



# Orkney Integration Joint Board

2015/16 Annual Audit  
Report for members of  
Orkney Integration Joint  
Board and the Controller  
of Audit

September 2016

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Stephen Boyle, Assistant Director, Audit Scotland is the engagement lead of Orkney Integration Joint Board for 2015/16.

This report has been prepared for the use of Orkney Integration Joint Board 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 the 2015/16 financial statements

- We have completed our audit of the Orkney Integration Joint Board and issued an unqualified independent auditor's report on the 2015/16 financial statements.
- The draft financial statements and accompanying annual report were not of a sufficient standard resulting in a number of adjustments required during the audit process. However, the working papers were of a better standard and finance staff provided good support to the audit team which assisted the delivery of the audit by the deadline.

## Financial management & sustainability

- During the period covered by our audit, 6 February to 31 March 2016, the board only incurred small amounts of expenditure (£25,725). The first budget monitoring reports for 2016/17 have yet to be presented and considered by board members. Therefore it is too early to assess the adequacy of financial management.
- The financial sustainability of the board is reliant on the successful delivery of efficiency savings over the next three financial years to 2018/19. This will be very challenging and it is important that the board monitors its financial position closely throughout the year and engages regularly with its main funding partners, Orkney Islands Council and NHS Orkney, over its ongoing financial position. The development of a longer term financial plan will be a key component of the board's effective forward financial management arrangements.

## Governance, transparency and Best Value

- The board's main governance groups were not established in time for the operational start date of 1 April 2016. In June 2016, the board approved the arrangements for each group including the establishment of its audit committee. It is too early to assess and comment on their effectiveness. It will be important for these groups to work effectively from the outset to ensure good support is provided to the Board, particularly given the operational and financial challenges faced in its first year.
- Overall we found that the Board is open and transparent. Looking ahead there will be opportunities to increase the level and accessibility of information made available to the public.
- A new performance framework was approved by the board in March 2016. As the board was not operational during 2015/16 there is no performance information relevant to that year.

## Outlook

- The next few years will see significant changes to the way health and social care services are provided to the people of Orkney. To ensure the transition is successful, the board will need to make progress during its first year of operation in 2016/17.
- The board will need to ensure new governance arrangements are embedded quickly to allow for effective and robust decision making to take place. It will also need to work well with its main partners, to ensure that constructive working relationships exist and any cultural or organisational differences do not adversely impact on the successful delivery of health and social care.
- Pressures on health and social care services are likely to continue to increase for the foreseeable future. This will require good long-term financial and workforce planning to ensure that integrated services deliver successful outcome for the people of Orkney.



# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Orkney Integration Joint Board (the board), more commonly known as Orkney Health and Care.

## 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 I](#) highlights significant audit risks that we identified in the annual audit plan issued in March 2016. 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 identified during the course of the audit.
4. The management of the board 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. The board'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 the board 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. In October 2015 the Accounts Commission approved the appointment of Audit Scotland as external auditors of Orkney Integration Joint Board. Our audit appointment is for one year, covering the 2015/16 financial year, the first accounting period for which the board is required to prepare financial statements.

8. Our responsibility, as the external auditor of the board, 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.
9. 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 to prepare financial statements which give a true and fair view.
10. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged. From 2016/17, Audit Scotland will continue as external auditors of the board, 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.
11. From 2016/17, a new Code of Audit Practice will apply to public sector audits, replacing the Code issued in May 2011. It outlines the objectives and principles to be followed by auditors appointed by the Accounts Commission.
12. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In

addition to publishing all Annual Audit Reports, Annual Audit Plans and other significant audit outputs will be available on the website.

## Outlook

13. The next few years will see significant changes to the way health and social care services are provided to the people of Orkney. The integration of services provides a number of opportunities to improve the experience of those requiring health and social care. To ensure the transition is successful, the board will need to make significant progress during its first year of operation in 2016/17.
14. In 2016/17, the board will need to ensure new governance arrangements are embedded quickly to allow for effective and robust decision making to take place. The board will need to work well with its main partners, Orkney Islands Council and NHS Orkney to ensure that constructive working relationships exist and any cultural or organisational differences do not adversely impact on the successful delivery of health and social care. All stakeholders including patients, clinicians, carers, the public, staff, partner bodies and the Scottish Government, benefit from the assurance and confidence good governance brings.
15. There will be considerable financial challenges as the board operates in a period of tightening budgets, with rising costs and demand for services, whilst working to meet increasingly demanding standards. The board has a balanced budget for 2016/17 and indicative balanced budgets for the following two years but are all

dependent on achieving efficiency savings to bridge the gap between available funding and the cost of services.

16. Pressures on health and social care services are likely to continue to increase for the foreseeable future. These increasing pressures have significant implications on the cost of providing health and social care services and challenges in ensuring that people receive the right care, at the right time, and in the right setting. This means that it will be important for the board to outline a clear workforce strategy to demonstrate how the integration of services will work in practice. There will be implications for the skills and experience required as staff will need to deliver more community-based support as services change.
17. Over time, the intention is that the new arrangements will lead to a change in how services are provided, with a greater emphasis on preventative services and allowing people to receive care and support in their home or local community. The board will need to demonstrate its performance and report whether it is making a positive impact on service users and improving outcomes

# Audit of the 2015/16 financial statements

## Submission of financial statements for audit

18. The Public Bodies (Joint Working) (Scotland) Act 2014 specifies that Integration Joint Boards (IJBs) should be treated as if they were bodies falling within section 106 of the Local Government (Scotland) Act 1973. The financial statements of the board are prepared in accordance with the 1973 Act and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).
19. The IJB had satisfactory arrangements in place to ensure that information required by its stakeholder bodies, namely NHS Orkney and Orkney Islands Council, was received by specified dates to allow for the incorporation into the group accounts of the stakeholder bodies. This included details of balances held at the year end, transactions during the year and other information including assurances needed for the governance statement.
20. We received the unaudited financial statements of the board on 28 June 2016, in accordance with the agreed timetable. The statements and accompanying annual report were not of a sufficient standard resulting in a number of adjustments required during the audit process. 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. **Appendix IV – Action plan no. 1.**

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

21. 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 Integration Joint Board meeting on 21 March 2016.
22. 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 audit fee of £5,000 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.
23. 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.
24. During the planning phase of our audit we identified a number of risks and reported these 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.

25. 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

26. 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).
27. 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.
28. We summarised our approach to materiality in our Annual Audit Plan. We revised our planning materiality for 2015/16 on receipt of the unaudited accounts to £240 (one per cent of gross expenditure). Performance materiality was calculated at £120, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level. Our annual

audit plan highlighted that we would report all misstatements greater than £50.

## Evaluation of misstatements

29. We have identified two misstatements in the unaudited financial statements, relating to accruals for salary and holiday pay. These were adjusted by management in the audited accounts with the impact of increasing net expenditure by £319. The audit also identified some presentational adjustments which were discussed and agreed with management.

## Significant findings from the audit

30. 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.

31. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you. Table 1 below details those issues or other audit judgements that, in our view require to be communicated to those charged with governance in accordance with ISA 260.

**Table 1: Significant findings from the audit**

Significant findings from the audit in accordance with ISA260
<p><b>Preparation of annual report and accounts</b></p> <p>The financial statements and accompanying annual report submitted for audit were not of a sufficient standard. In particular, there were a number of presentational adjustments needed to meet the requirements of the Code of practice on local authority accounting in the UK and guidance from Local Authority (Scotland) Accounts Advisory Committee (LASAAC) and the Integrated Resources Advisory Group.</p> <p><b>Resolution:</b> The board's management made improvements to subsequent drafts of the annual report and accounts. The board's management have agreed to take the necessary action required to improve the quality of the annual report and accounts for 2016/17 to ensure they are compliant with applicable standards, guidance and good practice.</p> <p style="text-align: right;"><i>Appendix IV – Action Plan No. 1</i></p>
<p><b>Closedown procedures</b></p> <p>The board's financial information is held on the financial management system, Integra, operated by Orkney Islands Council. Closedown procedures for the ledger are laid down by the council's corporate finance team. This was appropriate for the purposes of 2015/16 audit due to the limited number of transactions but will require changes from 2016/17 onwards.</p> <p><b>Resolution:</b> The board will need to ensure closedown procedures are reviewed and adapted to meet their own financial reporting needs. It would also be advisable that the board's transactions are held as a separate entity or 'company' within the financial ledger, instead of being part of the wider council reporting structure. This could account for the funds being transferred between the council, the NHS and the board and ease reporting and reconciliation requirements.</p> <p style="text-align: right;"><i>Appendix IV – Action Plan No. 2</i></p>

# Financial management and sustainability

## Financial management

32. As auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the Chief Finance Officer 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
  - board members provide a good level of challenge and question budget holders on significant variances.
33. The Chief Finance Officer was in post from 14 March 2016, and is responsible for ensuring that appropriate financial services are available to the board and the Chief Officer. The board does not have any assets, nor does it directly incur expenditure or employ staff, although the Chief Officer's salary and expenses are considered as costs to the board, rather than the Chief Officer's employer. All funding and expenditure relating to services managed by the board are incurred by the stakeholder parties and processed in their accounting records. Satisfactory arrangements are in place to identify this income and expenditure and report this financial information to the Board.
34. We reviewed the standing financial instructions and standing orders, which were created on the formation of the IJB. These were approved by the Board and we consider these to be comprehensive.
35. The integration scheme between NHS Orkney and Orkney Islands Council sets out the amount to be paid by the parties to the Orkney Integration Joint Board in respect of all of the functions delegated by them to the board.
36. Legislation empowers the board to hold reserves. The integration scheme and the reserves strategy set out the arrangements between the partners for addressing and financing any overspends or underspends. It highlights that underspends in an element of the operational budget arising from specific management action may be retained by the IJB to either fund additional in-year capacity, or be carried forward to fund capacity in future years of the Strategic Commissioning Plan. Alternatively, these can be returned to the partner bodies.

## Financial performance 2015/16

37. The board was not operational during 2015/16. Therefore the income and expenditure of £25,725 shown in the financial

statements is limited to salary, administration and audit costs incurred from the date of its statutory inception, 6 February 2016, to the end of the financial year, 31 March 2016. The expenditure was met by NHS Orkney and Orkney Islands Council from their own budgets.

## Financial sustainability

38. Financial sustainability is concerned with the Board's ability to meet current and future spending commitments whilst delivering effective health and social care services in the Orkney Islands. In assessing financial sustainability we are concerned with whether the board is aware of, and managing effectively, its short and long-term financial pressures.
39. In March 2016, the board published its Strategic Commissioning Plan. The plan includes high-level details of indicative budgets for the financial years 2016/17 to 2018/19. For 2016/17, the board approved a revenue budget of £33.4 million. This consisted of £16.8 million from Orkney Islands Council and £15.5 million from NHS Orkney for delegated health and social care services in addition to £1.1 million from the Scottish Government for investment in social care. Looking ahead, the board has outlined indicative budgets of £32.6 million and £31.8 million in 2017/18 and 2018/19 respectively to reflect anticipated reductions in local government and NHS funding. Overall, this represents a decrease of £1.6 million (five per cent) between 2016/17 and 2018/19 meaning immediate financial challenges for the new board to ensure services can be maintained.
40. The timing of the appointment of the Chief Finance Officer meant that due diligence over the funding allocations from NHS Orkney and Orkney Islands Council did not take place until after the 2016/17 budget was agreed. A due diligence process was subsequently undertaken and reported to the board in June 2016. The exercise found that equivalent expenditure by NHS Orkney and Orkney Islands Council amounted to £33.8 million in 2015/16, around £400,000 higher than the board's budget in 2016/17. The main difference is attributed to efficiency savings being removed from the budget allocation. The Chief Finance Officer concluded that this initial budget allocation is sufficient to deliver services and outcomes in 2016/17 subject to the delivery of planned efficiency savings.
41. It is essential that the board monitors its financial position closely throughout the year and engages with its funding partners on a regular basis to review the financial position. At the time of our audit, budget monitoring reports for 2016/17 had yet to be reported to members due to the timing of the meeting cycle. With significant pressures on the board's budget, it is important budget monitoring is presented on a timely basis so that in the event of a potential overspend, a financial recovery plan can be developed and agreed in time for actions to be successful. **Appendix IV – Action Plan No. 3.**

## Conclusion on financial management and sustainability

42. During the period 6 February to 31 March 2016, the board incurred only small amounts of expenditure. Also, at the time of our audit, the first budget monitoring reports for 2016/17 have yet to be presented and considered by board members. Therefore it is too early to assess the adequacy of financial management. The first full operational year of the board in 2016/17 will provide a strong test of their financial management arrangements.
43. The financial sustainability of the board is reliant on the successful delivery of efficiency savings over next three financial years to 2018/19. This will be very challenging for the board, particularly alongside delivering the new integration arrangements. It is important that the board monitors its financial position closely throughout the year and engages regularly with its main funding partners over its ongoing financial position. It is also important that the board develops further its longer-term financial planning as the new arrangements for health and social care are implemented.

# Governance and transparency

- 44. Good governance is vital to ensuring that public bodies perform effectively. This can be a particular challenge in partnerships, with board members drawn from a wide range of backgrounds.
- 45. The integration scheme between Orkney Islands Council and NHS Orkney sets out the key governance arrangements. It also sets out the requirement to identify and collate a core set of indicators and measures which relate to integrated functions to enable the reporting of performance targets and improvement measures.
- 46. The Board is responsible for establishing arrangements for ensuring the proper conduct of the affairs of Orkney Integration Joint Board and for monitoring the adequacy of these arrangements. The Board comprises a wide range of service users and partners including three elected councillors nominated by Orkney Islands Council and three members nominated by NHS Orkney.
- 47. The Board is supported by a Chief Officer who provides overall strategic and operational advice to the Integration Joint Board, and is directly accountable to the Board for all of its responsibilities. The Chief Officer is also accountable to both the Chief Executive of Orkney Islands Council and the Chief Executive of NHS Orkney. The Chief Officer provides regular reports to both the Council and the NHS Board.
- 48. The Board is responsible for the management and delivery of health and social care services in the Orkney Islands and is supported by a number of groups. These are the Strategic Planning Group, Clinical and Care Governance Group, Staff Partnership Forum and an Audit Committee. All groups are expected to meet quarterly with the exception of the Audit Committee who will meet twice each year. The creation of each group did not happen in time for the board's operational start date of 1 April 2016. The terms of reference for each group was approved (or noted for Staff Partnership Forum) at the meeting of the Board on 29 June 2016.
- 49. Given the recent establishment of these groups, it is too early to assess and comment on their effectiveness. It will be important for these groups to work effectively from the outset to ensure good support is provided to the Board, particularly given the operational and financial challenges faced in its first year.

## Internal control

- 50. As auditors we concentrate on significant systems and key controls in support of the opinion on the financial statements. Our wider responsibilities require us to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by our assessment of risk and the activities of internal audit.
- 51. Orkney Islands Council and NHS Orkney are the partner bodies. All financial transactions of the board are processed through the council's financial systems and are subject to the same controls and

scrutiny of the council, including the work performed by internal audit.

52. Internal audit provides the Board and Chief Officer with independent assurance on the board's overall risk management, internal control and corporate governance processes. In June 2016, the board appointed the (in-house) internal auditors of Orkney Islands Council to provide internal audit services for 2016/17 with some support from Scott-Moncrieff. We carried out a review of the council's internal auditors as part of our audit of the council and concluded that they operate in accordance with the Public Sector Internal Audit Standards (PSIAS) and have sound documentation standards and reporting procedures in place.
53. Prior to this appointment, separate internal audit reports on the implementation of integrated services in Orkney were carried out by the internal auditors of NHS Orkney and Orkney Islands Council.
- In December 2015, an interim report to NHS Orkney's audit committee by their internal auditors, Scott-Moncrieff, noted that there were no major control weaknesses in the due diligence and governance arrangements but there was room for improvement. Given the ongoing development of arrangements at the time of the report, no formal recommendations were made. The report found that new arrangements were progressing well to meet the overall financial and related requirements of the integration process.
  - In May 2016, a report to the board and Orkney Islands Council by the council's internal auditors highlighted 10 high priority

recommendations for the board to action, covering both governance arrangements and financial management.

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

54. In March 2016, the board approved new financial regulations. The regulations note that every member of the board has a responsibility to inform the Chief Finance Officer and Chief Internal Auditor of any suspected fraud or irregularity. Where any issue arises, the Chief Finance Officer in conjunction with the Chief Officer and Chief Internal Auditor will carry out an investigation and report. The regulations also note it is the responsibility of each member to comply with the respective policies with Orkney Islands Council and NHS Orkney. As the board does not directly employ staff, investigations would also be required by the internal auditors of the partner body where the fraud or irregularity originated.
55. We conclude that the arrangements implemented during 2015/16 should be effective for fraud detection and prevention.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

56. All board members must comply with the Standards in Public Life - Code of Conduct for Members of Devolved Public Bodies. In addition, the Ethical Standards in Public Life (Scotland) Act 2000

requires the Integration Joint Board to appoint a Standards Officer. In June 2016, the board approved the appointment of a Standards Officer along with two Deputy Standards Officers, who together, will be responsible for matters relating to standards of conduct. This includes appropriate training for members, promoting and maintaining high standards of conduct and ensuring the board keeps a register of interests. At the time of our audit, the register of interests was being collated.

57. Given these recent appointments and the development of the register of interests, it is too early to assess adequacy of arrangements for maintaining standards and the prevention and detection of corruption.

## Transparency

58. Local residents should be able to hold the board to account for the services it provides. Transparency means that residents have access to understandable, relevant and timely information about how the board is taking decisions and how it is using its resources.
59. The council's website hosts relevant information in relation to the board including the strategic commissioning plan, the integration scheme, financial regulations and the agendas and papers of board meetings. Board meetings are also open to the public. Although relevant information is available, it is spread across a number of sections within the council's website and is not always easy to locate. Looking ahead the board should improve the accessibility of information on the webpages hosting the board's business to help

increase transparency and ensure adequate separation from the council's activities. **Appendix IV – Action Plan No. 4.**

60. A significant amount of the board's business will be conducted through the groups listed in paragraph 48. Once these groups are established, the board should consider enhancing transparency by publishing papers submitted of these groups. Where papers include confidential information these can be withdrawn or redacted as appropriate.
61. The board's purpose and vision are outlined in its Strategic Commissioning Plan. This shows what success would look like and sets out the board's priorities for the next three years to 2018/19. The plan includes a number of performance measures and indicators to help monitor and demonstrate progress.
62. Overall we conclude that the board is open and transparent and looking ahead there will be opportunities to increase the level and accessibility of information made available to the public.

# Best Value

63. The Public Bodies (Joint Working) (Scotland) Act 2014 set out a broad framework for creating integration authorities and gave councils and NHS boards considerable flexibility to enable them to develop integrated services that are best suited to local circumstances. The integration scheme specifies the wide range of functions delegated to the board from NHS Orkney and Orkney Islands Council.
64. Integration authorities are required to contribute towards nine national health and wellbeing outcomes. These high-level outcomes seek to measure the quality of health and social care services and their impact on, for example, allowing people to live independently and in good health, and reducing health inequalities. This signals an important shift from measuring internal processes to assessing the impact on people using health and social care services.
65. Accountable officers have a specific responsibility to ensure that arrangements are made to secure Best Value. The new integration authorities need to establish effective arrangements for scrutinising performance, monitoring progress towards their strategic objectives, and holding partners to account. There is also a need for regular reporting to partner organisations. This is particularly important as most members of Orkney Islands Council and NHS Orkney are not directly involved in the board's work.

## Arrangements for securing Best Value

66. The main purpose of integration is to improve the wellbeing of people who use health and social care services, particularly those whose needs are complex and involve support from health and social care at the same time. The board's Integration Scheme is intended to achieve the national health and wellbeing outcomes as directed by Scottish Ministers.
67. A new performance framework was approved by the board in March 2016. The newly established audit committee will play an important role in monitoring the performance of the board in achieving both service performance and financial performance objectives. As the board was not operational during 2015/16 there is no performance information relevant to that year.
68. Effective workforce planning is crucial to delivering successful integrated health and social care services. It is important that the board develops an appropriate workforce strategy to ensure it has access to the right skills and experience to deliver delegated services. This is particularly challenging as the board does not directly employ staff, but is responsible for coordinating services from mix of staff and carers. There will be implications for the skills and experience that staff will need to deliver more community-based support as services change. The board have agreed to implement a workforce development strategy by March 2017.
69. As many arrangements for securing Best Value are still in development, it is too early to comment on their effectiveness.

## National performance audit reports

70. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the board. These are outlined in [Appendix III](#) accompanying this report and we are pleased the board has processes in place to ensure that all relevant national performance reports are considered by the Board.
71. In December 2015, our first in a series of reports on [Health and Social Care Integration](#) found widespread support for the principles of integration from the individuals and organisations implementing the changes. We reported that there are significant risks which need to be addressed if integration is to fundamentally change the delivery of health and care services. We found evidence to suggest that integration authorities will not be in a position to make a major impact during 2016/17. There is broad agreement on the principles of integration but many integration authorities have still to set out clear targets and timescales showing how they will make a difference to people who use health and social care services.
72. We also reported that governance arrangements are complex, with some uncertainty about how they will work in practice. This will make it difficult for staff and the public to understand who is responsible for the care they receive. There are significant long-term workforce issues with new integration authorities inheriting workforces that have been organised in response to budget pressures rather than strategic needs. Other issues include different terms and conditions for NHS and council staff, and difficulties in recruiting and retaining GPs and care staff.
73. The report contained a number of recommendations for integration authorities as well as related partner organisations.

# 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.

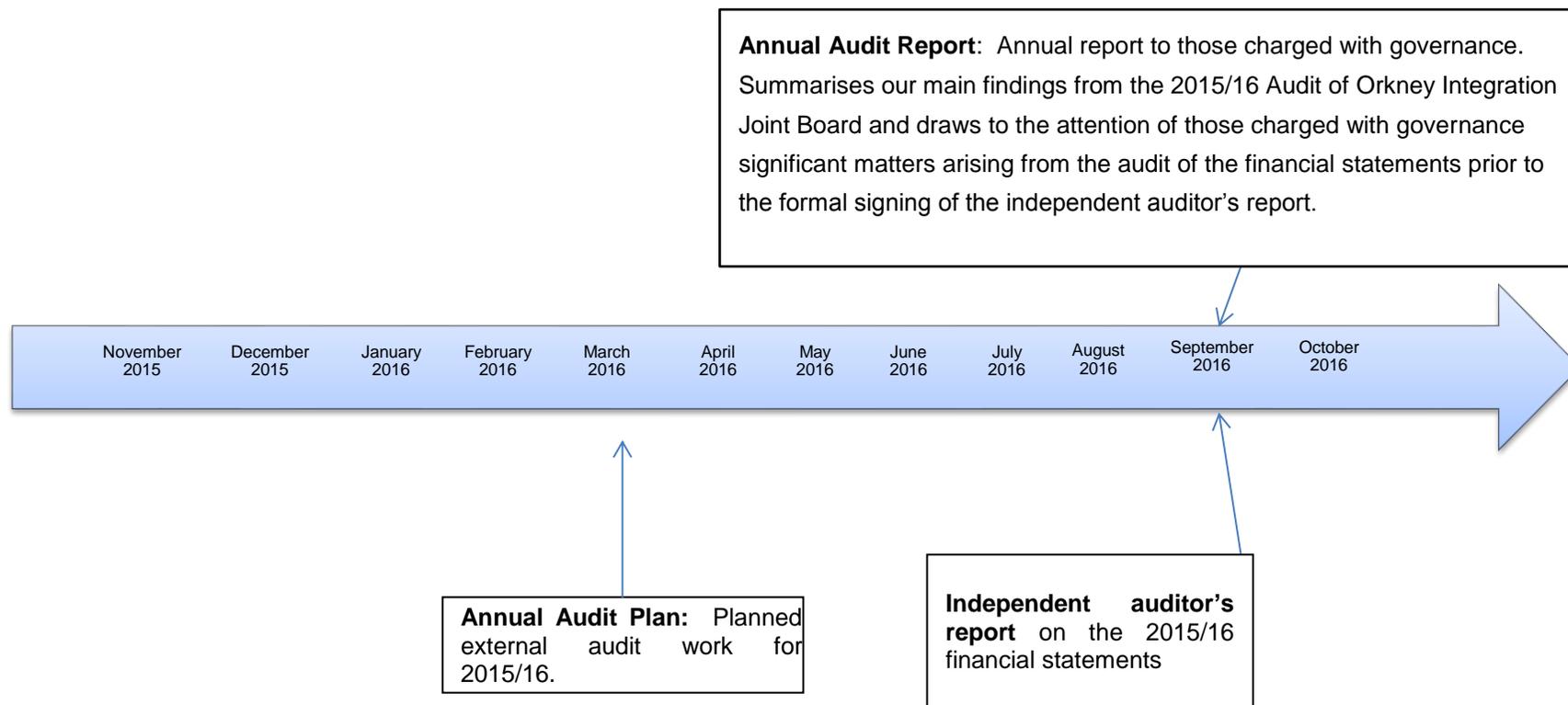
Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement in the financial statements</b>		
<p><b>Financial statements preparation</b></p> <p>As Orkney IJB is a new body, there is a risk that adequate systems and procedures are not in place to allow the body to submit its financial statements on time.</p>	<ul style="list-style-type: none"> <li>• We engaged with officers prior to the accounts being prepared to help ensure the relevant information was disclosed and timetable met.</li> <li>• We reviewed the governance statement in accordance with the Code requirements.</li> <li>• We reviewed technical guidance from IRAG and LASAAC and ensured accounting policies are appropriate and complete.</li> <li>• We obtained assurances from the auditors of the council and NHS over the accuracy, completeness and appropriate allocation of ledger entries.</li> </ul>	<ul style="list-style-type: none"> <li>• The draft accounts were prepared and submitted to the auditor by the deadline of 30 June.</li> <li>• The audit work on the accounts resulted in a number of presentational changes in the accounts, which is hoped will help improve the preparation of future financial statements.</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Management override of controls</b></p> <p>Audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>• We confirmed the external auditor of the council and health board carried out testing of year-end journal entries to confirm transactions are of the nature and type expected.</li> <li>• We confirmed the external auditor of the council and health board carried out focused testing of the regularity and cut-off assertions.</li> <li>• We reviewed any accounting estimates for bias if applicable.</li> </ul>	<ul style="list-style-type: none"> <li>• Our work did not identify any instances of management override of controls.</li> </ul>
<p><b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b></p>		

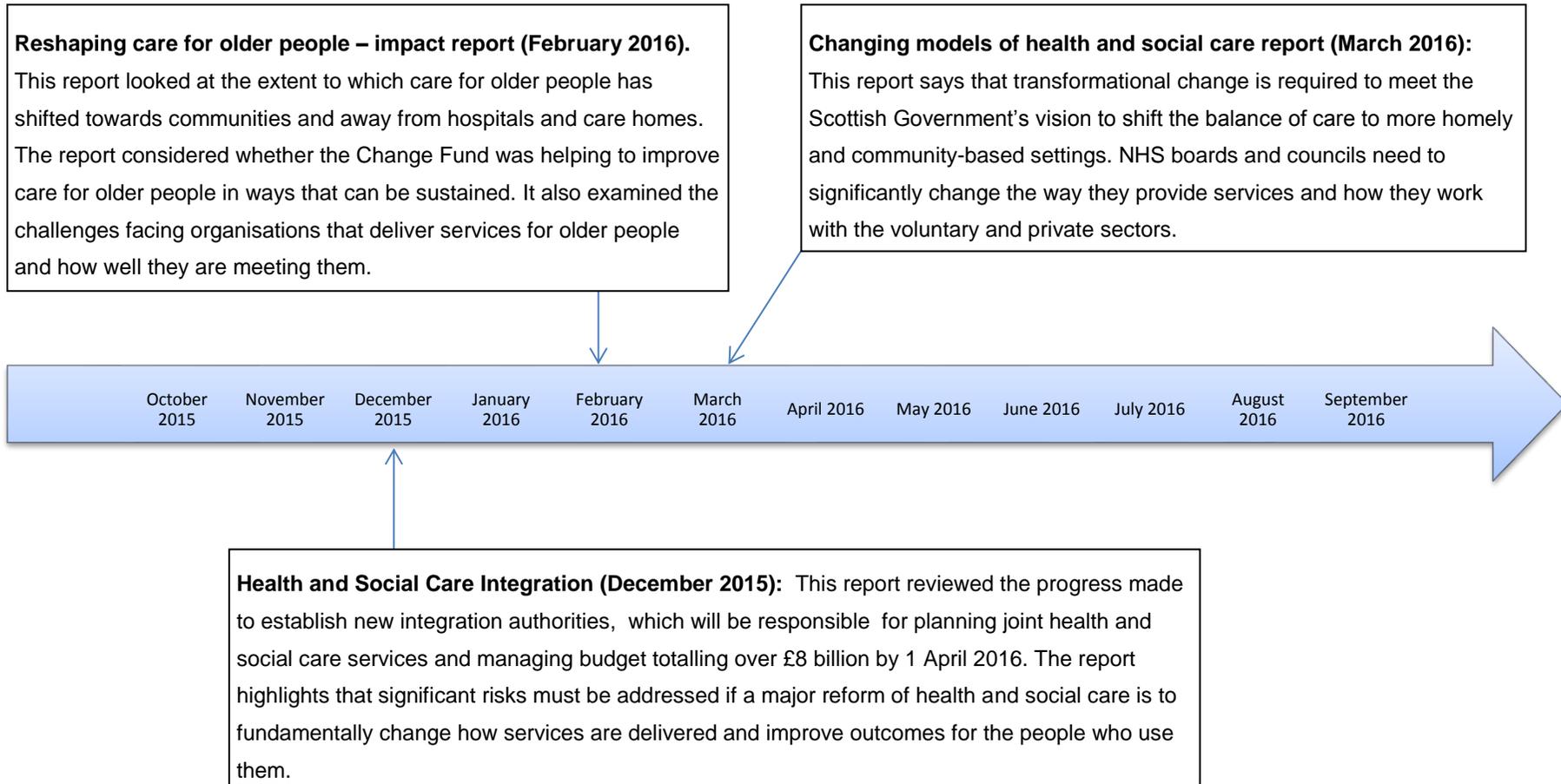
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Budget setting for 2016/17</b></p> <p>Budgets for 2016/17 need to be established to cover integration as well as individual services, including hospital services. Experience from operational IJBs has shown that the first year budget is very challenging to reach, particularly considering the pressures on public finances. There is a risk that budgets are incomplete or inadequate, or are not set before 1 April 2016 when the IJB becomes operational.</p>	<ul style="list-style-type: none"> <li>• Budgets for Orkney Islands Council were set on 18 February</li> <li>• NHS Orkney board met on 25 February to discuss the draft budget and the final budget was approved on 29 March.</li> <li>• Internal audit work was carried out by both NHS and council's internal auditors.</li> </ul>	<ul style="list-style-type: none"> <li>• As detailed in paragraph 40 of this report, the budgets for 2016/17 were not set before 1 April 2016.</li> <li>• Looking ahead, the board needs to gain assurance from its funding bodies that sufficient clarity on budgets is achieved to allow it to set its priorities.</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Governance and accountability</b></p> <p>As a new body, the IJB will need to put in place their own governance arrangements, including standing orders and financial regulations, financial and workforce planning, scrutiny activity and service redesign. For a new body, governance arrangements will need to be put in place without reference to previous arrangements. There is a risk that governance arrangements are incomplete or not yet approved when the IJB becomes operational on 1 April 2016.</p>	<ul style="list-style-type: none"> <li>Governance documents are currently progressing through the board meeting cycle.</li> </ul>	<ul style="list-style-type: none"> <li>The board prepared its governance documents at the end of 2015/16 and early 2016/17.</li> <li>Relevant governance document such as financial regulations, standing orders and equalities policies were approved in June 2016.</li> </ul>

# Appendix II: Summary of Orkney Integration Joint Board local audit reports 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.	20 & 30	<p><b>Preparation of annual report and accounts</b></p> <p>The financial statements and accompanying annual report submitted for audit were not of a sufficient standard. In particular, there were a number of presentational adjustments needed to meet the requirements of the Code of practice on local authority accounting in the UK and guidance from Local Authority (Scotland) Accounts Advisory Committee (LASAAC) and the Integrated Resources Advisory Group.</p> <p><b>Risk:</b> Poor quality annual report and accounts may mislead the reader about the financial position of the board. They are also unlikely to meet the requirements of applicable guidance and standards, which in turn may lead to a qualified audit opinion.</p> <p><b>Recommendation:</b> The board's management should take the necessary action required to improve the quality of the annual report and accounts for 2016/17 to ensure they are compliant with applicable standards, guidance and good practice. This should include detailed closedown procedures which consider the early sign-off of NHS Orkney accounts, internal audit reports, registers of interests, the financial and service performance of the board as well as any other information required to complete the annual report.</p>	<p>Agreed. We will undertake a detailed review of all applicable guidance, standards and good practice in sufficient time to prepare good quality draft accounts for the 2016/17 financial year. We will also prepare detailed closedown procedures to support the preparation of the annual report and accounts.</p>	<p>Chief Finance Officer by 31 March 2017</p>

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	30	<p><b>Closedown procedures</b></p> <p>The board's financial information is held on the financial management system, Integra, operated by Orkney Islands Council. Closedown procedures for the ledger are laid down by the council's corporate finance team. There is no separate entity within the ledger for the board's transactions.</p> <p><b>Risk:</b> There is a risk that transactions relating to the board may be inaccurately recorded if it does not have its own tailored closedown procedures or area within the ledger.</p> <p><b>Recommendation:</b> The board should ensure closedown procedures are reviewed and adapted to meet their own financial reporting needs. The board should also consider that board transactions are held as a separate entity or 'company' within the financial ledger, instead of being part of the wider council reporting structure. This could account for the funds being transferred between the council, the NHS and the board and ease reporting and reconciliation requirements.</p>	<p>Agreed. As noted at action number 1, we will prepare detailed closedown procedures to support the preparation of the annual report and accounts. We will also consider changes to the financial ledger that allows the board to be identified as a separate entity.</p>	<p>Chief Finance Officer by 31 March 2017</p>

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3.	40	<p><b>Budget monitoring</b></p> <p>The due diligence process was not carried out prior to the setting of the 2016/17 budget. The exercise found that equivalent expenditure by NHS Orkney and Orkney Islands Council was around £400,000 higher than the board's budget in 2016/17 meaning that efficiency savings for this amount are required to achieve financial balance.</p> <p><b>Risk:</b> There is a risk that the board may overspend on its budget in 2016/17.</p> <p><b>Recommendation:</b> The board should:</p> <ul style="list-style-type: none"> <li>• Ensure the financial position during 2016/17 is regularly monitored and reported to the main governance groups and Board.</li> <li>• Engage throughout with Orkney Islands Council and NHS Orkney on its financial position and outline the process for developing a financial recovery plan so any actions have time to be effective within the year.</li> <li>• Develop longer-term financial and workforce plans to outline how it plans to deliver the expected efficiency savings to 2018/19 and beyond to demonstrate the financial sustainability of the board.</li> </ul>	<p>Agreed. We will monitor and report the financial position regularly throughout the financial year to the main governance groups and Board. We will also liaise with NHS Orkney and Orkney Islands Council about the financial position and outline the process necessary for a financial recovery plan should it be required. We will also develop longer-term financial and workforce plans to outline how savings will be made to 2018/19 and beyond.</p>	<p>Chief Finance Officer by 31 March 2017</p> <p>Chief Finance Officer by 31 March 2017</p> <p>Chief Officer by 31 March 2017</p>

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
4.	59	<p><b>Accessibility of information</b></p> <p>Orkney Islands Council’s website hosts relevant information in relation to the board including the agendas and papers of board meetings. The information is spread across a number of sections and is not always easy to locate.</p> <p><b>Risk:</b> There is a risk that the public or other stakeholders are unable to find information about the board’s services and performance leading to a decrease in transparency, or may be unable to see the distinction from the council’s own services.</p> <p><b>Recommendation:</b> The board should improving the accessibility of its information on the council’s website.</p>	<p>Agreed. We will explore options for increasing the accessibility of information to the public including improving the structure and format of online access.</p>	<p>Chief Officer by 31 December 2016</p>