

# NHS Orkney

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared by Audit Scotland  
July 2021

---

# Contents

---

Key messages	3
Introduction	5
1. Audit of 2020/21 annual report and accounts	7
2. Financial management	11
3. Financial sustainability	17
4. Governance and transparency	21
5. Value for money	25
Appendix 1. Action plan 2020/21	31
Appendix 2. Significant audit risks	38
Appendix 3. Summary of 2020/21 national performance reports	44

---

# Key messages

---

## 2020/21 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 The audited part of the remuneration and staff report, performance report and governance statement are all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.
- 3 Due to accounting issues related to central Covid-19 expenditure there was a minor delay in signing the accounts.

## Financial management and sustainability

- 4 NHS Orkney operated within its revised revenue resource limit for 2020/21. NHS Orkney incurred additional expenditure of £11.808 million in relation to Covid-19 costs. These costs were fully met by the Scottish Government.
- 5 In line with Scottish Government guidance, NHS Orkney has developed a one-year financial plan for 2021/22. The pandemic has had a significant impact, and this is still be evaluated over the medium/longer term. To achieve breakeven in 2021/22, savings of £5.47 million are required and 77 per cent of the savings have yet to be identified.
- 6 NHS Orkney has ongoing difficulties in the recruitment of staff and agency costs increased by 48 per cent in 2020/21.

## Governance, transparency and value for money

- 7 NHS Orkney has effective governance arrangements in place that support good governance and accountability. Changes to the arrangements in response to the Covid-19 outbreak in March 2020 are set out in the Governance Statement in the accounts.
- 8 NHS Orkney reported a small number of information governance failures in early 2020/21. An independent evaluation was carried out in 2020/21 and action to address issues has been ongoing.
- 9 There has been significant change within the senior management team in 2020/21. However, we are satisfied that there was effective leadership throughout the year.

- 10** Covid-19 has significantly impacted NHS Orkney's activity and waiting times for services. NHS Orkney has published a remobilisation plan to address backlogs caused by the Covid-19 pandemic and how and when services will be restored
- 11** NHS Orkney is in the process of developing a clinical strategy to develop clinically led strategic direction for the board.
- 12** The board has appropriate performance management arrangements in place which support continuous improvement. However, NHS Orkney may want to review this to align arrangements to the revised clinical strategy.

---

# Introduction

---

**1.** This report summarises the findings from our 2020/21 audit of Orkney Health Board, commonly known as NHS Orkney. The scope of our audit was set out in our Annual Audit Plan presented to the March 2021 meeting of the Audit and Risk Committee. This report comprises the findings from:

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

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

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

**3.** The global coronavirus pandemic has had a considerable impact on NHS Orkney during 2020/21. This has had significant implications not least for the services it delivers but also for the costs of healthcare provision, sickness absence levels, and the suspension of non-essential activities. Risks related to the pandemic were included in our AAP.

## Adding value through the audit

**4.** We add value to NHS Orkney through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides.

**5.** We aim to help NHS Orkney promote improved standards of governance, better management and decision-making and more effective use of resources.

## Responsibilities and reporting

**6.** NHS Orkney has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and

accounts that are in accordance with the accounts direction from the Scottish Ministers.

**7.** NHS Orkney is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.

**8.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

**9.** This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

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

## Auditor Independence

**11.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**12.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £73,630, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**13.** This report is addressed to the board and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

---

# 1. Audit of 2020/21 annual report and accounts

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

---

## Main judgements

Our audit opinions on the annual accounts are unmodified.

The audited part of the remuneration and staff report, performance report and governance statement are all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Due to accounting issues related to central Covid-19 expenditure there was a minor delay in signing the accounts.

---

## Our audit opinions on the annual report and accounts are unmodified

**14.** The board approved the annual report and accounts for the year ended 31 March 2021 on 1 July 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## There were delays in signing the annual report and accounts due to an accounting issue relating to Personal Protective Equipment and community testing kits

**15.** As a result of the continuing impact of Covid-19 the Scottish Government extended the deadline for the submission of health board audited annual reports and accounts from 30 June 2021 to 30 September 2021. This mirrored the 2019/20 arrangements.

**16.** The unaudited annual report and accounts were received in line with our agreed audit timetable on 3 May 2021. During the audit an emerging issue related to accounting for Personal Protective Equipment (PPE) and community testing kits requiring an adjustment to the accounts and further audit work (details are in [Exhibit 2](#)). This resulted in a delay of 1 week in signing the accounts.

## Overall materiality was revised on receipt of the draft accounts

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

### Exhibit 1

#### Materiality values

Materiality level	Amount
Overall materiality	£0.85 million
Performance materiality	£0.5 million
Reporting threshold	£20 thousand

## Conclusions on audit work to address risks of material misstatement

**18.** [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and inform where the efforts of the team are directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

**19.** At the conclusion of our audit we have no issues to report from our work on the risks of material misstatement and we have gained sufficient assurance to support our audit opinions.

## Significant findings from the audit of the annual report and accounts

**20.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of NHS Orkney's accounting practices. We have included significant findings to report on the qualitative aspects covering accounting policies, accounting estimates and financial statements disclosures.

**21.** The significant findings are summarised in Exhibit 2. Where a finding has resulted in a recommendation to management, a cross reference to the action plan in Appendix 1 has been included.

## Exhibit 2

### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. Disclosures in remuneration report</b></p> <p>There were a number of disclosure issues identified within the remuneration report including:</p> <ul style="list-style-type: none"> <li>• the pension benefit figures disclosed had not all been updated for 2020/21</li> <li>• a small number of pension benefits were disclosed in the wrong bandings</li> <li>• the gross pay figure for a small number of staff was incorrect</li> <li>• higher paid employees remuneration disclosures did not agree to underlying supporting records.</li> </ul>	<p>Management has adjusted the disclosures in the remuneration report in line with the underlying payroll information.</p> <p>We are satisfied that the revised remuneration report reflects appropriate information for all listed individuals.</p>
<p><b>2. Personal Protective Equipment and Community Testing kits</b></p> <p>NHS NSS was centrally responsible for ordering appropriate PPE and community testing kits and issuing them to NHS Boards for use within their local area. This was done at no additional cost to the NHS Boards.</p> <p>Audit Scotland has reviewed this arrangement and concluded that the provision of PPE and testing kits should be treated as non-monetary grants and as such the expenditure should be included in the NHS Boards accounts.</p> <p>A revised funding allocation was issued to cover the increased expenditure at the Board.</p>	<p>NHS Orkney recognised £0.89 million in costs relating to the PPE and community testing kits.</p> <p>We have reviewed supporting documentation for these costs and we are satisfied the figures fairly represent the value of goods received from NSS in 2020/21 and are appropriately reflected in the revised accounts.</p>

Source: Audit Scotland

### Identified misstatements of £0.89 million were adjusted in the accounts

**22.** Total misstatements identified were £0.89 million.

**23.** The adjustment relates to the accounting treatment for PPE and community testing kits and we are satisfied this is an isolated issue and does not indicate further systematic errors in the accounts.

**24.** Adjustments made in the audited accounts increased net expenditure in the Statement of Comprehensive Net Expenditure by £0.89 million and were matched by an additional funding allocation from the Scottish Government.

**25.** We identified some disclosure and presentational adjustments during our audit which have been reflected in the final set of accounts. The adjustments included disclosures relating to assets under construction, impairments and our audit fee.

### **Progress was made on prior year recommendations**

**26.** NHS Orkney has made some progress in implementing our prior year audit recommendations. We are aware the impact of Covid-19 has resulted in some actions being delayed and we are satisfied that work on these areas has now restarted. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

---

## 2. Financial management

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

---

---

### Main judgements

NHS Orkney had appropriate financial management arrangements in place.

NHS Orkney met all its financial targets for 2020/21 and operated within its revised Revenue Resource Limit

NHS Orkney incurred additional expenditure of £11.808 million in relation to Covid-19 costs. These costs were fully met by the Scottish Government.

---

### NHS Orkney operated within its Revenue Resource Limit (RRL)

**27.** From 2019/20 the Scottish Government introduced a new approach to the management of resources against financial planning targets. Boards were offered flexibility to manage small over/ under spends (within 1% of targets) within an overall breakeven position across a three year planning cycle.

**28.** [Exhibit 3](#) shows that actual expenditure was lower than forecast and as a result NHS Orkney reported a small underspend.

**29.** The Scottish Government paused the normal financial planning arrangements under the Scottish Government's Health and Social Care Medium Term Financial Framework due to the pandemic and announced that all Health Boards would be fully funded in 2020/21. Throughout 2020/21, additional non-recurring funding allocations were provided based on the estimated financial impacts of the pandemic on the board.

**Exhibit 3****Performance against resource limits in 2020/21**

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	77.11	77.03	0.08
Non-core revenue resource limit	2.72	2.72	0
<b>Total revenue resource limit</b>	<b>79.83</b>	<b>79.75</b>	<b>0.08</b>
Core capital resource limit	1.078	1.078	0
<b>Cash requirement</b>	<b>76.968</b>	<b>76.968</b>	<b>0</b>

Source: NHS Orkney Annual Report and Accounts 2020/21

### **Budget processes were appropriate. There was a significant financial impact due to Covid-19**

**30.** We reviewed NHS Orkney's budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and Board members receive regular, timely and up to date financial information on the board's financial position. The budget monitoring reports presented to each Board meeting clearly show the extent of the board's reliance on non-recurring savings and the content and format of the reports allow members to perform their scrutiny role.

**31.** In May 2020 NHS Orkney's updated annual operation plan set an overall budget for 2020/21 of £64.72 million and forecast a breakeven position in each year to 2022/23 based on range of cost reductions and savings targets.

**32.** NHS Orkney did not formally approve the budget as a result of Covid-19 and instead focused on its response to the pandemic and remobilisation plans.

**33.** As part of the NHS re-mobilisation exercise, boards estimated the financial impact of the pandemic. This included increased costs for Covid-19 related activity and decreased costs due to reduced demand in other areas, and loss of income. These estimates were kept under review and reported in published plans to the Scottish Government on a regular basis.

**34.** Additional funding from the Scottish Government for Covid-19 totalled £11.81 million across NHS Orkney and the IJB as shown in [Exhibit 4](#). The majority of the costs related to building capacity within the workforce; staff costs increased by £7.03 million. The Board had savings and cost reductions of £6.63 million planned in year and only £0.73 million were achieved in year. NHS Orkney has also recorded cost reductions of £2.61 million in year due to reduced activity in 2020/21.

**35.** Direct Covid-19 related expenditure was tracked using specific account codes in the general ledger and/or disclosed in the accounts. [Exhibit 4](#) shows

the expenditure in these areas compared to additional Covid-19 related funding allocations.

## Exhibit 4

### Covid-19 Costs compared to additional funding allocations

	Total Funding Received (£m)	Covid 19 costs (£m)	Under-achievement of savings (£m)	Offsetting savings (£m)	Difference (£m)
NHS Orkney	9.27	(6.42)	(5.23)	2.37	0
Orkney IJB	2.54	(2.10)	(0.67)	0.23	0

Source: NHS Orkney annual report and accounts and financial performance reports

### In 2020/21 Orkney IJB received additional earmarked funding which was unutilised at the year end and is held in reserves

**36.** NHS Orkney delegates responsibility for a specified range of health and community care services to the Orkney Integration Joint Board (the IJB) and passes the budgets associated with these services to the IJB. The budget is amended throughout the year to reflect additional funding received by the board for IJB services. Under the integration financial guidance, any funding unspent at the year-end belongs to the IJBs and is retained by them to be held in reserves for use in future years.

**37.** A number of additional Covid-19 allocations were earmarked by the Scottish Government for the use by the Joint Boards. These were included in full as part of NHS Orkney funding to these bodies. There was £2.323m of earmarked funds which were unutilised at 31 March 2021 and consequently the integration joint board held reserves at the year end.

### £0.73 million of efficiency savings were achieved

**38.** In its original budget for 2020/21, NHS Orkney had identified a number of cost control measures which would alleviate financial pressures. This included cost reductions of £3.64 million and efficiency savings of £2.99 million. Due to the pandemic only 11 per cent of these savings were achieved and all were on a non-recurring basis.

**39.** Throughout 2020/21 NHS Orkney reported there was a risk that it would not achieve its savings target. The Finance and Performance Committee were provided with projections of the savings figure at each meeting and in May 2021 it was confirmed that £5.9 million of the savings target had not been achieved. In February 2021 Scottish Government announced they would fund the non-achievement of savings in 2020/21 and this allowed NHS Orkney to remain within its financial targets.

## Financial systems of internal control are operating effectively

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

**41.** Although there were no significant weaknesses identified from our review of controls, we identified three areas for improvement:

- The payroll function is outsourced to NHS Grampian. The Service Level Agreement (SLA) with NHS Grampian commenced in 2015 and covered the period to 2018. We are aware that there have been changes to the service in recent years and the SLA has not been updated. The SLA in place does not reflect the services provided and we recommend that a review is undertaken, and a new SLA developed.
- We conducted sample testing of controls over the authorisation of journals and we found that six of the thirty sampled journals were authorised over two months after the journal was posted. This increases the risk of errors and as a result of this we increased the level of testing at the year end. We did not identify any issues from our year end testing. However, we would recommend that going forward journals are authorised timeously.
- All members of the Board are required to disclose their interests in line with guidance issued by NHS Orkney. Accounting standards state that when identifying potential related parties, close family members should also be considered. There is no evidence from the register of interests that NHS Orkney considers the interests of family members.

**42.** We concluded that the controls put in place by management are satisfactory and are operating effectively.

---

## Recommendations 1, 2 and 8

We recommend that NHS Orkney takes action to address the weaknesses in the system of internal control in 2021/22.

---

## Shared systems

**43.** The NHS in Scotland procures a number of service audits each year for shared systems: NHS National Services Scotland (NSS) procures service audits covering primary care payments and the national IT contract; and NHS Ayrshire & Arran procure a service audit of the National Single Instance eFinancials service.

**44.** We have considered the assurances provided in the service auditors' assurance reports along with any associated external audit reports. The service auditor assurance report in relation to the National Single Instance eFinancials service was unqualified.

**45.** In 2019/20 the NHS NSS service auditor's assurance reports in relation to primary care payments and the national IT contract were both qualified due to areas where there was insufficient documentary evidence of verification and reconciliation checks. The IT contract service audit does not have a qualified opinion in 2020/21. However, the service audit report on primary care payments continues to have a qualification.

**46.** Qualifications were made for four out of the five control objectives in the Practitioner and Counter Fraud Services - Non Covid Payments ISAE 3402 Type II Report. The findings covered three main areas:

- Controls descriptions which do not correctly set out the tests being performed
- Lack of formal documentation and retention of the verification and reconciliation activities performed
- There was a lack of validation checks on ad hoc payments made outwith the routine processes.

**47.** NSS commissioned their internal auditor to conduct additional financial controls work on the ad hoc payments which gave a strong positive conclusion.

**48.** NHS Orkney presented the service auditors' reports to the Audit and Risk Committee in July 2021. Additional disclosures have been added to the Governance Statement to describe local scrutiny and verification of payments to primary care contractors.

**49.** We have outlined our work undertaken to obtain appropriate assurance in [Appendix 2](#).

## Internal audit

**50.** NHS Orkney's internal audit function is carried out by Azets. We carried out a review of the adequacy of the 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.

**51.** Azets has concluded their 2020/21 audit work and presented their Annual Audit Report, which included the annual internal audit opinion, to the 4 May 2021 Audit and Risk Committee.

**52.** The overall conclusion of internal audit is that NHS Orkney has a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework and management of key risks subject to action to address issues relating to internal and external communications, IT controls issues and strategic cyber security and changes to staff pay bandings.

**53.** We are satisfied that there is appropriate disclosure of areas which are deemed high risk in the governance statement.

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

**54.** There are appropriate arrangements for the prevention and detection of fraud, error and irregularities. NHS Orkney is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, the board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

**55.** We have reviewed the arrangements in place to maintain standards of conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption. We found these procedural documents to be appropriate, current and readily available to staff on the internet.

**56.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. NHS Orkney has not started work to investigate the identified matches, but plans are in place to conduct this work in the near future.

---

# 3. Financial sustainability

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

---

---

## Main judgements

In line with Scottish Government guidance, NHS Orkney developed a one-year financial plan for 2021/22. The pandemic has had a significant impact, and this is still be evaluated over the medium/longer term.

To achieve breakeven in 2021/22 savings of £5.47 million are required and 77 per cent of the savings are yet to be identified.

NHS Orkney has ongoing difficulties in the recruitment of staff and agency costs increased by 48 per cent in 2020/21.

---

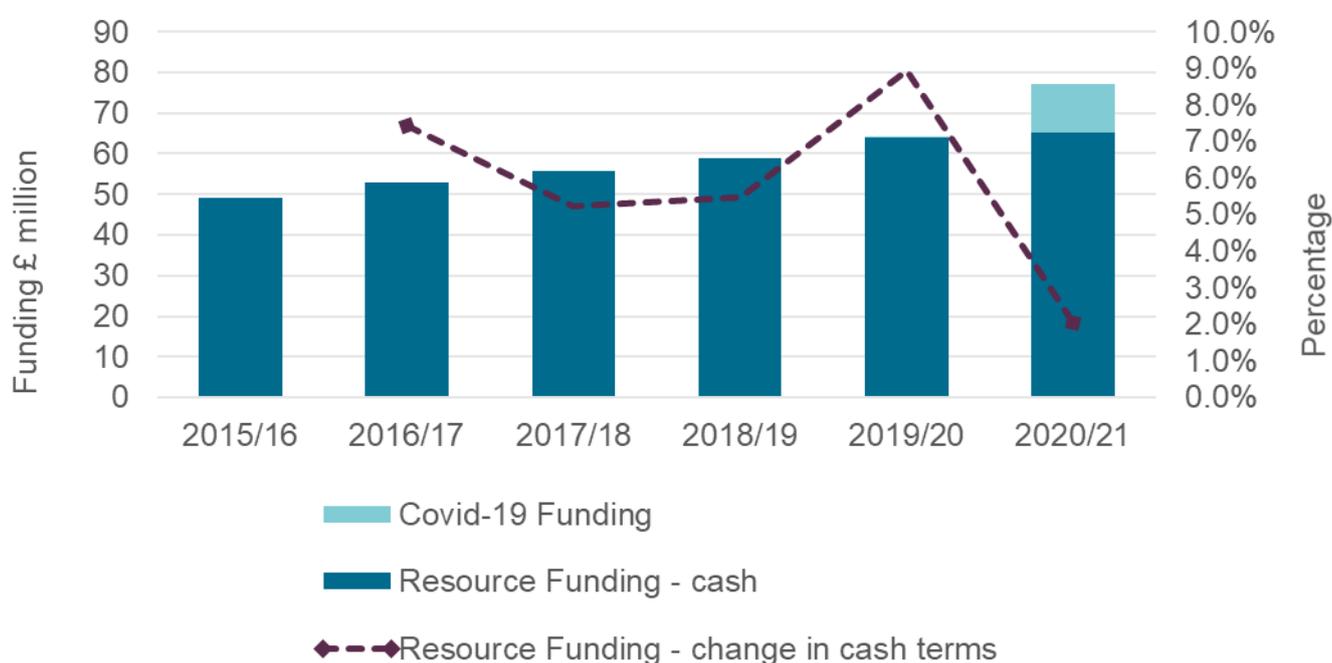
## Additional Covid-19 funding has driven an 18.9 per cent increase in revenue funding in cash terms

**57.** Revenue funding to NHS Orkney in 2020/21 from the Scottish Government has grown by 18.9 per cent in cash terms compared to 2019/20, however this includes non-recurring funding of £11.81m relating to Covid-19. When this is excluded the revenue funding has grown by 2.1 per cent in cash terms ([Exhibit 5](#)).

**58.** The current 2021/22 Scottish budget includes a rise in cash terms in baseline funding for NHS Orkney of £2.19m (4.2%). Additional Covid-19 related funding of £869 million will be distributed across NHS Scotland in 2021/22.

**Exhibit 5**

NHS Orkney resource funding (excluding Covid-19 funding) has a small increase in cash terms



Source: NHS Orkney annual report and accounts/ Audit Scotland

### NHS Orkney has prepared a one-year financial plan for 2021/22 as required by the Scottish Government and medium and long term financial plans will be revised following the Covid19 pandemic

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

**60.** The Scottish Government required that all remobilisation plans were submitted in February 2021. Due to time constraints, it was not formally agreed by the Board prior to submission to the Scottish Government. However, the financial plan was presented to the Finance and Performance Committee in February 2021. The remobilisation plan was presented to the Board in April and approved.

**61.** NHS Orkney's forecast includes additional costs relating to Covid-19 and costs related to recovering and addressing service backlogs in other areas.

**62.** The plan includes a forecast financial gap of £5.47 million and there is a risk this could increase by £5.16 million if no funding is made available by the Scottish Government for costs associated with Covid-19.

**63.** Based on the current allocations announced by the Scottish Government, NHS Orkney is forecasting to overspend in 2021/22. The financial gap is split between a recurring deficit of £2.79 million and non-recurring pressures of

£2.68 million. To date NHS Orkney has identified £1.25 million of savings, £0.7 million are on a recurring basis, and therefore has an unidentified savings requirement of £4.22 million. NHS Orkney are working to develop options for delivering the required savings in year.

---

### Recommendation 3

The board should ensure that savings plans are developed identifying how the remaining £4.22 million of savings in 2021/22 will be made.

---

#### Development of savings plans has been delayed due to the pandemic.

**64.** NHS Orkney prepared a draft Annual Operational Financial Plan in November 2020 providing a high level financial outlook for the three year period to 2023/24.

**65.** This set out an initial assessment of the savings required over the three year period to allow NHS Orkney to breakeven. The provisional financial plan identified a cumulative savings gap of £14.2 million across the three year period.

**66.** In recent years NHS Orkney has not had a good track record in achieving recurring savings. In order to breakeven in 2021/22 and beyond, NHS Orkney will be required to identify significant saving schemes.

**67.** Work on the medium term financial plan has been paused following Scottish Government Guidance on financial planning in 2021/22. NHS Orkney will consider their approach to medium and long term financial planning in line with Scottish Government guidance.

**68.** NHS Orkney should address the wider financial challenge through transformational change across the whole system. Medium term service redesign will be critical to achieving the level of savings required while maintaining performance at the required level.

---

### Recommendation 4

In order to achieve the required level of medium term efficiency savings NHS Orkney should develop a transformational plan for the redesign of services. This should be developed alongside the clinical and workforce strategies.

---

#### Workforce management

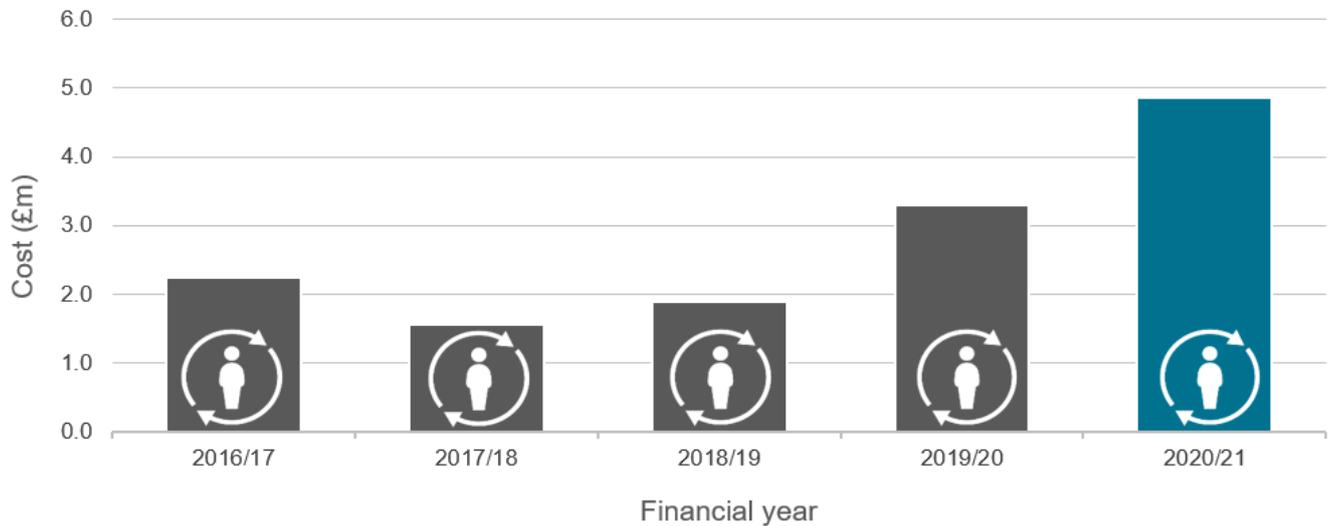
**69.** NHS Orkney has historic issues in relation to the recruitment and retention of staff. The Board has recognised that there is a significant risk to the delivery of services due to inadequate qualified resource.

**70.** Over the past 5 years the use of locums at NHS Orkney has increased. In 2020/21 NHS Orkney increased capacity in preparation for a

surge in Covid-19 cases which resulted in agency costs of £4.87 million, an increase of £1.57 million (47.8 per cent) compared to 2019/20.

## Exhibit 6

### Agency staff costs



Source: NHS Orkney annual report and accounts/ Audit Scotland

**71.** NHS Orkney continues to be concerned by the reliance on locums to deliver services as they recognise this increases overall staff costs and they do not get the benefits of a continuous workforce to drive strategic developments.

**72.** In April 2021 plans were approved to recruit consultant staff, following an exercise set appropriate staffing levels and NHS Orkney are working towards the development of a medium term workforce plan. The workforce plan will be informed by the clinical strategy and an interim workforce plan covering the period to 31 March 2022 is in place.

# 4. Governance and transparency

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

## Main judgements

NHS Orkney has effective governance arrangements in place that support good governance and accountability. Changes to the arrangements in response to the Covid-19 outbreak in March 2020 are set out in the Governance Statement.

NHS Orkney reported a small number of information governance failures in early 2020/21. An independent evaluation was carried out in 2020/21 and action to address issues has been ongoing.

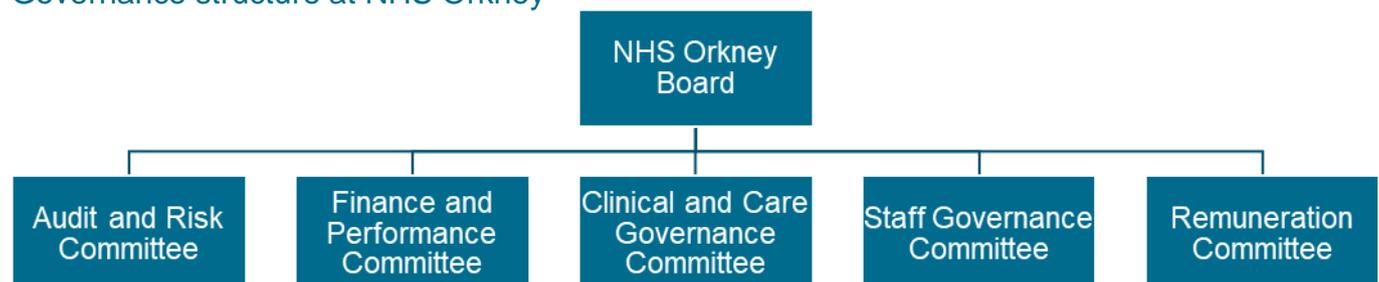
There has been significant change within the senior management team in 2020/21. However, we are satisfied that there was effective leadership throughout the year.

## The governance arrangements and controls operating throughout the Covid-19 pandemic have been appropriate

**73.** The NHS Orkney Board is responsible for establishing the overall strategic direction and fulfilling the legislative powers of the organisation. The Board operates with ten non-executive members and five executive members and is supported by 5 committees as outlined in [Exhibit 7](#).

### Exhibit 7

Governance structure at NHS Orkney



**74.** The impact of Covid-19 from March 2020 has been set out in the Governance Statement in NHS Orkney's annual accounts. We reported in last year's annual report on the revised governance arrangements introduced by NHS Orkney including:

- The suspension of Board meetings in public in accordance with the Board's legal duty to protect public health and comply with social distancing guidance
- All meetings were held in a way which does not require members to physically meet
- Governance committees were suspended, and all essential business was put through the Board. This arrangement was in place throughout April with standing committees operating again from May 2020.

**75.** We have concluded that the governance arrangements at NHS Orkney in 2020/21 were appropriate and supported scrutiny of decisions made in year.

## Openness and transparency

**76.** Openness and transparency is about how an organisation operates and makes decisions and ensures that the public have access to understandable, relevant and timely information about board decisions and how it is using resources such as money, people and assets.

**77.** NHS Orkney consider it is not currently appropriate to convene meetings of the Board in public due to the measures put in place across the country to prevent the spread of Covid-19. The Board invites local media to all meetings and publishes meeting papers on the website in advance of each Board meeting.

**78.** Full papers are not published for the five supporting committees; the agendas and minutes are available to the public via the website. From a review at the year end it was identified that some committee meetings are missing from the website and there are instances where the agendas and minutes are not up to date.

---

## Recommendation 5

NHS Orkney should put procedures in place to ensure the website is kept up to date.

---

## Senior management

**79.** NHS Orkney has had a period of instability with regards to the leadership team. In June 2020 the Chief Executive retired and it was announced his planned replacement would not be taking up the post. The Chief Executive of NHS Shetland was appointed on an interim basis and splits his time between NHS Orkney and NHS Shetland.

**80.** A further appointment from NHS Shetland was made on an interim basis for the Director of Human Resources post who also splits their time.

**81.** A permanent appointment was made for the Director of Finance in September 2020 which has helped bring stability to the senior management team and allows for more a more strategic approach to the long term financial sustainability.

**82.** A change in leadership can create opportunities to explore culture and develop new and different ways of working. In August 2020 NHS Orkney commissioned a listening programme which was designed to gather feedback regarding the experiences of NHS Orkney staff and the culture within the organisation. The outcome of the programme has been shared with staff and the Board are working with staff to take forward the recommendations.

**83.** A review of accountability and leadership took place in the latter half of 2020/21 with the aim of creating capacity to transform services and create a clinically led strategy. NHS Orkney has recently engaged two associate medical directors and an interim Director of Acute Services who will be instrumental in reviewing the current service position and developing a sustainable medical model.

**84.** A number of the senior management team are appointed on an interim basis and this is an ongoing risk. We will monitor the arrangements in 2021/22 as part of our audit work.

### **NHS Orkney has agreed and concluded revised integration schemes with partners.**

**85.** The Public Bodies (Joint Working) (Scotland) Act 2014 required a review of the integration schemes by March 2021. NHS Orkney has conducted a preliminary review of their arrangements with Orkney Integration Joint Board and reported to the Board in October 2022 that there were no immediate actions required.

**86.** It was agreed that there would be benefit in a more detailed review including an options appraisal for all delegated services to ensure the most efficient planning and delivery of services. The review is scheduled to be completed and reported in September 2021.

### **Information governance**

**87.** In line with all health boards, NHS Orkney holds a significant amount of sensitive information about individuals.

**88.** In 2020/21 the interim Chief Executive requested an external review of the Board's standards, policies, procedures and leadership in this area, following three separate incidents relating to loss of personal data.

**89.** An independent evaluation of the information governance approach was undertaken by NHS NSS. The results of this review were presented to the Audit and Risk Committee in December 2020 and identified a number of gaps in the arrangements at the Board. The review highlighted that there was a significant risk of failure with regards to information governance.

**90.** An action plan was developed by the Board alongside the NSS review with key actions being the development of information governance policies and the appointment of a Head of Information Governance and Data Protection Officer.

**91.** The Audit and Risk Committee has received regular updates on progress against the action plan throughout 2020/21 and it has been demonstrated that actions are progressing in line with agreed timescales.

## Risk Management

**92.** NHS Orkney identified risk management as a priority following its review against the [Blueprint for Good Governance](#). A review of NHS Orkney's approach to risk management took place in 2020/21 and it was identified there was a lack of structure and no escalation process.

**93.** A refreshed risk management and policy framework is being developed which will operate a three tier risk register structure (strategic, tactical and departmental levels). In May 2021 it was noted that a significant amount of the work was complete, and a draft corporate risk register was submitted to the Executive Management Team for approval

**94.** Progress on the development of the risk management framework has been reported to the Audit and Risk Committee. In 2020/21 we considered the terms of reference for this Committee and identified that it is not clear from the terms of reference what role of the Audit and Risk Committee has in relation to risk.

---

## Recommendation 6

The Terms of Reference for the Audit and Risk Committee should make it clear what the role of the Audit and Risk Committee is in relation to risk.

---

## Good practice

**95.** The governance statement highlights that the Interim Chief Executive has regular contact with the public through his personal Facebook page using the live feed. The monthly Facebook Live meetings provide key information and reassurance to the community and cover topical subjects. Over the course of the financial year there has been input from all areas of service including dentistry and general practice surgeries. This demonstrates the commitment of the leadership team within NHS Orkney to open and transparent communications.

---

# 5. Value for money

Using resources effectively and continually improving services.

---

---

## Main judgements

Covid-19 has significantly impacted NHS Orkney's activity and waiting times for services. NHS Orkney has published a remobilisation plan to address backlogs caused by the Covid-19 pandemic and how and when services will be restored

NHS Orkney is in the process of developing a clinical strategy to develop clinically led strategic direction for the board.

The board has appropriate performance management arrangements in place which supports continuous improvement. However, NHS Orkney may want to review this to align arrangements to the revised clinical strategy.

---

## NHS Orkney's remobilisation plan has a series of actions designed to address backlogs caused by the Covid-19 pandemic and restore performance levels

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

**97.** NHS Orkney's Remobilisation Plan, covering the period to 31 March 2022, was approved by the Board and the Scottish Government in April 2021.

**98.** This plan builds on the initial remobilisation plan covering 2020/21 and links the national "Remobilise, Recover, Redesign" framework with NHS Orkney's corporate objectives:

- to reduce morbidity and mortality from COVID-19 and non-COVID-19 ill health
- to ensure the delivery of essential services equitably to meet the general health needs of the population whilst at the same time minimizing the risk of virus transmission
- to ensure that the Board is compliant in meeting the requirements of the Scottish Government in responding to and recovering from the COVID-19 pandemic.

**99.** The remobilisation plans were developed by the Executive Management Team and submitted to the Scottish Government prior to Board approval due to time constraints. However, the Remobilisation Plan is seen as a live document and will be continually updated across the year. There is opportunity

to incorporate any feedback from the Board and further feedback has been sought from the Area Clinical Forum and Area Partnership Forum.

**100.** We are satisfied that the Remobilisation Plan has been appropriately considered and progress with service recovery will be reported to the Board and Committees in 2021/22.

### **NHS Orkney has plans in place to meet Scottish Government timescales for reporting against the Clinical Prioritisation Framework.**

**101.** In November 2020 the Scottish Government published the Framework for Clinical Prioritisation providing guidance for prioritising elective care whilst ensuring appropriate Covid-19 safety and priority measures are in place. While the duties under the Patient Rights (Scotland) Act 2011 still apply, it is expected that the framework is the primary tool for monitoring service performance during the pandemic.

**102.** NHS Orkney has not yet adapted its patient management system to reflect this and waiting lists are being prioritised based on clinical need. NHS Orkney are working towards September 2021 to collate and monitor the information required by the Scottish Government.

### **NHS Orkney is focused on developing a clinical strategy**

**103.** NHS Orkney started developing a new clinical strategy in 2019/20, however, work in this area was paused due to Covid-19.

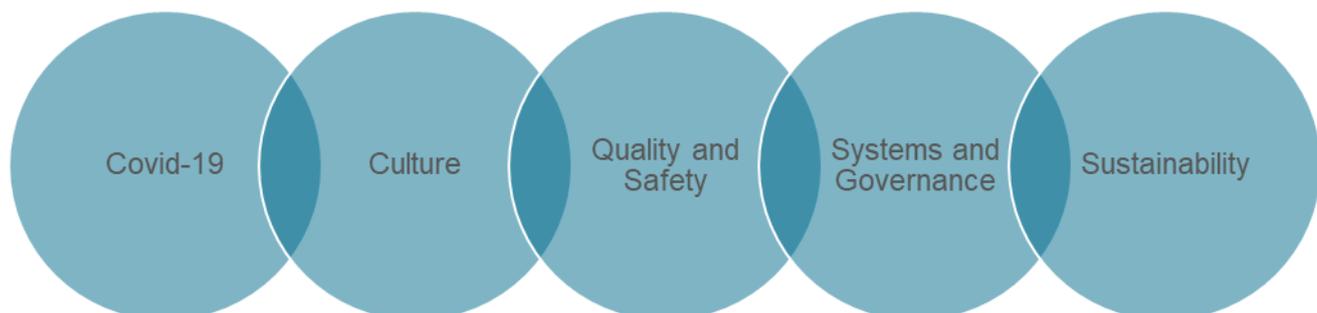
**104.** This work restarted in 2020/21 and the aim is to create a strategic plan for Orkney's health and care services over 3 to 5 years.

**105.** As an interim measure NHS Orkney produced a plan for 2021 which communicates the strategic priorities for the year ([Exhibit 8](#)) and the planned supportive actions.

---

#### **Exhibit 8**

##### Strategic priorities in 2021



Source: NHS Orkney 2021 Plan on a page

---

**106.** The development of a clinical strategy which is linked to workforce and financial plans is a key supporting action for achieving the objective of sustainability.

### **NHS Orkney’s performance management framework may need updated to align to the new clinical strategy**

**107.** Ministerial guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out the accountable officer’s duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

**108.** The Board is well informed of performance through the monitoring of 19 indicators which are aligned to national targets and supplemented by the Annual Operational Plan objectives. Detailed consideration of performance information has been delegated to the Finance and Performance Committee. This Committee meets regularly and the performance report is a standing item on the agenda.

**109.** We reported in 2019/20 that 26 per cent of the 19 indicators being reported did not have up to date information and dated back as far as 2018. In 2020/21 we have noted improvement as only 2 indicators were based on data which was over a year old.

**110.** In order to get the full benefits of performance management reporting the underlying information should be accurate, timely and useful. The Board should consider whether they are using all the indicators reported to drive improvements.

---

## **Recommendation 17**

We consider that 2021/22 would be an opportune time to review the performance management targets to ensure they align to the new clinical strategy and are useful in driving improvement.

---

### **Service performance against national waiting time standards continues to be publicly reported.**

**111.** The 2020/21 annual report and accounts include the position at the end of March 2021 on the board’s performance against its national waiting time standards. These indicators are reported as a key element of NHS Orkney’s performance management framework and they provide context for the scale of the impact of the pandemic of the delivery of health services. [Exhibit 9](#) demonstrates how activity and waiting times have been impacted by Covid-19 and [Exhibit 10](#) provides a comparison of current waiting times compared to prior years.

**112.** The trend analysis shows that, in general, demand fell as we entered the first lockdown. In March 2021 demand levels have risen but have not yet reached pre-Covid levels with the exception of those waiting for outpatients’

appointments. The impact of this is shown in [Exhibit 10](#) which shows the percentage of outpatients waiting less than 12 weeks has reduced from 81.7 per cent in March 2020 to 52.9 percent in March 2021.

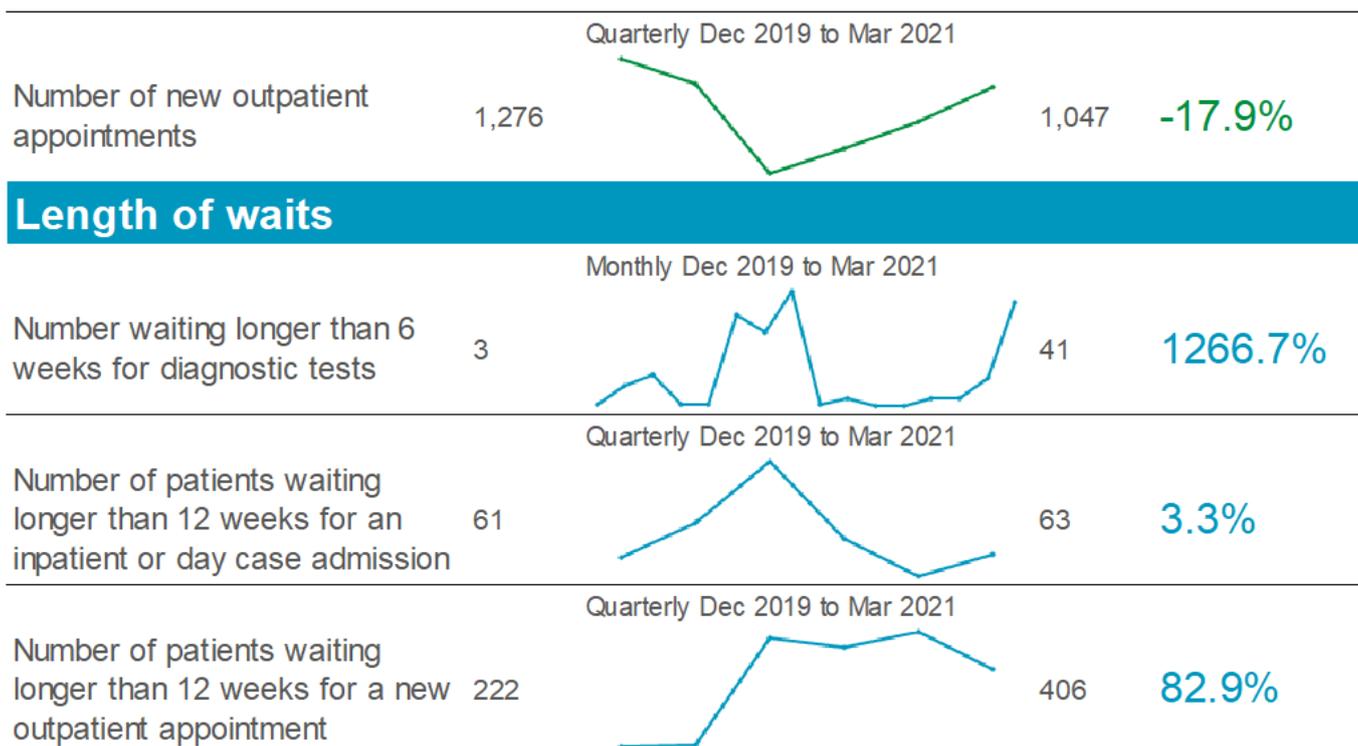
**113.** Activity has fallen with a significant drop in the first quarter of 2020/21 and the length of waits has increased across all targets. Since June 2020 the level of activity has been increasing although it is still not back at pre-Covid levels.

**114.** In year the performance of NHS Orkney has generally decreased, but service has been maintained or improved with regards to the proportion of cancer patients who started treatment within 31 days of the decision to treat and CAMHS waiting times.

**115.** The decrease in performance was expected due to the ongoing Covid-19 pandemic and will be similar across all health boards in Scotland. As highlighted earlier in this report NHS Orkney's remobilisation plan sets out how NHS Orkney will address backlogs caused by Covid-19.

## Exhibit 9 Trends in demand and activity per acute services

Demand		% change
Number waiting for diagnostic tests	157	-34.4%
Monthly Dec 2019 to March 2021		
Number of patients waiting for an inpatient or day case admission	232	-12.1%
Quarterly Dec 2019 to March 2021		
Number of patients waiting for a new outpatient appointment	810	12.7%
Quarterly Dec 2019 to March 2021		
Activity		
Number of scheduled elective operations in theatre system	299	-12.0%
Monthly Dec 2019 to March 2021		
Number of inpatient and day case admissions	192	-18.8%
Quarterly Dec 2019 to Mar 2021		



Source: Public Health Scotland website

## Exhibit 10

Impact of Covid-19 on national waiting time standards (suggest including the eight key waiting times standards)

Target/standard	Performance at March 2019	Performance at March 2020	Performance at March 2021 <sup>1</sup>
<b>Cancer 62 Day RTT</b> Proportion of patients that started treatment within 62 days of referral	100%	100%	85.7%
<b>18 Weeks RTT</b> Proportion of patients that started treatment within 18 weeks of referral	93.5%	93.6%	93.7%
<b>Patient Treatment Time Guarantee (TTG)</b> Proportion of inpatients or day case that were seen within 12 weeks	67.7%	85%	68.67%
<b>Outpatients waiting less than 12 weeks</b>	72.3%	81.7%	52.9%

Target/standard	Performance at March 2019	Performance at March 2020	Performance at March 2021 <sup>1</sup>
Proportion of patients on the waiting list at month end who have been waiting less than 12 months since referral at month end			
<b>A &amp; E attendees</b>	95.6%	95.2%	92.5%
Proportion of A & E attendees who were admitted, transferred or discharged within 4 hours			
<b>Cancer 31 Days RTT</b>	100%	100%	100%
Proportion of patients who started treatment within 31 days of decision to treat			
<b>Drug and Alcohol 21 days</b>	100%	100%	97.1%
Proportion of drug and alcohol patients that started treatment within 21 days			
<b>CAMHS Waiting Times</b>	100%	75%	90%
Proportion of patients seen within 18 weeks of referral			

Note. 1: Figures still to be validated by NHS Information Services Division.

Source: NHS Orkney annual report and accounts and performance management reports

## National performance audit reports

**116.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of direct interest to the board and are highlighted in [Appendix 4](#).

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

# Appendix 1. Action plan 2020/21

## 2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Authorisation of journals</b></p> <p>We sampled authorisation controls over 30 journals and found 6 which were authorised over 2 months after the journal was posted.</p> <p>Risk – Unauthorised journals and errors in journals are not identified timeously leading to misstatements in the accounts.</p>	<p>We recommend that journals are authorised on a timely basis.</p> <p><a href="#">Paragraph 41.</a></p>	<p>Agreed – The Covid 19 pandemic gave rise to a change in working practices with staff working from home. The new working practices took a while to bed in.</p> <p>We will look to authorise journals timeously.</p> <p><b>Responsible officer:</b> Head of Finance</p> <p><b>Agreed date:</b> Immediately</p>
<p><b>2. Registers of interest</b></p> <p>Registers of interest maintained by NHS Orkney do not include the interests of close family members as required by IAS 24.</p> <p>Risk – NHS Orkney do not have a complete record of members interest and is therefore unable to identify any potential related parties.</p>	<p>NHS Orkney should update guidance to require close family members interests to be disclosed</p> <p><a href="#">Paragraph 41.</a></p>	<p>Corporate Administration will consider this recommendation</p> <p><b>Responsible officer:</b> Corporate Services Manager</p> <p><b>Agreed date:</b> On-Going</p>
<p><b>3. Efficiency savings</b></p> <p>For 2021/22 the board is required to deliver £5.47 million of savings. The board has yet to identify £4.22 million of the savings required for next year.</p> <p>Risk – The board may not be able to deliver the targeted savings in 2021/22.</p>	<p>The board should ensure that saving plans are developed identifying how the £4.22 million of savings in 2021/22 will be made.</p> <p><a href="#">Paragraph 63.</a></p>	<p>This will be discussed at Board level and plan drawn up to deliver recurring balance.</p> <p><b>Responsible officer:</b> Chief Executive / Director of Finance.</p> <p><b>Agreed date:</b> 31<sup>st</sup> August 2021</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>4. Medium term savings</b></p> <p>Provisional medium term financial plans identified a cumulative savings gap of £14.2 million over the three year period to 2023/24.</p> <p>Risk – The Board cannot deliver services required over the medium term within the required budgets</p>	<p>NHS Orkney should develop a transformational plan for the redesign of services which is aligned to the clinical and workforce strategies.</p> <p><a href="#">Paragraph 68.</a></p>	<p>This is being considered by the Chief Executive. Actions to date include:</p> <p>A sustainable medical model, Development of a revised clinical strategy and Service redesign</p> <p><b>Responsible officer:</b> Chief Executive</p> <p><b>Agreed date:</b> 31/12/21</p>
<p><b>5. Publication of committee papers</b></p> <p>The agendas and minutes for the sub-committees of the Board are not up to date on the web-site.</p> <p>Risk – NHS Orkney’s decision making and scrutiny processes are not transparent.</p>	<p>NHS Orkney should put procedures in place to ensure the website is kept up to date.</p> <p><a href="#">Paragraph 78.</a></p>	<p>Corporate Administration will consider this recommendation</p> <p><b>Responsible officer:</b> Corporate Services Manager</p> <p><b>Agreed date:</b> 31st July 2021</p>
<p><b>6. Audit and Risk Committee Terms of Reference</b></p> <p>We considered the Terms of Reference for the Audit and Risk Committee and concluded that it is not clear what role the committee has in relation to risk.</p> <p>Risk – There is inadequate scrutiny of risk management due to roles not being clearly defined</p>	<p>The Terms of Reference for the Audit and Risk Committee should make it clear what the role of the Audit and Risk Committee is in relation to risk.</p> <p><a href="#">Paragraph 94.</a></p>	<p>Corporate Administration will consider this recommendation</p> <p><b>Responsible officer:</b> Corporate Services Manager</p> <p><b>Agreed date:</b> 31st July 2021</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>7. Performance and Accountability Reports</b></p> <p>The Performance and Accountability Reports required significant changes in year in order to meet required standards. The revised reports were acceptable but still were not fully compliant with the FReM and SPFM and contained some details which were not required.</p> <p><b>Risk</b> – There is a risk that the narrative accompanying the accounts obscures key messages and does not provide the user with the information they need.</p>	<p>NHS Orkney should consider the content of the Performance and Accountability Reports to ensure that the narrative is clear, concise and meaningful and meets the minimum reporting requirements.</p>	<p><b>Complete</b></p> <p>We have reviewed the Performance and Accountability Reports in 2020/21 and concluded that the reports have improved and there are no significant areas of non-compliance.</p>
<p><b>8. Service Level Agreements</b></p> <p>Sample testing revealed that services provided by NHS Orkney to Orkney Islands Council for speech and language therapy were under an out of date SLA. We also identified that the SLA with NHS Grampian for mental health services had not been finalised.</p> <p><b>Risk</b> – There is a risk that the terms and conditions are out of date and not aligned to the services which are provided. This could result in disputes over services provided or amounts due.</p>	<p>NHS Orkney should conduct a review of services provided under SLAs to ensure they are up to date and reflect the current arrangements.</p>	<p><b>Outstanding (In Part)</b></p> <p>There is no evidence that the SLA with the Council has been reviewed in 2020/21.</p> <p>In addition, we found that the Payroll SLA with NHS Grampian was out of date and did not reflect current arrangements.</p> <p>We recommend that a new SLA is developed.</p> <p><b>Management Response</b></p> <p>The SLA register is under review. The SLA's mentioned above are being taken forward by the appropriate service leads.</p> <p>The mental health SLA has been reviewed and agreed between NHS Grampian and the Director of Finance.</p> <p>Speech and Language will be considered by the Director of Nursing.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>9. Accounting estimates disclosures</b></p> <p>The disclosures around accounting estimates in the accounts are brief and do not provide the user with key information such as the estimation methodology and underlying assumptions.</p> <p>Risk – There is a risk that the user of the accounts does not fully understand the degree of uncertainty associated with figures in the financial statements due to inadequate explanation.</p>	<p>NHS Orkney should consider the disclosures in the accounting policies in relation to estimates and increase the level of detail to improve clarity to the user.</p>	<p>Payroll will be considered by the Interim Director of Human Resources.</p> <p><b>Complete</b></p> <p>The estimates and judgements policy has improved in 2020/21 and we are satisfied all material estimates have been appropriately disclosed.</p>
<p><b>10. Year-end finance performance reports</b></p> <p>The financial reports presented to the Finance and Performance Committee following the year end were at a high level and did not have detail in line with those presented throughout the year.</p> <p>Risk – There is a risk that the financial information is not subject to appropriate scrutiny and challenge.</p>	<p>We recommend NHS Orkney ensure that year-end financial report contains sufficient detail to allow scrutiny of performance against budget and efficiency savings targets.</p>	<p><b>Complete</b></p> <p>The year-end report in 2020/21 has sufficient detail to allow scrutiny of financial performance as discussed in the financial management section.</p>
<p><b>11. Internal audit coverage</b></p> <p>The Internal Audit Plan 2020/21 does not include any coverage of finance or financial management</p> <p>Risk – There is a risk insufficient assurance is achieved at the year end to support the governance statement.</p>	<p>We recommend NHS Orkney consider the assurance provided by Internal Audit and ensure they achieve sufficient assurance for the 2020/21 governance statement in a timely manner.</p>	<p><b>Complete</b></p> <p>The Internal Audit Plan was adapted to include a review of staff bandings through the payroll system. The annual opinion noted reasonable assurance over the systems of control.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>12. Documentation of NFI results</b></p> <p>NHS Orkney has investigated a significant number of the 321 NFI matches but only 90 have been marked as completed.</p> <p>Risk – There is a risk that work undertaken is not appropriately documented and there is a lack of audit evidence.</p>	<p>The NFI Portal should be used to record the outcomes of the NFI review.</p>	<p><b>In progress</b></p> <p>The NFI matching process started in 2021. We will review the outcomes as part of our work in 2021/22.</p>
<p><b>13. Workforce planning</b></p> <p>The workforce strategy covers the period 2017-19. A revised workforce strategy is therefore required to cover the medium term</p> <p>Risk – There is a risk that inadequate planning leads to issues with service delivery due to insufficient staff.</p>	<p>It is critical NHS Orkney has up to date, robust workforce plans to ensure they maintain a sustainable workforce with the right skills and capacity over the medium to long term.</p>	<p><b>In progress</b></p> <p>NHS Orkney are working towards the development of a medium term work plan (paragraph 69- 72).</p>
<p><b>14. Development activities have been put on hold due to Covid-19</b></p> <p>The Board identified the need to improve risk management and develop a clinical strategy, however, the activities had limited progress due to the Covid-19 pandemic.</p> <p>Risk – There is a risk that important activities are not progressed leading to performance issues.</p>	<p>NHS Orkney should work to progress development activities which were put on hold due to the Covid-19 pandemic.</p>	<p><b>In progress</b></p> <p>NHS Orkney has taken provisional steps to update the risk management framework (paragraph 93) and clinical strategy (paragraph 104).</p>
<p><b>15. Changes in senior management</b></p> <p>NHS Orkney saw significant leadership changes over the later part of 2019/20 with a new Chair of the Board and the retirement of the Chief Executive. It is crucial that</p>	<p>NHS Orkney should consider how they can create leadership capacity and ensure minimal disruption during the recruitment and appointment of a permanent Chief Executive.</p>	<p><b>In progress</b></p> <p>We are satisfied that in 2020/21 there were effective processes in place to minimise the risks posed by changes in the senior management team. However, a number of the senior</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>appropriate steps are taken to preserve knowledge and support the new leadership team.</p> <p>Risk – There is a risk that governance and performance is impacted by the change in leadership</p>		<p>management team are appointed on an interim basis and this is an ongoing risk (paragraphs 79-84).</p>
<p><b>16. Information Governance Group effectiveness</b></p> <p>NHS Orkney use an Information Governance Group to support the Audit and Risk Committee. There was poor attendance at the group in 2019/20 and a review of effectiveness has not been conducted.</p> <p>Risk – There is a risk that the group is not having the desired impact.</p>	<p>NHS Orkney should ensure sufficient consideration is given to the effectiveness of sub-groups to ensure they are functioning as intended and have sufficient impact on the organisation.</p>	<p><b>In progress</b></p> <p>An independent review of information governance was undertaken in 2021/22 and an action plan is being progressed.</p>
<p><b>17. Internal audit recommendations</b></p> <p>Internal audit actions arising from the information governance report had only had an initial response and actions were past due.</p> <p>Risk – There is a risk that control weaknesses are not addressed in a timely manner.</p>	<p>Higher risk internal audit recommendations should be addressed as a matter of priority to ensure there are no significant weaknesses in the Board's internal control systems.</p>	<p><b>Complete</b></p> <p>We are satisfied that internal audit recommendations are being actioned appropriately.</p>
<p><b>18. Performance management information</b></p> <p>The Performance Management information is out of date for 26 per cent of the indicators regularly reported to the Finance and Performance Committee.</p> <p>Risk – There is a risk that the performance management information</p>	<p>NHS Orkney should consider the performance management information produced to align to the Annual Operational Plan and ensure the indicators reported on are useful and current.</p>	<p><b>In progress</b></p> <p>We have noted that there has been improvement in year and only 10 per cent of indicators are based on out of date information.</p> <p>We consider that 2021/22 would be an opportune time to review the performance management targets to ensure they align to the new clinical strategy and are</p>

Issue/risk	Recommendation	Agreed management action/timing
reported does not add value or help drive improvement.		<p>useful in driving improvement.</p> <p><b>Management response</b></p> <p>The performance management approach will be reviewed to align targets and key indicators with the clinical strategy once completed.</p> <p><b>Agreed date:</b> 31/12 /21</p>

---

# Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the financial statements and those relating to our wider responsibility under the Code of Audit Practice 2016.

## Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates and judgements.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p><b>Results:</b> Audit testing of journal entries, accruals and prepayments was completed. We also reviewed accounting estimates and transactions for appropriateness. We did not identify any incidents of management override of controls.</p> <p><b>Conclusion:</b> Satisfactory.</p>
<p><b>2. Risk of fraud over income and expenditure</b></p> <p>As set out in ISA (UK) 240 there is a presumed risk of fraud in the recognition of income. In addition, as most public sector bodies are net expenditure bodies there is also a presumed risk of fraud in expenditure.</p> <p>We consider the risk to be most prevalent where there is greatest incentive and opportunity for fraudulent manipulation. We therefore</p>	<p>Assessing the high level key controls in areas of significant other income and non- pay expenditure.</p> <p>Analytical procedures on income and non-pay expenditure streams.</p> <p>Review of assumptions supporting Covid-19 funding claims and evidence that associated grant conditions have been met.</p> <p>Detailed testing of income transactions</p>	<p><b>Results:</b> We gained appropriate assurance over the completeness and occurrence of income and expenditure and we are satisfied that the likelihood of material misstatement through fraud in the annual accounts is low.</p> <p><b>Conclusion:</b> Satisfactory.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>focus on other income and non-pay expenditure.</p> <p>We consider there is an inherent risk that NHS Orkney fraudulently recognise other income and non-pay expenditure in order to meet their financial targets.</p> <p>The risk is increased in 2020/21 due to additional funding provided by the Scottish Government relating to increased expenditure to support Covid-19 operations.</p>	<p>focusing on the areas of greatest risk.</p> <p>Focused substantive testing of non-pay expenditure.</p> <p>Testing of income and expenditure cut-off treatment around the year end.</p> <p>Liaise with the External Auditor of the Endowment Fund.</p>	
<p><b>3. Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer and the Central Legal Office.</p> <p>Review of the Central Legal Office Reports covering clinical negligence claims.</p> <p>Review of NHS Orkneys own disclosures in relation to identified significant estimates.</p> <p>Review of the reasonableness of indexation applied in the accounts against information provided by the valuer.</p> <p>Focused substantive testing of key areas.</p>	<p><b>Results:</b> NHS Orkney applied indexation in year. We consider the rate applied in year to be appropriate.</p> <p>We reviewed estimates and judgments in other areas including impairments, provisions and asset life assumptions and did not identify any issues.</p> <p><b>Conclusion:</b> Satisfactory.</p>
<p><b>4. Potential misstatement of payments to primary care contractors</b></p> <p>Payments to primary care contractors are a material and complex account area with payments totalling around £10m each year.</p> <p>The service auditor issued qualified audit opinions in 2019/20 across the four primary care payment</p>	<p>Review progress reports to the Audit and Risk Committee on primary care action plans.</p> <p>Consideration of 2020/21 service auditor's report covering the financial ledger, IT contracts and Practitioners Services Division under ISA 402.</p> <p>Review the reasonableness of the assumptions on which</p>	<p><b>Results:</b> We have reviewed the service auditor reports covering the financial ledger, IT contracts and PSD. There is a qualification in the PSD report and we have worked with NHS Orkney to gain assurance over the independent primary care services reported in the financial statements.</p> <p><b>Conclusion:</b> Satisfactory</p>

Audit risk	Assurance procedure	Results and conclusions
<p>streams which reflected an absence of evidence to confirm the operation of a range of expected controls. While recommendations were agreed, it is uncertain to what extent they have been implemented and improvements made.</p> <p>There is a risk of misstatement in the annual accounts due to the use of some estimates and uncertainty about the extent of improvement made by NHS NSS in responding to weaknesses reported by the service auditor in June 2020.</p>	<p>primary care payments have been made during the pandemic (based on previous averages) and monitor progress with the resumption of payment verification checks.</p> <p>Review local primary care monitoring arrangements in place during 2020/21.</p>	
<p><b>5. Disclosures in the annual report and accounts</b></p> <p>The Performance and Accountability Reports required significant changes in 2019/20 in order to meet the required standards. We highlighted that further improvements would be required in 2020/21 to ensure compliance with the FReM and SPFM.</p> <p>Additional disclosures and commentary in the annual report and accounts may need to be considered to reflect the impact of Covid-19.</p> <p>There is a risk that the performance of the NHS Orkney and the impact of Covid-19 is not reported in a transparent manner.</p>	<p>Ensure format and content of Performance Report and Governance Statement comply with NHS Accounting Manual and other relevant guidance and is consistent with supporting evidence/auditor's cumulative audit knowledge.</p>	<p><b>Results:</b> We have reviewed the Performance and Accountability Reports in 2020/21 and concluded that the reports have improved. There is appropriate disclosure around the impact of Covid-19 and there are no significant areas of non-compliance.</p> <p><b>Conclusion:</b> Satisfactory</p>

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

Audit risk	Assurance procedure	Results and conclusions
<p><b>6. Financial sustainability</b></p> <p>The health board's latest financial position to November 2020 shows that the health board is currently in a deficit position of £7.8 million. The outturn position is forecast to be a deficit of £10.9 million by the year end. Covid-19 has played a significant part in that, with additional expenditure of £4.5 million expected in addition to £5.5 million of unachieved savings.</p> <p>NHS Orkney anticipates that all Covid-19 costs will be fully funded by the Scottish Government which would bring the board into financial balance at the year end.</p> <p>In the event that the health board is unable to meet its financial targets, an explanatory paragraph would be included in the independent auditors' report.</p>	<p>We will monitor the health board's financial position through continuing discussion with officers; reviewing finance reports to the Finance and Performance Committee and the health board; and reviewing the minutes of these meetings.</p>	<p><b>Results:</b> The board has appropriately considered the impact of the pandemic in managing the financial pressures in 2020/21. The details are set out in the body of this report.</p>
<p><b>7. Changes in Senior Leadership</b></p> <p>NHS Orkney has an interim Chief Executive in place and we anticipate this arrangement will continue until the end of the financial year.</p> <p>There is a risk that NHS Orkney cannot attract the right candidate and that recruitment is not conducted in an open and transparent manner.</p>	<p>We will consider any updates on the recruitment process.</p> <p>We will consider the impact of interim arrangements on governance processes.</p>	<p><b>Results:</b> We are satisfied that in 2020/21 there were effective processes in place to minimise the risks posed by changes in the senior management team. However, a number of the senior management team are appointed on an interim basis and this is an ongoing risk.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>8. Development of key strategies</b></p> <p>NHS Orkney has identified the need to develop a clinical strategy, which will provide a local vision for their services. This is to be developed in line with an appropriate workforce strategy and supported by long term financial plans.</p> <p>The development of the clinical and workforce strategies has been delayed as a result of Covid-19.</p> <p>There is a risk that NHS Orkney focuses on operational matters and do not have a clear strategic direction. In addition, there is a risk that longer term savings options are not driven by the strategic aims of the board.</p>	<p>We will monitor progress in developing the clinical and workforce strategies.</p> <p>We will consider links between long term financial planning and other strategies.</p>	<p><b>Results:</b> NHS Orkney has taken provisional steps to update the risk management frame work and commenced work on the clinical strategy as outlined in the body of this report.</p>
<p><b>9. Performance against targets</b></p> <p>Covid-19 has had a significant impact on performance measures, particularly for services which have been suspended or are operating at a reduced level.</p> <p>In January 2021 the board reported that 39% of indicators were behind the target level, however, remobilisation was having an impact and access to services was improving.</p> <p>There is a risk that NHS Orkney will not have sufficient capacity to remobilise services and will fail to meet its desired outcomes.</p>	<p>Review performance reporting to the Board and Performance Governance Committee to assess the response by management and the impact of the board's remobilisation plans.</p>	<p><b>Results:</b> In year the performance of NHS Orkney has generally decreased. The decrease in performance was expected due to the ongoing Covid-19 pandemic and will be similar across all health boards in Scotland. As highlighted earlier in this report, NHS Orkney's remobilisation plan sets out how NHS Orkney will address backlogs caused by Covid-19.</p>
<p><b>10. Governance and transparency</b></p>	<p>We will review the web site to ensure it is up to date.</p>	<p><b>Results:</b> From a review at the year end it was identified that some committee</p>

Audit risk	Assurance procedure	Results and conclusions
We are aware that the Board and Committee agendas and minutes are not up to date on the Boards web site.		meetings are missing from the website and there are instances where the agendas and minutes are not up to date.

---

# Appendix 3. Summary of 2020/21 national performance reports

---

## April

[Affordable housing](#)

## June

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

[Local government in Scotland Overview 2020](#)

## July

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

## January

[Digital progress in local government](#)

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

## February

[NHS in Scotland 2020](#)

## March

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

# NHS Orkney

## 2020/21 Annual Audit Report

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

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)