

# Orkney Integration Joint Board

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Orkney Integration Joint Board and the Controller of Audit  
26 September 2018

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2017/18 annual report and accounts

- 1 Our audit opinions are all unqualified. These cover the financial statements, the remuneration report, the management commentary and the annual governance statement.

## Financial management and sustainability

- 2 The Orkney IJB spent £49.628 million on delivering health and social care commissioned services. However, both NHS Orkney and Orkney Islands Council were required to provide additional in-year resources of £0.478 million and £0.184 million respectively to achieve a break-even position.
- 3 The Orkney IJB budget for 2018/19 has not been formally approved due to the high level of unidentified savings in the proposed budget, most of which relate to healthcare services.
- 4 The Orkney IJB should review and update their Integration Scheme to ensure there is a shared understanding between partners that it is undesirable to cut subsequent years' funding allocations by the current year's additional funding (in the event of a deficit) as this will compound any funding gap because at present it is challenging to achieve in-year balanced budgets without further reductions due to previous year overspends.
- 5 The Orkney IJB needs to develop its medium to long-term financial planning to assist in addressing upcoming and future budget challenges.

## Governance, transparency and value for money

- 6 There has been no Chief Officer in post since April 2018; a new Chief Officer commences with the Orkney IJB in September 2018. In the interim period, Chief Officer duties were allocated across the Senior Management Team. The Interim Chief Executive of NHS Orkney has been delegated the accountable officer for the purpose of concluding the 2017/18 annual accounts.
- 7 The Orkney IJB has adequate governance arrangements in place that support the scrutiny of decisions by the members.
- 8 The Orkney IJB conducts its business in an open and transparent manner. Its meetings are open to the public and meeting papers and minutes are available on its website.

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# Introduction

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1. This report is a summary of our findings arising from the 2017/18 audit of Orkney IJB.

2. The scope of our audit was set out in our Annual Audit Plan presented to the Audit and Risk Committee meeting on 13 March 2018. This report comprises the findings from our main elements of work in 2017/18 including:

- an audit of the Orkney IJB's 2017/18 annual accounts including issuing an independent auditor's report setting out our opinion
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1

### Audit dimensions



Source: *Code of Audit Practice 2016*

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3. The Orkney IJB has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

4. The Orkney IJB is responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

5. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice \(2016\)](#), supplementary guidance, and International Standards on Auditing in the UK.

**6.** As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the Orkney IJB's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this, we aim to support improvement and accountability.

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

**8.** The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist.

**9.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

**10.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can confirm that we have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £0.024 million, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

### **Adding value through the audit**

**11.** Our aim is to add value to the Orkney IJB by increasing insight into, and offering foresight on financial sustainability, risk and performance and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the Orkney IJB promote improved standards of governance, better management and decision making and more effective use of resources.

**12.** This report is addressed to both the board and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**13.** We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

# Part 1

## Audit of 2017/18 annual accounts



### Main judgements

**Our audit opinions are all unqualified. These cover the financial statements, the remuneration report, the management commentary and the annual governance statement.**

### Audit opinions on the annual accounts

**14.** The annual accounts for the year ended 31 March 2018 were approved by the Orkney IJB on 26 September 2018. We reported within our independent auditor's report that in our opinion:

- the financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary, and annual governance statement were all consistent with the financial statements and properly prepared in accordance with proper accounting practices.

**15.** Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records, and the information and explanations we received.

The annual accounts are the principal means of accounting for the stewardship of the board's resources and its performance in the use of those resources.

### Submission of annual accounts for audit

**16.** We received the unaudited annual accounts on 29 June 2018 in line with our agreed audit timetable.

**17.** Financial information was provided to the Orkney IJB in a timely manner from the partner bodies to allow it to produce its accounts before the statutory deadline. The partner bodies also provided the Orkney IJB with assurance letters confirming that the figures in the accounts were complete and accurate.

**18.** The working papers provided with the unaudited annual accounts in support of the primary financial statements were of a good standard and the Chief Finance Officer provided good support to the audit team.

### Risks of material misstatement

**19.** [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process, wider dimension risks, how we addressed these and our conclusions. These risks had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team.

### Materiality

**20.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves

considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

**21.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. We assess the materiality of uncorrected misstatements, both individually and collectively. The assessment of materiality was recalculated on receipt of the unaudited financial statements and is summarised in [Exhibit 2](#).

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## Exhibit 2

### Materiality values

Materiality level	Amount
Overall materiality	£0.496 million
Performance materiality	£0.248 million
Reporting threshold	£0.005 million

Source: 2017/18 Orkney IJB Annual Report and Accounts

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### How we evaluate misstatements

**22.** There were no material adjustments to the unaudited financial statements arising from our audit. There were no individual misstatements which exceeded our reporting threshold.

### Significant findings from the audit in accordance with ISA 260

**23.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. There are no significant findings arising from the audit of the Orkney IJB.

### Other Findings

**24.** The management commentary and annual governance statement in the initial draft annual accounts did not fully comply with the accounting code despite reference having been made to the Audit Scotland good practice note: '[Improving the quality of local authority accounts – integration joint boards](#)' (April 2018). The audit team and the Chief Finance Officer worked closely together to revise both documents in order to 'tell the story' more clearly of the main activities and achievements of the IJB in 2017/18. .

**25.** Our audit identified a number of presentational issues which were discussed with management. These were adjusted for and are reflected in the audited financial statements.

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### Recommendation 1 ([appendix 1, action plan point 1](#))

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**The Orkney IJB require to implement a quality assurance process to help support the Chief Financial Officer in preparing the annual report and accounts to ensure the content is clear, concise and adheres to guidance prior to submission for audit.**



## Follow up of prior year recommendations

**26.** We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).

**27.** In total, two agreed actions were raised in our 2016/17 Annual Audit Report. Both actions are still ongoing and have been updated in the 2017/18 action plan.

**28.** Overall the Orkney IJB has made progress in implementing these actions. For those actions not yet implemented, revised responses and timescales have been agreed with management in [Appendix 1](#).

# Part 2

## Financial management and sustainability



### Main judgements

The Orkney IJB spent £49.628 million on delivering health and social care commissioned services. However, both NHS Orkney and Orkney Islands Council were required to provide additional in-year resources of £0.478 million and £0.184 million respectively to achieve a break-even position.



The Orkney IJB budget for 2018/19 has not been formally approved due to the high level of unidentified savings in the proposed budget, most of which relate to healthcare services.

The Orkney IJB should review and update their Integration Scheme to ensure there is a shared understanding between partners that it is undesirable to cut subsequent years' funding allocations by the current year's additional funding (in the event of a deficit) as this will compound any funding gap because at present it is challenging to achieve in-year balanced budgets without further reductions due to previous year overspend

The Orkney IJB needs to develop its medium to long-term financial planning to assist in addressing upcoming and future budget challenges.

### Financial management

**29.** As auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We do this by considering several factors, including whether:

- the Chief Financial 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 Orkney IJB
- 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
- Orkney IJB members provide a good level of challenge and question budget holders on significant variances.

**30.** We reviewed the financial regulations and standing orders, which were created on the formation of the Orkney IJB, and we consider these to be appropriate. All completed governance documents are accessible through the Orkney Islands Council website.

The annual accounts are the principal means of accounting for the stewardship of the board's resources and its performance in the use of those resources.

**31.** From attendance at the Orkney IJB and Audit Committee meetings, and a review of the associated papers we have concluded that the Chief Finance Officer has appropriate status within the Orkney IJB. Updates are provided by the Chief Finance Officer to the Board and Audit Committee and members provide a good level of challenge and scrutiny on the material presented. We also are satisfied that reports monitoring the financial and wider performance of the Orkney IJB are presented to the Board on a regular basis.

**32.** At its meetings in September 2017, December 2017, March 2018 and June 2018 the Chief Finance Officer provided updates on the in-year (2017/18) financial position. Throughout the year, due to financial pressures, the Chief Finance Officer indicated that the Orkney IJB may not break even and laid out actions within the recovery plan to help address the overspend.

**33.** We have concluded that overall the financial management procedures in place are robust. The Chief Finance Officer has procedures in place to identify all income, expenditure and balances and report financial information to the Orkney IJB. Financial reports are presented at each Board meeting. These give a projection of the year end outturn along with reasons for projected under or overspend. They also provide details of any changes made to the budget or projected outturn since the last reporting date.

### Systems of internal control

**34.** The Orkney IJB relies on the NHS Orkney and Orkney Islands Council for its key financial systems, including ledger and payroll. All transactions are processed through the respective partners' systems and all the controls over systems are accounted for within these bodies.

**35.** As part of our audit approach and in accordance with ISA 402, we sought assurances from the external auditors of the NHS Orkney and Orkney Islands Council who both confirmed there were no weaknesses in their respective systems of internal control.

### Financial performance in 2017/18

**36.** The Orkney IJB does not have any assets, nor does it directly incur expenditure or employ staff, other than the Chief Officer and Chief Finance Officer. All funding and expenditure for the Orkney IJB is incurred by partner bodies and processed in their accounting records. Satisfactory arrangements are in place to identify this income and expenditure and report this financial information to the Orkney IJB.

**37.** The Orkney IJB's financial position is challenging. During the year the original budget for 2017/18 was supplemented by additional funding from the partners of the Orkney IJB, with NHS Orkney and Orkney Islands Council providing additional funding of £0.478 million and £0.184 million respectively in order to achieve a break- even position. Total net expenditure for the Orkney IJB delegated services in 2017/18 was £49.628 million. A budget summary for the year is shown in [Exhibit 3](#).

## Exhibit 3

### 2017/18 Performance against budget

IJB budget objective summary	Budget £m	Transfer of Underspend £m	Additional funding OIC £m	Additional funding NHSO £m	Actual outturn £m
Health	30.880	0	0	0.478	31.358
Social care	18.086	0	0.184	0	18.270
<b>Total funding</b>	<b>48.966</b>	<b>0</b>	<b>0.184</b>	<b>0.478</b>	<b>49.628</b>
<b>IJB Net expenditure</b>					<b>49.628</b>
Surplus/(deficit)					0
Earmarked reserves					0

Source: Orkney IJB 2017/18 Annual Report and Accounts

## Financial planning

**38.** The Orkney IJB allocates the resources it receives from its partners in line with the Strategic Commissioning Plan. The 2018/19 indicative funding allocations were presented to the Orkney IJB in March 2018.

**39.** Since March 2018, the budgets have been increased and approved by the partner bodies and now include a savings target. The revised budgets that have been allocated to the Orkney IJB are £23.208 million from NHS Orkney and £18.182 million from Orkney Islands Council which gives a total allocation of £41.39 million.

**40.** The savings target for the Orkney IJB is £1.448 million for the financial year 2018/19. The breakdown of savings for NHS Orkney is £1.060 (4.4%) and Orkney Islands Council is £0.388 million (2.1%). However, to date, only £0.236 million recurring and £0.074 million non-recurring savings have been achieved resulting in unidentified savings of £1.138 million. In addition, the set aside budget for 2018/19 has not been included as it still requires approval.

**41.** Budget monitoring will be critical to ensure the Orkney IJB achieves the projected break-even position. Therefore, regular monitoring and reporting is crucial to address shortfalls and implement budget recovery plans.

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

## Recommendation 2 (appendix 1, action plan point 2)

**Plans to meet the required savings should be identified and the budget for 2018/19 should be formally approved by the Orkney IJB.**

**42.** In addition, our review of the Orkney IJB Integration Scheme noted at section 2.10.7.5. that "Where such recovery plans are unsuccessful and an overspend occurs at the financial year end, and there are insufficient reserves to meet the overspend, then the partners will be required to make additional payments to the Board. Any additional payments by Orkney Islands Council and NHS Orkney may then be deducted from future years funding/payments."

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### Recommendation 3 (appendix 1, action plan point 3)

**The Orkney IJB should review and update their Integration Scheme to ensure there is a shared understanding between partners that it is undesirable to cut subsequent years' funding allocations by the current year's additional funding (in the event of a deficit) as this will compound any funding gap because at present it is challenging to achieve in-year balanced budgets without further reductions due to previous year overspends.**

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43. The Orkney IJB has yet to implement any medium to long term financial plans aligned to its strategic commissioning plan which incorporate sensitivity analysis and scenario planning, demographic assumptions and impacts on budget.

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### Recommendation 4 (appendix 1, action plan point 4)

**The Orkney IJB needs develop its medium to long-term financial plans to better highlight and address the continuing financial pressures it is facing and to contribute towards the delivery of its Strategic Commissioning Plan.**

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### Efficiency savings

44. NHS Orkney and Orkney Islands Council have faced several years of financial constraint and this is expected to continue in the coming years. The ageing population and increasing numbers of people with long term conditions and complex needs place pressure on health and social care budgets.

45. The maintenance of a sound financial position going forward is dependent on achieving efficiency savings to bridge the gap between available funding from current sources and the cost of services.

### EU withdrawal

46. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

47. The Orkney IJB will wish to be well informed in how NHS Orkney and Orkney Islands Council are working to monitor and respond to the impact of the EU withdrawal on their services. Due the uncertainties surrounding the terms of the withdrawal, currently there are no fixed plans in place in the Orkney IJB at this stage.

# Part 3

## Governance, transparency and value for money



### Main judgements

**There has been no Chief Officer in post since April 2018; a new Chief Officer commences with the Orkney IJB in September 2018. In the interim period, Chief Officer duties were allocated across the Senior Management Team. The Interim Chief Executive of NHS Orkney has been delegated the accountable officer for the purpose of concluding the 2017/18 annual accounts.**

**The Orkney IJB has adequate governance arrangements in place that support the scrutiny of decisions by the members.**

**The Orkney IJB conducts its business in an open and transparent manner. Its meetings are open to the public and meeting papers and minutes are available on its website.**

### Governance arrangements

**48.** The Orkney IJB has representation from a range of service users and partners including three elected voting members nominated by Orkney Islands Council and three members from NHS Orkney. The Orkney IJB met on a quarterly basis during 2017/18.

**49.** The Orkney IJB is responsible for the management and delivery of health and social care services in the Orkney area and is supported by an Audit Committee who met three times in 2017/18 and provides monitoring and assurance on the governance arrangements. We attend and review minutes of the Orkney IJB and Audit Committee meetings to assess their effectiveness. We concluded that the Orkney IJB members and management understand the distinct nature of their roles and members contribute to the discussion and demonstrate effective scrutiny.

**50.** The Orkney IJB is also supported in its work by a Chief Officer and Chief Finance Officer. The Chief Officer provides strategic and operational advice to the Board while the Chief Officer is responsible for financial management including budget monitoring reports.

**51.** Additionally, we found that Orkney IJB members are provided with appropriate induction and training. We concluded that the content of these sessions was appropriate, and that the sessions were well attended.

**52.** Ms Caroline Sinclair was Chief Officer for the whole of 2017/18 and she left for a new post in April 2018. A new Chief Officer, Mrs Sally Shaw, commences with the IJB in September 2018. In the interim period, Chief Officer duties were allocated across the Senior Management Team.

**53.** With the approval of the Orkney IJB, Mr Gerry O'Brien, Interim Chief Executive of NHS Orkney, one of the two partner organisations, has been delegated the accountable officer for the purpose of concluding the 2017/18 annual accounts.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and

**54.** We concluded that overall the Orkney IJB has adequate governance arrangements in place and they provide a framework for effective organisational decision making.

## Transparency

**55.** Transparency means that the public has access to understandable, relevant and timely information about how the Orkney IJB is taking decisions and how it is using resources.

**56.** The Orkney IJB's purpose and vision are outlined in its Strategic Commissioning Plan. The plan outlines a number of national and local policies, strategies going forward and the key priorities going forward. The Strategic Commissioning Plan sets out the actions that the partnership will take and provides a basis for measuring how well they are doing and how these are linked to the Orkney IJB's priorities and the national outcomes.

**57.** Full details of the meetings held by the Orkney IJB and the Audit Committee are available through the Orkney Islands Council website and both meetings are open to the public to attend. There are a small number of papers scheduled for private consideration in specific circumstances. The website also contains a section for the Orkney IJB papers and Audit Committee papers available for downloading / viewing. This is considered good practice.

**58.** Overall, we concluded that the Orkney IJB conducts its business in an open and transparent manner.

## Internal audit

**59.** Internal audit provides the Orkney IJB and the Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes.

**60.** The Orkney IJB appointed a chief internal auditor and this function is provided by Orkney Islands Council. We carried out a review of the adequacy of Orkney Islands Council's internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. The chief internal auditor is supported by the partners in carrying out her role.

**61.** To avoid duplication of effort, we place reliance on the work of internal audit wherever possible. In 2017/18, we did not place any formal reliance on internal audit reviews for the purpose of obtaining direct assurance for our financial statements work. However, we considered internal audit's work on Integration Assurance as part of our wider dimension work.

## Standards of conduct and arrangements for the prevention and detection of bribery and corruption

**62.** The Orkney IJB places reliance on the anti-fraud strategies of both NHS Orkney and Orkney Islands Council. The Orkney IJB has a range of activities in place designed to maintain standards of conduct including a Code of Conduct for members. In addition, a register of members' interests is in place for voting members and this is available to view on the respective Orkney Islands Council and NHS Orkney websites.

**63.** Based on our review of the evidence we concluded that the Orkney IJB has effective arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues that need to be recorded within this report.

## Other governance arrangements

**64.** The Orkney IJB is committed to ensuring the involvement of partner groups including community planning groups, the third sector, the independent sector and local communities. The Strategic Commissioning Plan and locality planning arrangements enable partners to engage in and support the delivery of the health and social care provision.

**65.** The Scottish Government issued a [Public Sector Action Plan on Cyber Resilience](#) in November 2017. This requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate. The review of cyber security is carried out by the partner bodies, based on the fact that Orkney IJB are dependent on the processes and procedures in place at each of the partners.

**66.** The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. GDPR has introduced new and significantly changed data protection concepts and all EU member states must implement the Regulation in the same way.

**67.** The Orkney IJB initially relied on the GDPR compliance of the partner bodies which deliver their services. The Orkney IJB formally appointed the Head of Legal Services, Orkney Islands Council as its data protection officer on the 27 June 2018 to help co-ordinate arrangements for processing personal data and to ensure that its processes comply with the requirements of the new legislation. The Orkney IJB should consider the impact of GDPR on its operations to ensure that its arrangements for processing personal data comply with the requirements of the new legislation.

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### **Recommendation 5 (refer appendix 1, action plan 5)**

**The Orkney IJB should consider the impact of GDPR on its operations to ensure that its processes for processing personal data comply with the requirements of the new legislation.**

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## Value for money and performance management

**68.** Best Value (BV) duties apply to accountable officers across the public sector. As part of this year's audit IJB auditors have looked at how the IJB demonstrates that it is meeting its BV duties. To achieve value for money the IJB should have effective arrangements for scrutinising performance, monitoring progress towards their strategic objectives and holding partners to account.

**69.** The Orkney IJB's current Strategic Commissioning Plan's performance framework aims to identify how performance in various areas links to the Scottish Government's National Health and Wellbeing Outcomes. These are:

- Outcome 1. People are able to look after and improve their own health and wellbeing and live in good health for longer.
- Outcome 2. People, including those with disabilities or long term conditions, or who are frail, are able to live, as far as reasonably practicable, independently and at home or in a homely setting in their community.
- Outcome 3. People who use health and social care services have positive experiences of those services, and have their dignity respected.
- Outcome 4. Health and social care services are centred on helping to maintain or improve the quality of life of people who use those services.

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

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- Outcome 5. Health and social care services contribute to reducing health inequalities.
- Outcome 6. People who provide unpaid care are supported to look after their own health and wellbeing, including to reduce any negative impact of their caring role on their own health and well-being.
- Outcome 7. People using health and social care services are safe from harm.
- Outcome 8. People who work in health and social care services feel engaged with the work they do and are supported to continuously improve the information, support, care and treatment they provide.
- Outcome 9. Resources are used effectively and efficiently in the provision of health and social care services.

**70.** The Orkney IJB receives performance reports on a quarterly basis outlining performance against a number of key measures. These are available on Orkney Islands Council website.

**71.** The Orkney IJB also reports on the Local Delivery Plan Standards, Local Government Benchmarking Framework items, National Core Integration Indicators and the 'Scotland Performs' National Outcomes, that are applicable to the services delegated to it, as well as the number of complaints and compliments received.

**72.** The Public Bodies (Joint Working) (Scotland) Act 2014 requires that an annual performance report is completed within four months of the year end. Guidance highlights that the report should cover areas including assessing performance in relation to national health and wellbeing outcomes, financial performance and best value, reporting on localities, inspection of services, and a review of strategic commissioning plan.

**73.** The annual performance report was presented to the Orkney IJB on 27 June 2018, in line with the requirements of the act and noted the following progress:

- Green – 57 actions.
- Amber – 19 actions.
- Red – 11 actions.
- 1 action still to be allocated a status.

**74.** Overall, we consider the quarterly reporting is of a good standard. We will keep this area under review over the five-year audit appointment and will report as appropriate.

**75.** Orkney have had a good arrangement and buy-in regarding joint working by partners prior to the commencement of the Orkney IJB and management consider, as a result, that most of the shift in resources was completed prior to the implementation of Integrated Working, for example the Piper Ward was closed and the Integrated Care Team was created. Partners consider hospital beds to now be at minimum levels, as agreed in the New Hospital business case.

**76.** The Orkney IJB vision is understood by partners. However, budget setting is still focussed on services rather than the Orkney IJB deciding on spending priorities.

**77.** The Orkney IJB members are provided with monthly monitoring reports outlining the financial position and reasons for significant variances. The Orkney IJB has acknowledged the following challenges in trying to ensure management of resources is effective and sustainable:

- It is a struggle to recruit to specific posts due to a national shortage of qualified staff. This will need to be investigated moving forward within the workforce plan of both organisations and within Orkney IJB third sector organisations.
- There is a lack of funding to allow innovation on any major changes. Therefore, there is no capacity to change services whilst still maintaining current care arrangements to patients/service users.

**78.** We plan to monitor arrangements going forward in 2018/19.

### **National performance audit reports [as appropriate]**

**79.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18 we published some reports which are of direct interest to the Board as outlined in [Appendix 3](#).

**80.** In December 2015, Audit Scotland published the first of three national reports looking at the integration of health and social care. In the report we recognised that The Public Bodies (Joint Working) (Scotland) Act 2014 introduced a significant programme of reform affecting most health and care services and over £8 billion of public money. The reforms are far reaching and have scope to address previous barriers to providing the right care for people closer to home.

**81.** Audit Scotland also reported some significant risks to the success of health and social care integration. These included complex governance arrangements, difficulties in budget-setting and consequent delays in strategic planning. The scale of the change is significant and will not happen quickly.

**82.** Audit Scotland have carried out a second national review, in 2018, now that integration authorities are more established, to look at progress and to follow up on these risks. The audit examines changes to the system, including evidence for shifts in service delivery from acute to community-based and preventative services, and for impact on the lives of local people. The report is due to be published in November 2018.

# Appendix 1

## Action plan 2017/18

### 2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Annual Audit Report</b></p> <p>We identified a significant number of changes to the management commentary and annual governance statement which resulted in additional resource and effort from both Audit Scotland and the Chief Finance Officer and delayed the audit process for Orkney IJB.</p> <p>There is a risk that the changes required may delay the audit process.</p>	<p>The Orkney IJB require to implement a quality assurance process to help support the Chief Financial Officer in preparing the annual report and accounts to ensure the content is clear, concise and adheres to guidance prior to submission for audit.</p> <p><a href="#">Paragraph 25</a></p>	
2	<p><b>Financial Planning</b></p> <p>The 2018/19 budget for the Orkney IJB requires the delivery of £1.448 million of savings during the year in order to breakeven. The budget was not approved by the Orkney IJB as plans to achieve £1.138 million of the savings were still unidentified.</p> <p><b>Risk</b></p> <p>There is a risk that Orkney IJB is not able to develop appropriate budgets each year if full saving plans are not in place.</p>	<p>Plans to meet the required savings should be identified and the budget for 2018/19 should be formally approved by the Orkney IJB.</p> <p><a href="#">Paragraph 41</a></p>	



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p><b>Integration Scheme Review</b></p> <p>The Orkney IJB Integration Scheme currently includes a section (2.10.7.5) which states that any additional payments paid by partner bodies may be deducted from future years funding.</p>	<p>The Orkney IJB should review and update their Integration Scheme to ensure there is a shared understanding between partners that it is undesirable to cut subsequent years' funding allocations by the current year's additional funding (in the event of a deficit) as this will compound any funding gap because at present it is challenging to achieve in-year balanced budgets without further reductions due to previous year overspends.</p>	
4	<p><b>Financial Planning – Longer term planning</b></p> <p>The Orkney IJB does not currently have a medium to long term financial plan in place.</p> <p>The absence of longer term financial planning increases the risk of the Orkney IJB not being able to achieve its strategic commissioned objectives.</p>	<p>Longer term financial planning should be developed to take account of any future budget saving pressures and to demonstrate a link to the objectives set out in the Strategic Commissioning Plan.</p>	
5	<p><b>GDPR Review</b></p> <p>The Orkney IJB has not carried out an internal review to assess the impact of GDPR coming into force.</p> <p>There is a risk that the Orkney IJB could be in breach of its statutory responsibilities under GDPR.</p>	<p>The Orkney IJB should consider the impact of GDPR on its operations to ensure that its processes for processing personal data comply with the requirements of the new legislation.</p>	



No.	Issue/risk	Recommendation	Agreed management action/timing
<b>Follow up of prior year recommendations</b>			
b/f	<p><b>Financial management</b></p> <p>NHS Orkney incurred a deficit of £0.180 million in 2016/17 for the provision of healthcare services allocated by the Integration Joint Board. A decision was made by the Finance and Performance Committee of NHS Orkney to deduct the 2016/17 overspend from 2017/18 funding which means that the Integration Joint Board will receive £0.180 million less funding from NHS Orkney in 2017/18.</p> <p>While this decision is in accordance with the agreed Integration scheme it is not based on sound principles.</p>	<p>The Integration Joint Board should ensure that plans are developed so that there will be no recurrence of the £0.180 million overspend and to determine how the Integration Joint Board will manage with £0.180 million less funding from NHS Orkney in 2018/19.</p>	<p>The Orkney IJB requires to review and update their Integration scheme in relation to enabling partner bodies to carry forward overspends in to future years as this arrangement is unsustainable.</p> <p>See paragraph 42 and recommendation 3 above.</p>
b/f	<p><b>Financial sustainability</b></p> <p>The Integration Joint Board's financial plans detail reductions of 2.5% in the budgets for 2017/18 and 2018/19. The Integration Joint Board has also budgeted for a break-even position in each of these years and this will be challenging.</p> <p>Robust plans need to be in place as it seems unlikely that further non-recurrent funds will be made available by partners to fund any further pressures.</p>	<p>The Integration Joint Board needs to develop medium to long term financial plans to assist in addressing upcoming and future budget challenges.</p>	<p>See paragraph 43 and recommendation 4 above.</p>

# Appendix 2

## Significant audit risks identified during planning












The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the Code of Audit Practice 2016.

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Review of the assurances provided by the of NHS Orkney and Orkney Islands Council.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Review of accounting estimates.</p>	<p>Satisfactory written assurances were received from the external auditors of NHS Orkney and Orkney Islands Council regarding accounting estimates, journal testing and accuracy, allocation and cut-off of Orkney IJB transactions.</p> <p>No fraud concerns were identified from our work in relation to the risk of management override of control.</p> <p>Conclusion - Satisfactory</p>
<p><b>2 Wider financial position</b></p> <p>The latest briefing note for Members regarding financial monitoring up to December 2017 shows the outturn position is forecast to be a deficit of £0.541m by the year end.</p> <p>There is a risk that overspends may require additional payments from the council and health board and that there may be difficulties in producing a balanced outturn in future years.</p>	<p>Ensure budget monitoring is robust and accurately reflects the financial position.</p> <p>Confirmation of compliance with Orkney Integration Scheme for funding of overspends.</p> <p>Confirmation of agreement of funding and balances with host bodies.</p>	<p>Reviewed budget monitoring reports on an ongoing basis.</p> <p>At 31 March 2018, the Orkney IJB reported an overspend of £0.662 million against its un-approved 17/18 budget. To address this, NHS Orkney and Orkney Islands Council agreed to provide additional funding of £0.478 million and £0.184 million respectively to ensure the Orkney IJB finished the year in a break-even position.</p> <p>Conclusion - Satisfactory</p>
<p><b>3 Hospital acute services (Set Aside )</b></p> <p>Arrangements for calculating and disclosing the sum set aside for hospital acute services are not yet operating as required by legislation and statutory guidance.</p>	<p>Continued engagement with officers prior to the accounts being prepared to ensure that the relevant information is disclosed and the timetable is met.</p>	<p>The budget (£6.7 million) and actual expenditure (£7.361 million) reported for set aside was provided by NHS Orkney at the year end and reported to the Orkney IJB.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>There is a risk that the Orkney Integration Joint Board is unable to provide a reliable figure for Hospital acute services (set aside) for inclusion in the annual accounts.</p>		<p>Partners agreed that the actual expenditure of £7.361 million would be managed by NHS Orkney with no in year consequences on the partnership and therefore the accounts include £7.361 million set aside costs for hospital acute services.</p> <p>As the Orkney IJB is deemed coterminous this has resulted in the NHS Orkney set aside amount for 2017/18 and going forward as being part of general funding.</p> <p>Conclusion - Satisfactory</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p><b>4 Change of Chief Officer</b></p> <p>The current Chief Officer has submitted her resignation to take up a senior role elsewhere with effect from 31 March 2018.</p> <p>There is a risk that there may not be suitable measures in place following the Chief Officer's departure to ensure compliance with all applicable statutes and regulations.</p>	<p>Senior personnel arrangements will be monitored.</p>	<p>There has been no Chief Officer in post since April 2018 although a replacement Chief Officer has now been appointed and started in September 2018. The interim arrangement is for Chief Officer responsibilities to be borne by the Chief Executive Officers of Orkney Islands Council and NHS Orkney.</p> <p>Conclusion - Satisfactory</p>
<p><b>5 Long term financial planning</b></p> <p>Orkney Integration Joint Board has not yet developed long term financial plans.</p> <p>Longer term financial planning is increasingly important as demand pressure increases, financial settlements continue to reduce and fundamental service redesign over a longer time frame becomes necessary.</p>	<p>Monitor progress with preparing longer term financial plans providing comment in our annual audit report 2017/18.</p>	<p>See paragraph 43 and recommendation 4 above.</p>

# Appendix 3

## Summary of national performance reports 2017/18

		 <b>2017/18 Reports</b>	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		<b>Jun</b>	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		<b>Aug</b>	
Equal pay in Scottish councils		<b>Sept</b>	
Transport Scotland's ferry services		<b>Oct</b>	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		<b>Nov</b>	
		Dec	
		Jan	
Early learning and childcare		<b>Feb</b>	
Managing the implementation of the Scotland Acts		<b>Mar</b>	

### Reports relevant to Integration Joint Boards

[Self-directed support: 2017 progress report](#) – August 2018

[NHS in Scotland 2017](#) – October 2018



# Orkney Integration Joint Board

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