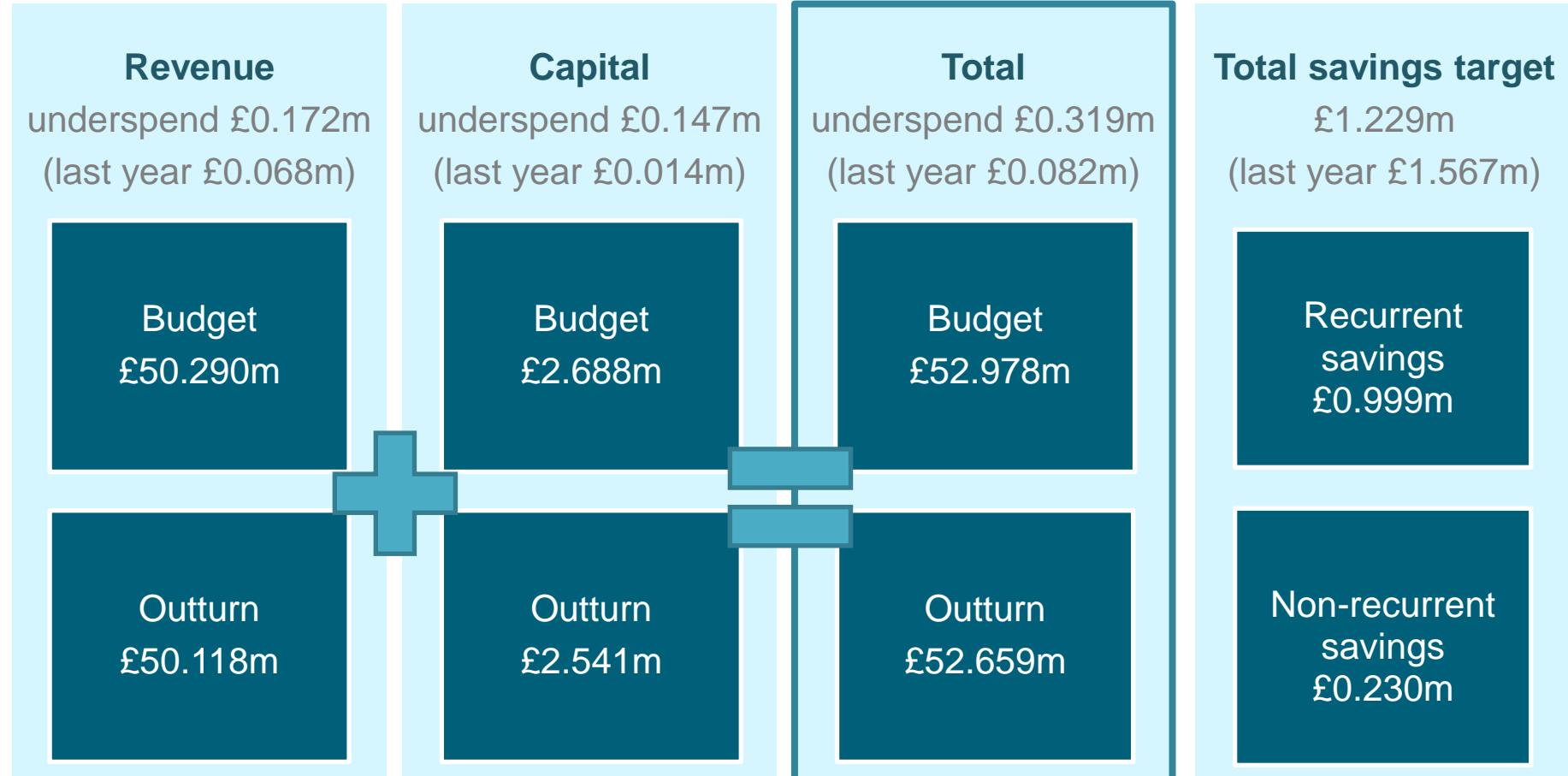
#### Audit appointment 2016/17 to 2020/21

37. The Auditor General for Scotland is responsible for the appointment of external auditors to Scottish health bodies. External auditors are appointed for a five-year term either from Audit Scotland or private firms of accountants. The financial year, 2015/16, is the last year of the current audit appointment round.
38. The procurement process for the new five-year audit appointments was completed in March 2016. Audit Scotland will continue as the appointed auditor for NHS Orkney for the

next five years, commencing in 2016/17, although a new audit team will be in place in line with our rotation policy.

39. We would like to thank board members, Audit Committee members, executive directors and other staff, particularly those in the finance team for their co-operation and assistance over the last five years.

# Financial management and sustainability



## Financial management

40. The Board, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government. The Revenue Resource Limit (RRL) is the budget for revenue expenditure and consists of core and non-core elements. The Capital Resource Limit (CRL) is the budget for capital expenditure. Both funding streams are agreed annually with the Scottish Government.

### Financial performance 2015/16

41. The Board's final RRL (£50.290 million) and CRL (£2.688 million) were agreed with the Scottish Government on 27 April 2016.
42. As illustrated in Table 1, the board achieved its two primary financial targets for 2015/16. This year the board's finances were much healthier compared to the prior year. This was in part due to the receipt of additional funding of £4.5 million known as an NRAC uplift, from the Scottish Government. The board also received additional allocations to cover drug pressures, delayed pressures and integration expenses totalling £1.029 million.
43. In 2015/16, the additional NRAC funding was used in part by the board to repay £3 million of brokerage received from the Scottish Government in previous years. Brokerage is additional loan funding used to help boards manage unexpected changes in planned expenditure. The remaining brokerage balance of £1.062 million is due for repayment in 2016/17. The additional funds received this

year also allowed the board to increase their drugs budget by over £0.9 million.

44. In 2015/16, gross capital expenditure was £2.653 million. Capital receipts were £0.112 million giving a net capital spend of £2.541 million. This represented an underspend of £0.147 million against its CRL largely due to medical equipment ordered but not received by 31 March 2016.

**Table 1: Summary of financial performance**

Performance against budget limits	Limit (£m)	Actual (£m)	U/spend (£m)	2014/15 u/spend (£m)
Core revenue resource	49.264	49.103	0.161	0.068
Non-core revenue resource	1.026	1.015	0.011	0.001
Core capital resource	2.688	2.541	0.147	0.014

*Source: NHS Orkney Annual Report and Accounts 2014/15 and 2015/16*

### Efficiency savings

45. The original Local Delivery Plan (LDP) savings target for 2015/16 was £0.950 million. This increased by £0.279 million to £1.229 million (£0.949 million recurring and £0.280 million non-recurring); to finance additional cost pressures identified in the quarter 1 review of the Board's financial plan. The Board fully met this savings target with £0.999 million (81 per cent) achieved on a recurring basis and

£0.230 million (19 per cent) on a non-recurring basis. It is encouraging that recurring savings are higher than non-recurring savings, compared to the last three years, as recurring savings will also have a positive impact on future years.

## Financial management arrangements

46. As auditors, we need to consider whether health bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the Director of Finance has sufficient status to be able to deliver good financial management
- standing financial instructions and standing orders are comprehensive, current and promoted within the Board
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.

47. In October 2015, the board carried out a comprehensive review of its scheme of delegated authority. This was to clarify lines of authority and update names of staff to reflect the current structure. It also carried out a substantive review of its Standing Financial Instructions (SFI) to reflect recent changes to legislation, guidance and standards especially around procurement. The updated SFI and scheme of delegation should provide the board with a clear, current

and a robust financial framework to help safeguards its assets and serve as a deterrent against any fraud or irregularities.

48. Financial monitoring reports (both revenue and capital) are submitted to all meetings of the Finance and Performance Committee (F&PC) and the Board. The F&PC has responsibility for carrying out detailed scrutiny of the Board's financial and operational performance and ensuring that prompt, corrective actions are taken where appropriate.
49. The financial monitoring reports are comprehensive and contain detailed information on budgets, cost pressures, progress against savings targets and actions being taken to mitigate risks. Budget holders are also more involved in the financial planning process and felt able to sign off their base budgets.
50. In their Annual Report for 2015/16, Internal Audit highlighted several areas where NHS Orkney's financial planning processes required improvement. In particular, they found that budget holders do not take ownership of their budgets and are not aware of the financial position of the organisation and their role in managing their budgets effectively. Internal audit also reported this finding as part of their 2014 Budget Review. In March 2016, a follow-up report found that the board had made good progress in addressing these issues and plans were in place to further mitigate the risks.

## Financial sustainability

51. Financial sustainability is concerned with whether the Board has the capacity to meet the current and future healthcare needs of the

communities it serves. In assessing financial sustainability we are concerned with the Board's financial performance, financial planning and its use of resources principally asset management and workforce management.

## Financial planning

52. The Board's Local Delivery Plan (LDP) for 2016/17 to 2020/21 aligns strategic priorities with financial plans, workforce plans and service plans. The five-year financial plan is a key component of the LDP which sets out how the Board plans to achieve financial balance over the five-year period.
53. The five-year financial plan forecasts a recurring surplus position in four out of five years. The plan also recognises the significant cost pressures facing the board including staff pay costs and the cost of using medical locums as well as funding pressures over the five year period of the plan. The basic funding uplift for 2016/17 is 1.7 per cent, of which, the majority is to cover the integration fund, new drugs and delayed discharges. In each subsequent year the funding uplift is assumed to be a flat rate of 1.8 per cent.
54. Savings will continue to play a significant part in maintaining financial balance over the five-year period. The Financial Plan for 2016/17 includes efficiency savings totalling £2.187 million. This includes £1.587 million of recurring savings and £0.6 million non-recurring savings. This takes into account potential overspends in medical staffing costs, IJB commissioned services, off-island treatments and services provided by other NHS boards using Service Level Agreements.

55. The Board has a good track record in achieving its efficiency savings targets and management are confident that the required level of savings will be made. However, there remains a risk that the Board may not achieve its savings targets in future years as the realisation of savings will become more challenging with many of the 'easier' savings already achieved. The current year, 2016/17, will be particularly challenging as the target of £2.187 million is 78 per cent higher than in 2015/16 (£1.229m).

## Asset management

56. The board regularly reviews and updates its Property Asset Management Strategy. The latest Strategy covers the period 2015 to 2020. Ensuring effective management of its assets is particularly important as the board expects to award the contract for the construction of the new hospital during 2016. This will help ensure that work planned over the next few years takes into account the transfer to the new hospital in 2018/19 and help avoid wastage.
57. Around 11 per cent of property assets are assessed to be in an unsatisfactory or unacceptable condition. In June 2016, an update to the Board showed total backlog maintenance reduced from £9.4 million to £8 million, of which, £7 million relates to the existing Balfour Hospital.

## Workforce planning and management

58. Workforce planning is the process that organisations use to make sure they have the right people with the right skills in the right place

- at the right time. The availability and suitability of staff are important factors in the Board's capacity to provide safe patient care.
59. Our 2013 report, [\*Scotland's public sector workforce\*](#), recommended that public bodies should develop an organisation-wide workforce plan. This helps bodies plan strategically and ensures that workforce changes in one area do not have unintended effects on other areas. NHS Orkney needs to develop an up-to-date workforce strategy and plan that is underpinned by detailed service workforce plans. The most recent strategy and plan covered only up to 2014/15. Current workforce activities continue to form an important part of the business planning process and the board is required to identify significant workforce issues as part of their LDP submissions to the Scottish Government. **Action point 3.**
60. In revising its strategy and plan, the board will need to consider a number of workforce issues and risks including:
- **Age profile of staff** - NHS Orkney has an ageing workforce across all staff groups. For example, the medical workforce profile showed a significant number of medical and dental staff would be retiring over the next few years.
  - **Recruiting and retaining** - recruiting and retaining staff remains a significant problem for many boards including NHS Orkney. Reasons for difficulties in recruiting and retaining staff include the board's rural location, competition between boards for specialist staff and a greater demand from staff for more flexible working patterns. Vacant posts have contributed to overspends in hospital medical staffing budgets with surgical, anaesthetics, obstetrics and non-consultant general medical teams all experiencing overspends.
- **Use of temporary staff** - NHS boards hire temporary staff to help keep services running and meet performance targets and standards but this approach is increasingly expensive and provides only a short-term solution. Overall, spending on bank and agency staff, locums and overtime payments in 2015/16 was £3.007 million compared to £2.273 million in 2014/15. Overall medical staff costs have remain consistent with previous years. The board achieved this by tightening controls in a number of areas including authorising spend, challenging the rates of agency staff and better management of rotas and leave requests.
  - **Sickness absence** - The board continues to report a sickness absence rate which is lower than the national average. In 2015/16, NHS Orkney's sickness absence rate was 5.09 per cent, slightly lower than the NHS Scotland average of 5.13 per cent but higher than the board's rate of 3.81 per cent in 2014/15, mainly due to long-term sickness. The board considers its sickness absence rate as a key indicator in assessing the general safety and wellbeing of its staff. The board often seeks to deploy staff in different roles to help manage returns to work.
  - **Staff wellbeing** – All members of staff across NHS Scotland were invited to participate in the 2015 Staff Survey. A total of 308 (53 per cent) NHS Orkney staff responded, one per cent higher than 2014 and 15 per cent higher than the national

response rate. Although a slight increase from previous surveys, it is concerning that only 54 per cent of staff stated they believe it is safe to speak up and challenge if they have concerns about quality, negligence or wrongdoing. In 2015, the Board approved the first Health and Wellbeing Strategy. It also updated its Communication and Engagement Strategy '*Let's Talk*' covering the period 2015 - 2018. The strategy recognises that both the national staff Survey and i-Matter (local staff survey) data suggested the board does not involve staff enough in decisions across the organisation and while staff are encouraged to speak out, the organisation is not necessarily listening or responding properly. The board should develop an action plan and performance measures with regular reporting of progress to the appropriate committee to ensure the objectives of its communication strategy are delivered effectively within agreed timescales. **Action point 4.**

- **Knowledge and skills** – NHS Orkney's completion level for electronic Knowledge and Skills Framework (eKSF) staff appraisals was 46 per cent. This is significantly below its target of 80 per cent which is also the level expected by the Scottish Government. Staff appraisal provides an excellent opportunity to identify staff development and training needs as well as acknowledging staff contributions. The board has considerable work to do in this area in order for it to achieve one of its corporate objectives of valuing and developing its people.
61. In addition, the board should consider undertaking scenario planning when developing a workforce strategy and plan. This can

help identify the potential impact on workforce plans of changes in available finances, skills required or demand for services. The board is undergoing significant service re-designs such as moving to the new hospital; changing models of care to reduce locum and agency spend, and the repatriation of services. Together, these make it crucial for the board to plan its workforce effectively to ensure the sustainability and successful delivery of services.

### New hospital and healthcare facilities project

62. NHS Orkney is currently undertaking a major project to develop a new Rural General Hospital and associated healthcare facilities in Kirkwall. The estimated capital value of the project is £67.5 million and will be delivered using the non-profit distribution funding method.
63. In January 2016, the board met with officers from the Scottish Futures Trust (SFT) and Scottish Government to discuss changes to the commercial terms of the project as a result of the European Systems of Accounts 2010 - ESA 10 ruling. The ruling changed how public procurement projects are to be recorded on the public balance sheet. The board agreed to continue using the NPD method using a capital contribution to replace senior debt. This was deemed to provide best value in terms of balancing procurement, clinical and commercial risks, value for money and the timescales for delivering the project. The need to amend the funding structure created by the ruling caused the project to be delayed by seven months. The handover date is now March 2019.

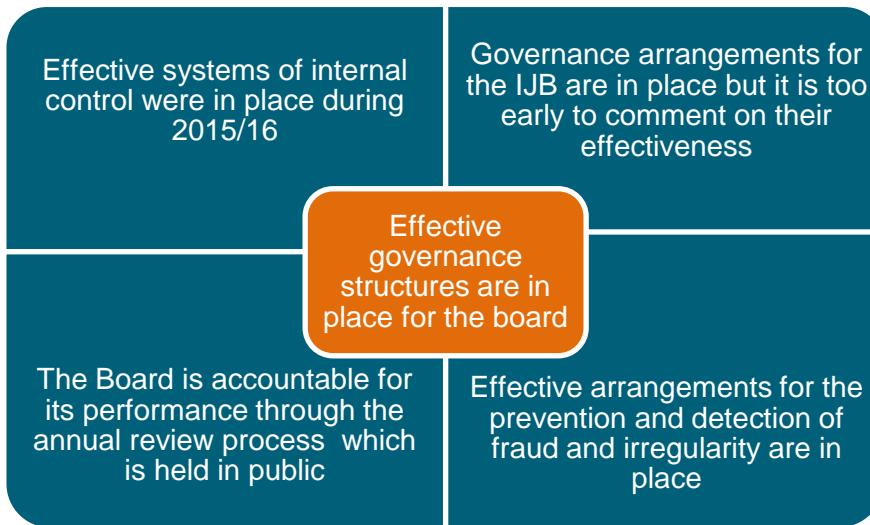
64. The PIB had identified areas requiring clarification including financial affordability such as the structure and timing of advance unitary payments and wider value for money considerations. The project aims to select a preferred bidder so that it can reach financial close by the end of September 2016. The board are working closely with the Scottish Government and SFT who are providing guidance and support. During 2015/16, the board's internal auditors reviewed the initial project management arrangements for the new hospital and healthcare facility and concluded that NHS Orkney has robust controls in place for managing the new hospital and healthcare facility project and these are operating effectively.
65. This is the largest construction project ever undertaken by NHS Orkney. The size and scale of the project means it has significant financial, clinical and reputation risks. It is therefore crucial that project management arrangements evolve during the course of the project, and are robust throughout, to ensure it is successfully delivered on time, within budget and to the quality expected. **Action point 5.**

Given the Board's own assessment of the risks it faces in delivering the five-year financial plan, financial sustainability under the current funding assumptions, will be even more challenging than in previous years.

## Conclusion on financial management and sustainability

66. We conclude that the board has improved financial management arrangements that support the review and scrutiny of financial information and the achievement of financial targets.
67. The Board's financial planning and monitoring arrangements are sound and it has a track record of delivering efficiency savings.

# Governance and transparency



68. The Board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHS Orkney and for monitoring the adequacy of these arrangements.
69. NHS Orkney is managed by a Board of Executive and Non-Executive Directors. The board's Chair and Non-Executive Directors are appointed by the Cabinet Secretary for Health and Wellbeing. In December 2015, Ian Kinniburgh, was appointed as the new Chair of the NHS Orkney board. Mr Kinniburgh also holds the same position at NHS Shetland. This provides a good opportunity for both boards

to compare and contrast services and performance as well as sharing good practice.

70. The Board is responsible for the strategic leadership and governance of NHS Orkney. It is supported in this role by a number of standing committees as illustrated below:



71. The standing committees meet on a regular basis throughout the year to consider relevant matters. We concluded that the Board has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

72. The board has shown commitment to improving its risk management arrangements across the organisation to identify and manage threats to its delivery of corporate objectives. For example, in October 2015, the board reviewed its risk management processes. This was to ensure the effective and consistent application of its risk management policy approved by the board in April 2015. This exercise reassessed high-to-very high risks and included a review of their financial consequences to make them more realistic. It also enhanced elements of the risk management policy such as improving the description of risks and the process of escalation to different levels within the organisation.

## Internal control

73. We reviewed controls in a number of systems that are important to the preparation of the financial statements, such as payroll, accounts payable and Family Health Services. Our objective was to gain assurance that the board has systems of recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests.
74. We consider the systems of internal control to be effective. No significant internal control weaknesses were identified during the audit which could affect the Board's ability to record, process, summarise and report financial and other relevant data that would result in a material misstatement in the financial statements.

75. A few minor weaknesses were identified during our audit. These related to employees' expense claims and include controls around the storage and retention of receipts; signing of claim forms by employees; and updating and reminding staff of the board's expenses policy. We are pleased that the board has agreed to strengthen arrangements in these areas.

## Internal audit

76. Internal audit provides the Board and Accountable Officer with independent assurance on the Board's overall risk management, internal control and corporate governance processes. The internal audit function is carried out by Scott-Moncrieff. We carried out a review of the adequacy of the internal audit function and have concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
77. The Internal Audit plan for 2015/16 was complete. We did not place any formal reliance on internal audit reviews this year for the purpose of obtaining direct assurances for our financial statements audit, but we did consider the findings from their 2015/16 reports as part of our wider governance audit work.
78. At the board's request, internal audit carried out a review of the new model for the delivery of dental services in Orkney. As reported in the Governance Statement, the review found that the new model had not progressed as well as anticipated. The review highlighted some governance issues including:

- lack of process to identify if a project is a major project and when project management tools should apply.
  - lack of clarity on ownership and reporting lines and process for escalation of issues.
  - lack of clarity on delegation limits.
  - inadequate audit trail due to poor quality of recording of minutes
  - effectiveness of board members in their scrutiny function.
79. An Action Plan to address the issues identified above was agreed by the Audit Committee in October 2015 with progress reported at future meetings of the Committee and the Board.

## ICT risks

80. In 2013/14, Internal Audit reviewed the Business Continuity Planning arrangements at the board. One of the recommendations was for the board to document comprehensive disaster recovery plans for all aspects of the IT environment and IT services. The board identified premises which are currently being installed with disaster recovery ICT equipment. The original implementation date of 30 April 2015 was moved to 31 August 2016.
81. In September 2015, the board refreshed its e-health strategy, covering the period 2015-17, to align it with the national e-health strategy published in March 2015. The strategy emphasises the need to review the staffing within the IT department if the board is to successfully implement its e-health strategy. The successful delivery

of the strategy, while planning for the move to the new hospital, requires careful planning, consultation and prioritising in terms of resources and clinical considerations.

82. The board is facing some significant ICT issues which are proving challenging to resolve. The board's corporate risk register includes three 'very high' and one 'high' ICT related risks, all of which could threaten business continuity arrangements. It is important that the board continues to work to reduce or eradicate these risks at the same time as delivering its e-health strategy. **Action point 6.**

## Arrangements for the prevention and detection of fraud and other irregularities

83. We assessed the Board's arrangements for the prevention and detection of fraud during the planning phase of our audit. Our review covered a number of areas such as whistleblowing. The Board also works closely with Counter Fraud Services to raise awareness and provide training on fraud prevention and detection.
84. We concluded that the Board is proactive in promoting fraud awareness and had effective arrangements in place for fraud detection and prevention during 2015/16.

## National Fraud Initiative in Scotland

85. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by

- different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.
86. The current NFI exercise with NHS Orkney identified 222 matches, of which 32 were recommended for investigation. The board promptly completed these investigations, including a further 36 matches, and did not detect any fraud or errors. This is a good indicator that financial controls are operating effectively within the board. In March 2016, the Head of Finance reported the results and conclusion of the NFI exercise to the Audit Committee. We are satisfied that the board actively engages with the NFI process and that staff time devoted to NFI is considered proportionate to the number and nature of matches and the size of the board.
- ## Arrangements for maintaining standards of conduct and the prevention and detection of corruption
87. The Board has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for staff and members. There are established procedures for preventing and detecting corruption including annual reviews of Standing Financial Instructions and Standing Orders.
88. Based on our review of the evidence we concluded that the Board has effective arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues to report.
- ## Transparency
89. The public should be able to hold the Board to account for the services it provides. Transparency means that the public, in particular, local residents, have access to understandable, relevant and timely information about how the board is taking decisions and how it is using its resources.
90. The performance of all NHS boards is subject to an annual review process. The annual review aims to encourage dialogue and accountability between local communities and health boards. NHS Orkney's annual review took place on 23 September 2015 and was attended by the Chief Executive, the Board Chair and a Scottish Government official. There was an open session where members of the public could ask questions of the Chief Executive and the Board.
91. Members of the public can also attend meetings of the Board and have access to papers on the Board's website. Registers of interest for Board members and GPs (who operate as contractors for the Board) are also available on the website.
92. The board's committee meetings are currently held in private. A report from each committee chair and meeting minutes are publicly available as part of Board meeting papers.
93. During 2015/16, NHS Orkney processed 96 per cent of 486 Freedom of Information (FOI) requests within the statutory 20-day timescale. This is an improvement on 2014/15 where 85 per cent of 495 requests were processed within the statutory time limit. We

- have no significant concerns about the procedures followed by the board in processing FOI requests.
94. A recent analysis by the board of complaints received revealed that a common issue is communication with patients. The analysis indicated that the board needs to listen better to its patients and keep them informed of the progress with their diagnosis and treatment. The board acknowledged that what may be routine for clinicians can be a major upheaval for the patients and their families and that clinicians should be reminded to be more person-centred in their approach. The board agreed that findings would be progressed through the Senior Clinical Forum and Senior Management Team. Overall we concluded that the Board is open and transparent although we believe that there are some areas where the Board could make improvements to the current arrangements.
- ## Health and social care integration
95. The Public Bodies (Joint Working) (Scotland) Act 2014 sets out an ambitious programme of reform affecting most health and social care services. The scale, pace and complexity of changes anticipated are significant, with a focus on changing how people with health and social care needs are supported.
96. The Act creates new partnerships, known as integration authorities, with statutory responsibilities to coordinate local health and social care services. The delegation of functions from NHS Orkney and Orkney Islands Council to the new Orkney Integrated Joint Board were effect from 1 April 2016.
97. In October 2015, a Scheme of Integration was developed and approved by Scottish Ministers. This sets out the framework for how the Board will work with Orkney Islands Council in establishing the IJB. The Act also places a duty on IJBs to develop a strategic commissioning plan for the integrated functions and budgets that they control. In March 2016, Orkney IJB approved its plan (endorsed by both the health board and council) which sets out how they will plan and deliver services over the medium term. It also provides a high-level outline of how they plan to use their integrated budget (£33 million in 2016/17), over the period 2016/17 to 2018/19, formed of funding from NHS Orkney, Orkney Islands Council and the Scottish Government.
98. New governance arrangements for the IJB have been established including the development of a performance framework, financial regulations and risk management strategy. NHS Orkney has worked well with its partners, Orkney Islands Council and the IJB to ensure these early milestones were delivered. It remains too early to comment on the effectiveness of these arrangements. However, it is clear that all partners will need to ensure that constructive working relationships exist to ensure that any cultural or organisational differences do not adversely impact on the successful delivery of health and social care services in Orkney.
99. In December 2015, we published our first in a series of reports on *Health and Social Care Integration*. The report identified a range of risks for partners, including difficulties in agreeing budgets, uncertainty about longer-term funding, complex governance arrangements and workforce planning issues. The report's recommendations included the

need for partners to set out clearly how governance arrangements will work in practice, what resources are needed and develop financial plans that clearly show how resources will be used to provide more community-based and preventative services.

## 2020 Vision

- 100.** In 2011, the Scottish Government set out an ambitious vision for health and social care that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. In October 2015, we published our annual NHS overview report, [\*NHS in Scotland 2015\*](#), which found that the Scottish Government had not made sufficient progress towards achieving this 2020 vision and an increase in the pace of change was required. In doing so, Scottish Government and NHS boards need to ensure changes are underpinned by good long-term financial and workforce planning and consider the implications for performance standards and the NHS estate.
- 101.** In August 2015, the Cabinet Secretary for Health, Wellbeing and Sport opened a national conversation on creating a healthier Scotland and the future of health and social care. It is envisaged that the national conversation will be used to influence a programme of work to increase the pace of progress towards the 2020 vision and any necessary changes over the next 10 to 15 years. This is a clear signal from the Scottish Government that it intends to promote faster progress through NHS boards.

## Vale of Leven and Morecambe Bay reports

- 102.** Following the publication of the Vale of Leven report, the board emphasised the importance of enhancing its infection prevention and control arrangements. In April 2016, the Director of Nursing presented an annual report to the board prepared by the Infection Prevention and Control team. The report gave a comprehensive account of infection prevention and control activities highlighting areas of development, success, challenge and improvements including results of the most recent unannounced Healthcare Environment Inspectorate inspection in September 2015.
- 103.** Throughout the year, bi-monthly reports on key Healthcare Associated Infection (HAI) performance indicators were presented to the Quality and Improvement Committee and the board for review, scrutiny and assurance. The board continues to place infection control and prevention high on its agenda and there is ample evidence of this throughout NHS Orkney.
- 104.** In March 2015, an independent investigation into the management, delivery and outcomes of care provided by the maternity and neonatal services at Morecambe Bay NHS Foundation Trust was published. The board received a visit from the local supervising officer for midwifery, completing self assessment audit in relation to the Morecambe Bay report. The officer will attend the Quality and Improvement Committee in July 2016 to present the findings.

# Best Value



105. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

## Arrangements for securing Best Value

106. Best Value (BV) arrangements are part of business as usual within the Board. They are embedded in its planning processes, governance arrangements and its performance management and quality improvement frameworks.

107. Papers submitted to the Board and each committee, including the Audit Committee are required to include the impact on BV, aligned to BV characteristics. We reviewed evidence underpinning the Board's BV arrangements including the LDP, performance management and reporting, and committee papers. Overall, we concluded that the Board has well-developed arrangements for securing BV and continuous improvement.

## Shared services

108. The financial challenges facing the health service in Scotland are well documented. The speed at which substantial changes are needed within the NHS means that greater sharing of services between boards is vital if the Scottish Government is to achieve the overall ambitions of the 2020 vision and beyond. In 2015, the Scottish Government established a transformational programme board including senior representatives from NHS boards to try provide greater coordination across boards and various healthcare programme and initiatives.

109. NHS Orkney identified opportunities to reduce patient travel and improve patient experience by exploring new models of care which can be delivered locally. In March 2016, it reported that 900 patient journeys were avoided delivering £0.3 million of savings, including savings on the costs of escort travel. The report highlighted that 771 of 900 journeys saved (86 per cent) arose as a result of installing a CT scanner in Balfour Hospital last year. The board continues to look for opportunities where services can be provided locally by

NHS Orkney's own clinicians and discussions are held with other NHS boards to provide specialist support if required.

110. The board is exploring new ways of providing healthcare to try and achieve greater efficiency and sustainability of clinical services to its outer isles. For example, during 2015, it merged its Hoy, Sanday, Stronsay and Westray practices into one (Orcades Practice). This Isles Network of Care (INOC) model allows the board to streamline their management structure, increase flexibility and also generate savings as one combined practice will have lower running costs.

## Performance management

111. NHS Orkney's performance is monitored by the Scottish Government against a number of Local Delivery Plan Standards which support the delivery of the Scottish Government's national performance framework. These targets are set out in the Board's Local Delivery Plan (LDP).
112. In our 2014/15 Annual Audit Report, we highlighted the need for more frequent reporting of the board's performance against Local Delivery Plan standards to give members ample opportunity to scrutinise performance and take corrective action timeously. In May 2015, the board agreed that performance management arrangements should be discussed in public to support the Board's commitment to openness and transparency and that a new performance template be developed.
113. Performance is now reported to the board whose meetings are held in public. This provides greater transparency and accountability. A

traffic light system is used which indicates if performance is on or exceeding target (Green), within five per cent of target (Amber) or greater than five per cent below target (Red). The direction of travel is also shown, to show if performance has improved, maintained or deteriorated when compared to same period in previous year.

114. The new style of reporting is an improvement from previous reports. It provides clarity on where the board is performing well and where improvement is required and links to the 2020 Vision ambitions. In addition to meetings of the Board and Finance and Performance Committee, the board's overall performance is discussed at the Annual Review meeting held between the Scottish Government and the Board, at which the public can attend and ask questions.

## Overview of service performance in 2015/16

115. Similar to 2014/15, NHS Orkney reported a mixed performance against Local Delivery Plan standards during 2015/16. The most recent data available shows that the Board performed well in key performance standards such as Accident and Emergency and the 18-week referral to treatment standards. For the treatment time guarantee (TTG), performance is just behind the target set. At March 2016, the performance for referral to outpatient appointments and cancer referral to first treatment missed their respective targets. The board reported that they were liaising with NHS Borders to help address the outpatient backlog, whereas the cancer referral to first treatment standard performance is attributable to low numbers of patients.

**Table 2: Performance against key LDP standards**

<b>Target/standard</b>		<b>Performance at March 2016*</b>
Referral to outpatient appointment	100 %	86.7 % <span style="color:red;">●</span>
Inpatient/Day case Treatment Time Guarantee	100 %	98.6 % <span style="color:yellow;">●</span>
18-week referral to treatment	90 %	93.1 % <span style="color:green;">●</span>
A&E	98 %	98.7 % <span style="color:green;">●</span>
Cancer - referral to first treatment - 62 days	95 %	33 % <span style="color:red;">●</span>
Cancer – decision to treat to first treatment – 31 days	100 %	100 % <span style="color:green;">●</span>
Child and adolescent mental health services (CAHMS) – 18 weeks	90 %	100 % <span style="color:green;">●</span>
Drug and alcohol treatment – 3 weeks	90 %	93.3 %** <span style="color:green;">●</span>

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

\*\*December 2015 figure as March 2016 figure unavailable.

## National performance audit reports

- 116. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, we published a number of reports which are of direct interest to the Board. These are outlined in [appendix III](#) accompanying this report.
- 117. It is important that the Board considers the key messages and recommendations within each of these reports. Where appropriate, the board should undertake action to make improvements in the areas highlighted in each report. At the Audit Committee in March 2016, we recommended that the Board should keep a log of all applicable national performance audit report recommendations and include locally agreed actions. The Board has subsequently added these to their current register of audit recommendations. This should provide a comprehensive log of progress made against issues raised in both internal and external audit reports.
- 118. In addition to reports published in 2015/16, the Board may also wish to consider our good practice checklist in managing major projects. This will be directly relevant to the board in its delivery of the new hospital and healthcare facilities project. The guidance, aimed at project managers, can be obtained from Audit Scotland's [website](#).

# Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement in the financial statements</b>		
<p><b>Financial position</b></p> <p>In common with other health boards, NHS Orkney has a statutory requirement to break-even. The Board benefitted from significant additional funding for this year mainly due to NRAC parity funding. However, reported results for the first half of the year are a year to date overspend of £0.243 million, due in the main to higher than budgeted locum spend. Notwithstanding the year to date overspend position, the Board forecasts that it will achieve an underspend of £0.185 million at year end. There is a risk of this not being achieved if the Board is unable to control locum spend and achieve the required savings for the remainder of the year.</p>	<ul style="list-style-type: none"> <li>• We reviewed the financial performance reports presented to the Finance and Performance Committee and the board throughout the year.</li> <li>• We audited the financial statements of the board for 2015/16 to ensure they give a true and fair view of the financial affairs of the board and of its net operating costs.</li> <li>• We reviewed the funding allocation letters from the Scottish Government to ensure they agree with the RRL and CRL reported by the board.</li> <li>• We reviewed the agency and locum spend report referred to above.</li> </ul>	<p>The Board achieved its statutory break even targets, with underspends of £172,000 against its Revenue Resource Limit and £147,000 against its Capital Resource Limit.</p> <p>We concluded from the performance of our year end procedures that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and that expenditure was valid and correctly classified between revenue and capital.</p>

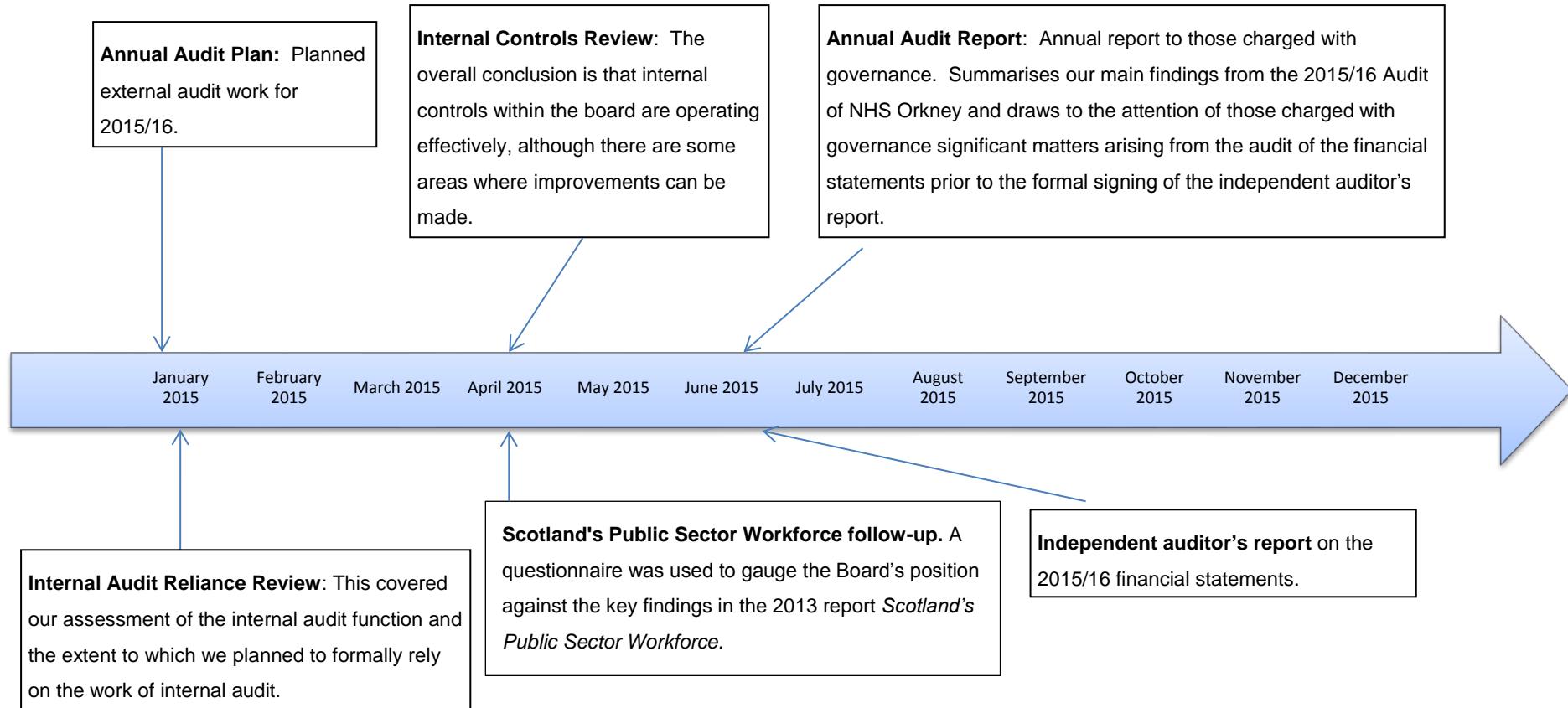
Audit Risk	Assurance procedure	Results and conclusions
<b>Management override of controls</b> <p>As stated in International Standard on Auditing 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Reviewed the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements.</li> <li>• Reviewed accounting estimates for biases.</li> <li>• Evaluated significant transactions that are outside the normal course of business.</li> <li>• Focussed testing of the regularity and cut-off assertions during the financial statements audit.</li> </ul>	<p>Our audit testing found that journal entries, accounting estimates, judgements and significant transactions, which we reviewed, were appropriate.</p>
<b>Government Financial Reporting Manual (FReM) changes</b> <p>The 2015/16 FReM has extensive changes to the requirements of what is reported in the Annual Report section of the Annual Report and Accounts. The Board needs to ensure it captures the information required in order to comply with the new requirements. The report should be written in plain language to make it more understandable and user-friendly to a wide range of readers.</p>	<ul style="list-style-type: none"> <li>• Reviewed the information included in the annual report section of the Annual Report and Accounts against the new FReM disclosure requirements and if this is written in a clear and concise manner.</li> </ul>	<p>NHS Orkney's annual report reflects the new format required by FReM and guidance issued by the Scottish Government as part of the NHS Accounts Manual for 2015/16.</p> <p>We initially highlighted a number of omissions and inconsistencies with these requirements and these were subsequently addressed by management.</p> <p>Looking ahead, there are opportunities to improve the quality of the narrative section by focusing on results rather than process to provide a more balanced report for the public.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Health and social care integration</b></p> <p>The final integration scheme for the integrated joint board in Orkney was recently submitted to the Scottish Government and is awaiting approval. An assurance process is required to enable NHS Orkney and Orkney Islands Council to identify the resources to be delegated and the risks associated with the integration functions on which internal auditors are required to report to the respective audit committees. In addition, once the IJB is established, financial information is required to be reported in the health board's accounts.</p> <p>There are risks that the required financial assurance is not available prior to the transfer of functions to the IJB and that IJB financial information is not appropriately disclosed in the Board's 2015/16 accounts.</p>	<ul style="list-style-type: none"> <li>• We attended the Audit Committee meeting where the Internal Audit Report covering their review of the Integration Assurance: Due Diligence and Governance Arrangements (Interim Review) was presented and discussed.</li> <li>• We reviewed the disclosures included in the Annual Governance Statement to ensure they are consistent with our knowledge and understanding of the governance and financial arrangements.</li> </ul>	<p>Guidance has been issued on a process of financial assurance for health and social care integration. The assurance process should enable the board to identify the resources to be delegated and the risks associated with the integrated functions.</p> <p>The board are also taking forward recommendations in the Internal Audit report.</p> <p>The board identified budgets of £15.5 million and delegated these to the IJB for 2016/17. This is currently going through the financial assurance process which did not commence until the Chief Finance Officer started in post late March.</p>
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		

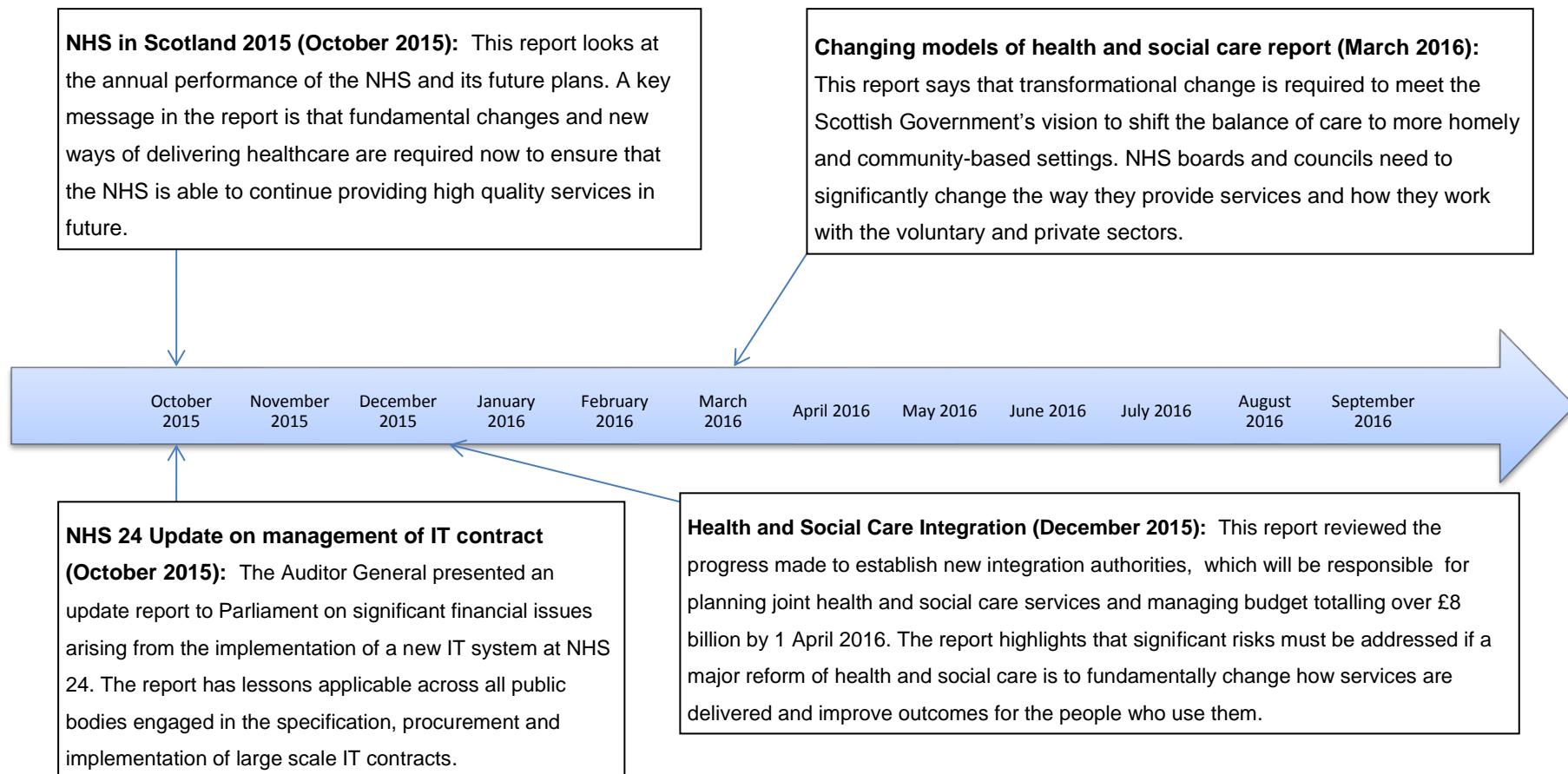
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Financial management</b></p> <p>The full budget review scheduled in 2014/15 was not completed due to a staffing issue. Ownership of budget holders of their own budgets is still an area for improvement and this has been attributed to lack of robust communication from their line managers and/or finance team. Controls developed over locum authorisation require to be applied consistently. Effective financial management is required to respond to continuing challenging financial pressures and deliver financial balance for the board.</p>	<ul style="list-style-type: none"> <li>• We reviewed the annual business planning arrangements for the production of the Local Delivery Plan and the accompanying Financial Plan for 2016-20.</li> <li>• We reviewed minutes of the Corporate Management Team, Finance and Performance Committee and the board discussing progress with the LDP process.</li> <li>• We reviewed the Internal Audit follow up report to assess progress with the outstanding recommendations from their budget review and financial planning arrangements within the board.</li> <li>• We reviewed the special report on Locum and agency medical staff expenditure presented to the Finance and Performance Committee in November 2015.</li> </ul>	<p>Internal Audit highlighted several areas where NHS Orkney's financial planning processes required improvement. In March 2016, a follow-up report found that the board had made good progress in addressing these issues and plans were in place to further mitigate the risks.</p> <p>During 2015/16, the board carried out a comprehensive review of its scheme of delegated authority and its Standing Financial Instructions to reflect recent changes to legislation, guidance and standards especially around procurement.</p> <p>Overall, the board has improved and strengthened its financial management arrangements. The board should continue to address the issues and risks highlighted by Internal Audit in their review of financial planning.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Finance team capacity</b></p> <p>There have been major changes to the finance team during the year. This resulted in the loss of detailed knowledge and experience, at a time when financial management arrangements require strengthening. The new officers will need time to get familiar with the Board's processes and procedures to be fully effective in their roles.</p>	<ul style="list-style-type: none"> <li>• Reviewed minutes of Finance and Performance Committee meetings</li> <li>• Discussed with key finance officers to identify any potential capacity issues and consider implications for our audit.</li> <li>• Reviewed Annual Accounts Timetable which went up to the Audit Committee for reasonableness of key deliverables and relevant timescale.</li> <li>• Reviewed Annual Accounts Year-end Procedures for adequacy of arrangements for the production of the draft accounts and supporting audit working papers.</li> </ul>	<p>We concluded from our interim and year end testing that key internal controls operated effectively throughout the year.</p> <p>We had regular discussions with Finance staff throughout the year regarding proposed accounting treatments and concluded from our year end procedures that accounting treatment was appropriate.</p> <p>A full set of working papers and the draft accounts were ready for us at the start of the financial statements audit on 9 May. The draft accounts and supporting papers were of a good standard.</p>
<p><b>New hospital and healthcare facility</b></p> <p>The contract for the project has not yet been awarded to a preferred bidder as the Board has yet to settle issues covering capital, operational costs, payment terms and energy implications before close of dialogue can be reached.</p>	<ul style="list-style-type: none"> <li>• Reviewed progress report on the new hospital and healthcare facility project provided to the board.</li> <li>• Reviewed minutes of the Programme Implementation Board.</li> <li>• Discussed progress with senior officers.</li> </ul>	<p>The contract has yet to be awarded. The board is currently in competitive dialogue with two bidders and plan to appoint the preferred bidder in June 2016.</p> <p>The project is subject to a seven month delay due to external factors affecting its financing arrangements.</p>

# Appendix II: Summary of local audit work 2015/16



# Appendix III: Summary of Audit Scotland national reports 2015/16



# Appendix IV: Action plan

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	33	<p><b>Off island payments:</b> Cases relating to former Orkney residents receiving long-term care off-island have been ongoing for a number of years. In previous years, the board established a provision where it hoped that its costs can be re-charged to the relevant local authority once responsibility for funding these cases is agreed. One longstanding case was resolved in 2015/16, reducing the provision balance by £279,000.</p> <p><b>Risk:</b> Without resolution the remaining cases in the near future, it will become more difficult for the board to reclaim costs.</p> <p><b>Recommendation:</b> Given the longevity of this issue, we recommend that the board seeks to resolve the outstanding cases during 2016/17.</p>	Significant progress has been made in year. We agree that this needs to be concluded during 2016/17 and have made a note of this in the accounts.	Director of Finance  End December 2016

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	34-36	<p><b>Integrated Joint Board financial assurance:</b> NHS Orkney and Orkney IJB are required to submit their audited accounts by 30 June and 30 September respectively. In future years, Orkney IJB will need to provide both financial and non-financial information by a mutually agreed date to allow the board to meet its earlier statutory reporting obligations. In addition, the board will need to consider what assurances are required from the IJB for its Governance Statement.</p> <p><b>Risk:</b> There is a risk that the board may fail to meet its statutory reporting requirements if appropriate information and assurances are not received from the IJB in time.</p> <p><b>Recommendation:</b> The board should ensure that procedures are in place for Orkney IJB to provide both financial and non-financial information by a mutually agreed date to allow the board to meet its statutory reporting obligations.</p>	<p>Agreed.</p> <p>We will request the IJB to provide us with a governance assurance report, as currently received from our own governance committees.</p>	<p>Director of Finance</p> <p>March 2017</p>

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3.	58-61	<p><b>Workforce strategy:</b> To meet strategic objectives, bodies need to plan and manage their workforces effectively. The board's most recent workforce strategy only covers up to 2014/15.</p> <p><b>Risk:</b> Without an up-to-date workforce strategy and plan, there is a risk that the board may not understand its future workforce requirements which may result in skills shortages, duplication and ineffective deployment of staff, and unnecessary use of expensive temporary staff.</p> <p><b>Recommendation:</b> The board should develop an up-to-date workforce strategy. This should include an assessment of the skills and staff required now and in the future and should be underpinned by detailed service workforce plans. The board should also consider undertaking scenario planning to identify the impact on the workforce of changes in available finances, skills required or demand for services. The strategy should clearly align to long-term financial plans.</p> <p>The board may wish to consider our <a href="#">good practice guidance</a> in developing their workforce strategy.</p>	Agreed. We have recognised the need to invest in this area of work through our management reorganisation and the creation of a Head of Organisational Development and Learning. The Head of OD&L is working to update workforce projections and over the summer will be working with the Head of Transforming Clinical Services to ensure workforce plans are aligned with service and improvement plans.	Head of OD&L Dec 2016

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
4.	60	<p><b>Staff wellbeing:</b> In 2015, the Board approved its first Health and Wellbeing Strategy and updated its Communication and Engagement Strategy. The strategy recognises that both the national staff survey and i-Matter data suggested the board does not involve staff enough in decisions across the organisation and while staff are encouraged to speak out, the organisation is not necessarily listening or responding properly.</p> <p><b>Risk:</b> There is a risk that problems affecting staff wellbeing or patient safety may go unnoticed or unreported unless staff feel supported to challenge behaviours.</p> <p><b>Recommendations:</b></p> <ol style="list-style-type: none"> <li>1. The board should seek to promote a more supportive environment for staff to be able to challenge behaviours where there is a risk to staff wellbeing or patient safety.</li> <li>2. The board should develop an action plan and performance measures with regular reporting of progress to the appropriate committee to ensure the objectives of its communication strategy are delivered effectively within agreed timescales</li> </ol>	Progress on these two strategies will be reported to the Staff Governance Committee in line with the work plan for the committee.	Head of OD&L n/a

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
5.	63-65	<p><b>New hospital and healthcare facility:</b> This is the largest construction project ever undertaken by NHS Orkney. It is therefore crucial that project management arrangements evolve during the course of the project, and are robust throughout, to ensure it is successfully delivered on time, within budget and to the quality expected</p> <p><b>Risk:</b> The size and scale of the project means it has significant financial, clinical and reputation risks.</p> <p><b>Recommendation:</b> The board should ensure it continues to closely monitor the progress of the project, particularly once the contract is awarded, to ensure it is delivered to time, cost and quality standards. It should continually review project governance arrangements and make changes where necessary as the project evolves.</p>	Agreed, and this review mechanism is in place. The internal audit on project management identified the scheme project management as good practice. Robust risk management is in place.	n/a

Appendix IV: Action plan

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
6.	80-82	<p><b>ICT:</b> ICT continues to play a significant role in the day-to-day running of the board, both in relation to patient care and administration. The board is facing some significant ICT issues which are proving challenging to resolve.</p> <p><b>Risk:</b> Failure to resolve these issues appropriately could threaten business continuity arrangements, which in turn, may impact adversely on patient care.</p> <p><b>Recommendation:</b> The board should work to reduce or eradicate these significant risks and raise greater awareness of ICT risks throughout the organisation.</p>	<p>Agreed, we have several red risks on the risk register, which are difficult to resolve due to lack of resources. The number is growing as we actively encourage prioritisation of ehealth work.</p> <p>Significant capital resources have been made available over the next four years.</p> <p>We have developed a business case to increase staffing numbers which was approved at the end of June.</p> <p>We aim to have eliminated all red ehealth/IT risks by end March 2017.</p>	<p>Director of Finance End March 2017</p>