

Government and Public Sector

July 2005

NHS Orkney

Annual Report to Board Members

2004/05

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26 July 2005

Ladies and Gentlemen

Annual Report to Board Members 2004/05

We have completed our audit of Orkney Health Board (the "Board") and its financial statements for the year ended 31 March 2005.

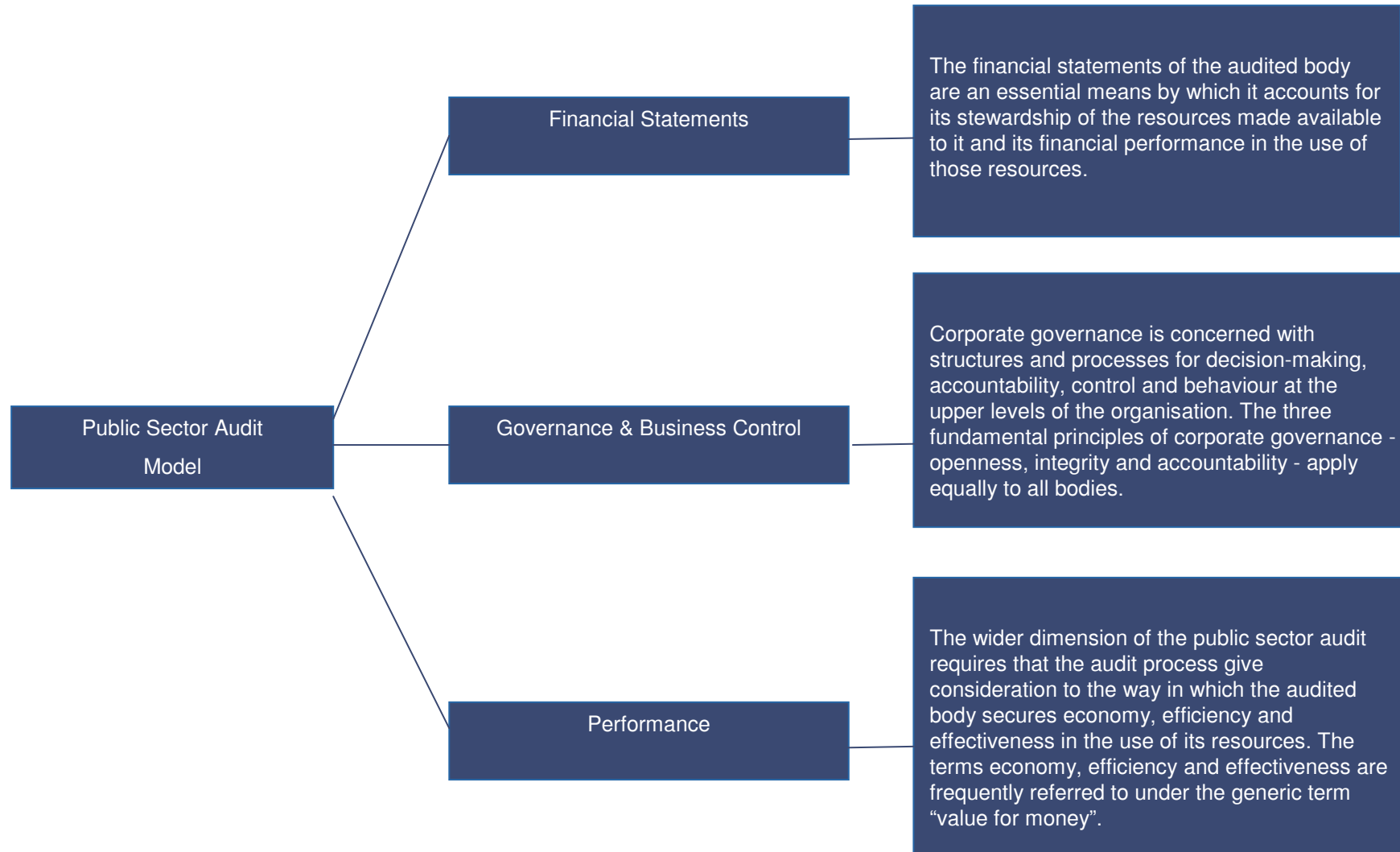
The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2004/05 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

PricewaterhouseCoopers LLP

Our report structure



Our report structure (continued)

Financial Statements

1. Audit Opinions and Financial Targets

Page 3

2. Financial Performance and Pressures

Page 4

3. The Audit Process and Accounting Issues

Page 10

Governance & Business Control

4. System of Internal Control, including Board's Statement of Internal Control

Page 11

5. Standards of Conduct, Integrity and Openness

Page 13

6. Staff Governance

Page 14

7. Prevention and Detection of Fraud and Irregularities —Fraud Arrangements

Page 15

Performance

8. Priorities and Risk Framework

Page 16

- Appendix 1: Action Plan
- Appendix 2: Priorities and Risk Framework
- Appendix 3: Responsibilities of External Audit and the Board and its Management
- Appendix 4: Audit Opinion
- Appendix 5: PwC Reporting in 2004/05

1. Audit Opinions and Financial Targets

Our Audit Opinion

- 1.1 Our audit opinion concerns both the true and fair statement of NHS Orkney's financial results for the year ended 31 March 2005 and the regularity of its income and expenditure in the year.
- 1.2. Our true and fair opinion on the financial statements is unqualified.
- 1.3. Our regularity opinion on income and expenditure draws is unqualified.
- 1.4. Our opinion is set out in full in **Appendix 4**.

Financial Targets

- 1.5 The Board achieved its three financial targets:
 - The net resource outturn did not exceed the Revenue Resource Limit ("RRL") - the Board spent £31 million against its RRL of £31 million, resulting in a small surplus of £60,000.
 - The Board stayed within its Capital Resource Limit ("CRL") —the Board spent £1.1 million against its CRL of £1.1 million.
 - The Board did not exceed the Cash Requirement Target - the Board spent £30.4 million against a limit of £30.4 million.

2. Financial Performance and Pressures

2.1 It is emphasised that we do not express a specific audit opinion on the figures which follow —these have been extracted in agreement with management from various reports, supporting papers and other available documentation.

NHS Orkney's Overall Financial Out-turn Reported for 2004/05	£'000	£'000	£'000	£'000
	Budget	Budget	Actual	Actual
Recurring Income	28,951		28,472	
Recurring Expenditure	30,361		30,626	
Underlying recurring deficit		(1,410)		(2,154)
Non-recurring income	1,405		2,515	
Non-recurring expenditure	2,271		2,710	
Balance of non-recurring		(866)		(195)
2004/05 Funding Gap		(2,276)		(2,349)
Other Income Sources				
Non-recurring SEHD income	6		34	
Further allocations (including late allocations)			1,100	
Corporate Savings Plan	2,271		1,275	
Total other income		2,277		2,409
Surplus for 2004/05		1		60

Financial Performance in the Year

- 2.2 The Board has reported a surplus of £60,000 for the financial year ending 31 March 2005 compared with a surplus of £34,000 in 2003/04. The budget for 2004/05, included a forecast surplus £1,000 against the revenue resource limit.
- 2.3 During the year additional cost pressures were identified, which resulted in the Board initially forecasting the need to find savings for 2004/05 of £2,271,000. The most significant pressures were:
- General Medical Service funding pressures as a result of changes in GMS allocations. This resulted in an initial shortfall of £660,000 which was largely funded through 2 non-recurring funding allocations of £348,000 and £260,000. This left a net shortfall of £52,000 to be met by the Board; and
 - Changes during the year in the Service Level Agreement (SLA) with NHS Grampian which led to an increase of £200,000 in the cost of the SLA. Again, the Board received a non-recurring funding allocation towards these additional costs.
- 2.4 Notwithstanding this forecast by the end of the year the Board reported a breakeven position. In order to do this, savings of £1,275,000 were achieved. Of this, £374,000 has been classed as recurring savings, with £901,000 being non-recurring savings.
- 2.5 Recurring Savings (£374,000) included the following:
- A reduction in the provision for superannuation of £100,000
 - Adjustments to capital charges totalling £98,000
 - A reduction in the cost of capital of £84,000
 - Prescribing savings totalling £59,000
 - A £30,000 saving in relation to a commissioning manager post.

2.6 Of the non-recurring savings achieved by the Board (£901,000), the major areas were as follows:

- An underspend on the capital to revenue transfer of £292,000
- Vacancy savings of approximately £280,000
- Capital charges adjustments of £212,000

2.7 The remaining £117,000 was made from a variety of sources, including fortuitous underspends against budget at the year end. Some of the measures taken by the Board included:

- Flexible Use of waiting list funding
- Increased control of non-essential off-island travel
- Cessation of non-statutory training
- Additional controls on non-clinical stock purchases

2.8 In addition, £1,100,000 was received from the Scottish Executive Health Department in the form of further allocations, including late allocations. These were used to benefit the financial position.

2.9 For the purposes of this report we have summarised the projected 2005/06 financial position for NHS Orkney in the table below:

<u>NHS Orkney's Forecast Financial Position for 2005/06</u>	£'000	£'000
Recurring Income	31,336	
Recurring Expenditure	33,873	
Underlying recurring deficit		(2,537)
Non-recurring income	1,292	
Non-recurring expenditure	1,190	
Balance of non-recurring		102
2004/05 Funding Gap		(2,435)
Other Income Sources		
Non-recurring SEHD income	60	
Corporate Savings Plan (see page 8)	2,375	
Total other Income		2,435
Surplus for 2004/05		0

2.10 The Board is currently predicting that it will be in a break even position for 2005/06. To achieve this forecast break even position the Board has to deliver at least £2.375 million of savings during 2005/06. Of this £2.375 million, £859,000 of recurring savings have been identified, along with £1,070,000 of non-recurring savings. Therefore, £446,000 of savings have still to be identified in respect of 2005/06. However, a review of all budget lines has identified those budgets where it is possible that these savings could be made and the budget holders responsible for those budgets have been asked to make 3% savings.

2.11 A breakdown of the £2,375,000 included within the Corporate Savings Plan is set out below:

<u>2005/06 Corporate Savings Plan</u>	£'000	£'000	£'000
	Recurring	Non-recurring	Total
Non-recurring savings converted to recurring savings	674		674
Specific targeted savings	185	270	455
Slippage on Ear-marked Funding and Late Allocations		300	300
Savings brought forward from 2004/05		500	500
Budget Holder Savings (3% of budgets)	446		446
Totals	1,305	1,070	2,375

2.12 Despite the progress made by the Board in identifying savings, there are still a number of risks that may adversely impact on the financial position increasing the possibility that a breakeven position may not be obtained. Those identified by the Board include:

Service Level Agreements with NHS Grampian:

2.13 Financial pressures will be increased if the Board does not take appropriate steps to ensure that its full capacity is utilised before authorising referrals to NHS Grampian. Once a decision to refer has been taken, the Board should ensure that the costs incurred adhere to reasonable pre-approved Service Level Agreements.

General Medical Service Funding Pressures:

2.14 Financial pressures experienced during 2004/05 as a result of changes in GMS allocations and the re-calculation of the Correction Factor are expected to continue into 2005/06. The Board was informed that it would receive an allocation of £500,000 towards these costs in the last allocation letter, which leaves a shortfall of £166,000.

Introduction of a Standard Tariff:

- 2.15 The introduction of a standard tariff for cross-boundary work flows could have a substantial effect on the Board's financial position. While work is still ongoing on this issue, NHS Grampian is acknowledged to be a low cost provider and the level of additional funding from the Scottish Executive will be important. A recent paper setting out various options indicated that, while the impact could be small if one option is pursued, another option identified could lead to an increase of £900,000 in the cost of services in 2006/07. In line with current Scottish Executive Health Department views, it may be that a percentage of this figure impacts on 2005/06.

Other Areas of Risk and Uncertainty:

- 2.16 These include:

- General Practitioner Prescribing costs
- Agenda for Change
- Waiting times
- Winter pressures and the associated impact on nursing costs

Action Points 1 - 3

- 2.17 In addition, further savings of £3.1M will be required in 2006/07 to maintain the break even position. This represents a considerable challenge to the system as in previous years a substantial proportion of savings have been achieved on a non-recurring basis, and it is likely additional cost pressures will arise over the next two years. The increase in the savings target is partially accounted for by the withdrawal of the capital to revenue transfer facility. The impact of this is expected to be £550,000 and it is not clear at this time whether additional funding will be made available by the Scottish Executive.

3. The Audit Process and Accounting Issues

Audit Process

- 3.1 The Board had a full set of financial statements available at the beginning of our audit. The overall quality of the financial statements and working papers were of a high standard and no significant problems were encountered during the audit process. We would like to record our thanks to the Director of Finance and his team for their assistance during the audit process.

Preparation of Financial Statements

- 3.2 The Accounts were prepared in accordance with the accounting requirements contained in the NHS Board Manual for Accounts & supplementary guidance, as issued by the Scottish Executive Health Department (SEHD) and approved by the Scottish Ministers.

Accounts Approval

- 3.3 The Annual Accounts will be submitted to the Board's Audit Committee on the 19 July 2005, where they are to be approved prior to their adoption at the full Board meeting on 26 July 2005. These arrangements and timescales have been jointly agreed with the Board.

Audit Adjustments

- 3.4 A small number of minor adjustments were noted during the course of our audit. All of the adjustments have been processed by Management.

4. Systems of Internal Control

Statement on Internal Control

- 4.1 Our opinion is unqualified on the Board's disclosures contained in the Statement on Internal Controls. The Board has used the correct format (format 1) and has outlined the processes designed to identify and evaluate principal risks. In addition, key elements of the Board's control framework have been highlighted including internal and external audit, risk management, and clinical governance.

Follow Up Report on previous control matters

- 4.2 Our follow up report on our 2004/05 control recommendations was issued to the Board in March 2005. Of the 50 agreed recommendations made in our 2003/04 Interim Management Letter and Annual Report to Board Members, 30 had been fully implemented, 4 partially implemented and 7 had not yet been implemented, 6 were ongoing and 3 were no longer applicable at the time of our review.

Action Point 4

- 4.3 In particular, our 2003/04 Annual Report recommended that Action should be taken to improve NHS Orkney's prompt payment performance. While improvements have been made in 2004/05, the number of days credit taken is still higher than expected at 39 days (2004 —41 days, 2003 —15 days).

Action Point 5

Financial Systems and our 2004/05 Internal Controls Report

- 4.4 An Internal Controls Report was issued to the Board in March 2005. The Board has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. We will issue a report on the progress made as part of our 2005/06 audit.

Action Point 6

Internal Audit's Report on the Board's Internal Controls

4.5 The extract of the Internal Auditor's opinion for 2004/05 is reproduced below:

"I am satisfied that sufficient internal audit work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the Health Board's risk management, control and governance processes.

In my opinion, Orkney Health Board

- has adequate and effective control processes

- has adequate and effective risk management processes

- has adequate and effective governance processes

However, whilst the framework of control is adequate to meet internal needs, there are potentially external funding constraints which could materially undermine the control environment and against which the Health Board has limited control."

Termination Packages

4.6 The Board had no reported settlements for senior officers during the year.

5. Standards of Conduct, Integrity and Openness

Audit Committee Training

- 5.1 In addition to the work performed during our interim audit visit, the results of which were reported in our Interim Management Letter 2004/05, we undertook a follow up to our 2003/04 Value for Money review into the performance of the Audit Committee.
- 5.2 The Value for Money exercise had identified training for the Audit Committee as an area for improvement and, as a result, we undertook a training session for the members of the Audit Committee. This training focused on Corporate Governance and the responsibilities of the members of the Committee.

6. Staff Governance

6.1 The findings of our 2004/05 Staff Governance review were issued to the Board for review during March 2005.

6.2 On the basis of our findings, our assessment was as follows:

- The majority of the 2004/05 action plan was delivered. Of the 25 agreed actions 12 were fully implemented, 10 were partly implemented and 3 were not implemented.
- In general the actions are beginning to have the desired impacts. NHS Orkney is beginning to adopt and implement NHS policies and procedures regarding Staff Governance.
- This year's self assessment process has been robust.
- The updated action plan is credible and owned. The 2005/06 action plan has been approved by both the Staff Governance Committee and the Local Partnership Forum.
- The specific statistics were all available and the majority were produced in accordance with SEHD instructions. We did not verify the accuracy of the systems used to produce the reports from which the statistics are based.

Action Point 7

7. Prevention and Detection of Fraud and Irregularities —Fraud Arrangements

Fraud and Corruption Reviews

- 7.1 As part of our rotational plan to review the key systems and methods for the prevention and detection of fraud and corruption we have conducted a review of the Board's overall arrangements and policies. No major issues of concern were identified.

Fraud and Irregularities Guidance

- 7.2 We have reviewed the fraud and irregularities guidance issued by Audit Scotland during 2004/05 and undertaken work accordingly. There were no matters arising from this work.

Fraud Submission

- 7.3 A nil return has been made to Audit Scotland of reported frauds that have occurred within the Board during the year i.e. no frauds reported by the Board during 2004/05.
- 7.4 The Counter Fraud Services quarterly report for the period 1 April 2005 to 30 June 2005 included a potentially fraudulent travel claim for £47, which was referred to the Procurator Fiscal.

8. Priorities and Risk Framework

- 8.1 *Moving Towards Single-System Working* stated that at a local level the public and Ministers expect the NHS in Scotland to be a single organisation with shared aims, a common sense of values and clear lines of accountability. Unnecessary organisational boundaries can undermine the unity of the purpose and effort of the local NHS system and hinder the drive for improved healthcare services. To address the above expectations NHS Boards, which were operating as Trusts, were required to implement simple, practical proposals enabling Trusts in their areas to be dissolved and for their functions, staff and assets to be transferred to new Operating Divisions.
- 8.2 While we are aware this was not directly relevant to NHS Orkney, we decided to undertake a review of progress against the key areas identified in the guidance.
- 8.3 To assess the effectiveness by which all NHS Scotland bodies are implementing the required reforms, Audit Scotland have included within their 2004-07 Corporate Plan the requirement for 'the development of a 'Priorities and Risk Framework' for each sector which will identify key national initiatives within that sector and the main risks in their achievement'. To facilitate external auditors in their Priorities and Risks assessment a National Planning Tool for 2004/05 NHS Audits has been developed.
- 8.4 As part of our annual audit process we enclose our Priorities and Risks Framework report for 2004/05 for NHS Orkney. Using the National Planning Tool as guidance, we have consulted with numerous personnel within NHS Orkney at both a Board and Divisional level and assessed the Board's status in addressing the eight key areas of the Risks and Priorities Framework, namely:
- Governance
 - Service Sustainability
 - Financial Management
 - Performance Management
 - Pay Modernisation
 - Workforce Management
 - Joint Future
 - Information Management

8.5 **Our findings and assessment in relation to each of the eight key areas of the Priorities and Risks framework and, where relevant, key areas for further development have been highlighted at Appendix 2.**

8.6 The key areas for further development were given a risk assessment rating of between 1 and 5 (with 1 being lowest and 5 being highest). We did not identify any areas where the risk assessment was 5, and only one area in which the risk assessment was 4. This was:

Service sustainability

8.7 At their October 2004 meeting, the Board gave a statement of intent, which decided that the Northern Isles would retain resident GP services and that single-handed practices would be phased out through natural wastage.

8.8 The Medical Director has recently commissioned an acute medical review to consider the coordination of referrals as they represent one of the highest costs to the Board. Potential savings could be achieved via effective communication and provision of information on what can be undertaken on the island via the visiting consultants scheme.

Appendix 1: Action Plan

Report Reference	Issue	Risk	Recommendation	Management Response	Responsible Officer / Due Date
Action Point 1	Although NHS Orkney has reported a small surplus in 2004/05 and has budgeted to break-even during 2005/06, the Board still faces an underlying recurring deficit.	The Board may not be able to achieve recurring savings to decrease the recurring deficit.	The Board should endeavor to achieve both non-recurring and recurring savings. All Budget holders should be involved in the process of identifying recurring savings, to ensure these savings targets are realistic and owned.	This is ongoing on a monthly basis.	Director of Finance Ongoing
Action Point 2	NHS Orkney is still incurring overspends against budget with regards the Service Level Agreements in place with NHS Grampian. As a result the Board was reliant on late allocations from the Scottish Executive in order to relieve financial pressures.	The current arrangement is contributing to the Board's recurring deficit, exposing NHS Orkney to financial and operational risk.	Management should ensure the procedures in place for monitoring activity against the NHS Grampian contract operate efficiently in order to highlight any overspends at an early stage, so that possible solutions can be considered and implemented.	Procedures are now in place to monitor NHS Grampian activity and the situation has improved considerably. NHS Orkney will continue to work to improve monitoring of the NHS Grampian contract.	Director of Finance Ongoing

Report Reference	Issue	Risk	Recommendation	Management Response	Responsible Officer / Due Date
Action Point 3	<p>In order to achieve Breakeven in 2005/06 the Board is reliant on generating recurring savings totaling £2.3 million.</p> <p>Included within this total are recurring savings of £1.5 million not yet identified.</p>	The level of anticipated recurring savings may not be realistic and as a result the Board may not be able to achieve a breakeven position in future periods.	Management should ensure that procedures are in place for identifying areas where savings can be generated and allocating budget targets appropriately.	A process is underway through the Directors' Group, which is tackling recurring savings. The group has identified approximately £2 million of savings to date, of which £859,000 is recurring. The remainder will be found through budget holder savings.	<p>Director of Finance</p> <p>Ongoing</p>
Action Point 4	Our follow Up report highlighted that, of the 50 recommendations we raised in 2003/04, 4 were partially implemented, 7 had not been implemented and 6 were ongoing.	Key elements of the Board's control framework may not be operating adequately.	Management should ensure that any remaining recommendations are implemented. Progress should be reported periodically to the Audit Committee.	The seven recommendations classed as "not implemented" will be followed up.	<p>Director of Finance</p> <p>Ongoing</p>
Action Point 5	<p>As part of our 2003/04 Annual Report to Board Members we recommended that action be taken to improve NHS Orkney's prompt payment performance.</p> <p>Whilst improvements have been made the number of days credit taken is still higher than expected at 39 days (2004 —41 days, 2003 —15 days).</p>	The Board may not be taking advantage of favorable suppliers terms or complying with the CBI prompt payment code.	All invoices should be paid timeously, unless in dispute. Payment performance and working capital management should be closely monitored and improved throughout 2005/06.	An action plan has been put in place to improve performance in this area.	<p>Director of Finance</p> <p>Ongoing</p>

Report Reference	Issue	Risk	Recommendation	Management Response	Responsible Officer / Due Date
Action Point 6	Management has agreed an action plan in response to our Internal Controls Report issued in March 2005.	Key elements of the Board's control framework may not be operating adequately.	Progress against the agreed actions should be reported periodically to the Audit Committee.	Progress will be monitored and reported to the Audit Committee. The Internal Auditor's Annual Report does give the opinion that the Board's control framework was adequate in 2004/05.	Director of Finance Ongoing
Action Point 7	Our Staff Governance follow up work highlighted that, of the 25 recommendations we raised in 2003/04, 10 were partially implemented and 3 had not been implemented.	The Board's Staff Governance arrangements may not be operating adequately.	Progress against the agreed actions should be reported periodically to the Staff Governance Committee.	Agreed action accepted. The relative priority of two areas, i.e. WTD compliance and Training issues need to be considered by the Board.	Head of HR Ongoing

Appendix 2: Priorities and Risk Framework

PRF area	Risk assessment 1 to 5	Comments on key issues arising
Financial health	3 = significant risk But actions have been identified which are likely to address the problem. If implemented future risk assessment will shift to medium or low.	<ul style="list-style-type: none"> The key financial pressures relate to the cost of referrals to NHS Grampian. The contract prices were recently renegotiated to the detriment of the Board. This position needs to be addressed through better management of the referral process. A referral coordination centre is to be set up, which should address referrals due to lack of awareness on GPs parts as to which services can be provided locally.
Pay modernisation	3 = significant risk Actions have been identified but these may take a long time to implement.	<p>Consultants Contracts</p> <ul style="list-style-type: none"> All consultants, with the exception of one individual currently on sabbatical, have signed up to the new consultants contract; no significant cost implications have been noted for the entity that had not been accounted for in current financial projections. Board has 4 full time consultants and operates a visiting consultants scheme (with circa 30 consultants holding outreach clinics). <p>Agenda for Change</p> <ul style="list-style-type: none"> The assessment process is underway with promotions/gradings currently being examined for staff. Due to relatively small size of NHS Orkney, staff members are sometimes required to take on additional duties above and beyond that in their job description which is causing some problems with the grading process .
Governance	2 = medium risk But actions identified to address these risks.	<ul style="list-style-type: none"> The governance arrangement is NHS Orkney have remained stable as it has always been a single system. The Audit Committee has recognised the need for additional training of its Members and this has been arranged with PwC as part of a local value for money exercise.
Performance management	2 = medium risk But actions have been identified which are likely to address the problem. If implemented future risk assessment will shift to medium or low.	<ul style="list-style-type: none"> Due to the small number of patients, one patient or one procedure can have a large impact in percentage terms on PAF performance and may change performance from green to red or vice versa. Performance against PAF indicators is reported quarterly to the Board.

PRF area	Risk assessment 1 to 5	Comments on key issues arising
Service sustainability	<p>4 = significant risk Actions have been identified but these may take a long time to implement.</p>	<ul style="list-style-type: none"> • At their October 2004 meeting, the Board gave a statement of intent, which decided that the Northern Isles would retain resident GP services and that single-handed practices would be phased out through natural wastage. • The Medical Director has recently commissioned an acute medical review to consider the coordination of referrals as they represent one of the highest costs to the Board. Potential savings could be achieved via effective communication and provision of information on what can be undertaken on the island via the visiting consultants scheme.
Joint future	<p>3 = significant risk But actions have been identified which are likely to address the problem. If implemented future risk assessment will shift to medium or low.</p>	<ul style="list-style-type: none"> • The joint future agenda is being progressed well, with 6 shared appointments between NHS Orkney and Orkney Islands Council, including a PR Officer. • There are monthly joint management team meetings between NHS Orkney and Community Social Services and monthly meetings between the NHS Orkney and OIC Chief Executives. • A review is underway of non-core services (e.g. IT, Estates, etc) under the efficient government review, which should produce savings.
Workforce management	<p>2 = medium risk But actions have been identified which are likely to address the problem. If implemented future risk assessment will shift to medium or low.</p>	<ul style="list-style-type: none"> • NHS Orkney has a low turnover of staff. • However, vacancies are difficult to fill due to the remote location. The Board is currently projecting that 30% of staff will be due to retire within the next 5 years. • The Board is missing a consultant anaesthetist and has 5 GP vacancies although the Board is currently interviewing individuals • The Chief Executive meets with Directors on a weekly basis and discusses vacancies/ recruitment/ shared services • New, more innovative approaches to recruitment had to be found, for example through networking with medical schools, advertising the Orkney lifestyle, using the SHO rotation to retain doctors, holding a health promotion at the Highland Show and looking further a field for recruitment.
Information management	<p>3 = significant risk But actions have been identified which are likely to address the problem. If implemented future risk assessment will shift to medium or low.</p>	<ul style="list-style-type: none"> • The Board have adequate information management systems in place for the size of the organisations. The relatively small size of the Board means that while information management systems are not particularly advanced they are sufficient to enable the Board to manage performance. • It is recognised that there is some improvement required in relation to the monitoring of referral patterns to better enable the Board to manage the costs in relation to NHS Grampian.

Appendix 3: Responsibilities of External Audit and the Board and its Management

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within the Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of the Board and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility we evaluate significant financial systems and associated internal controls and where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist the Board regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with the Board and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to the Board or any other party.

The prime responsibility for the prevention and detection of fraud and irregularities rests with the Board. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach we consider these arrangements, but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of the Board and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of the Board to put in place proper arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct, and the prevention and detection of fraud and corruption.

It is the responsibility of the Board to put in place proper arrangements to manage its performance, to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that the Board has put in place to secure economy, efficiency and effectiveness in its use of resources. We also have a responsibility to undertake reviews arising from national studies commissioned by Audit Scotland where these have been designated as mandatory studies.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to the Board during the year and as listed at **Appendix 5**.

Appendix 4: Audit Opinion

Independent Auditor's report to the members of Orkney Health Board, the Scottish Parliament and the Auditor General for Scotland

We have audited the financial statements which comprise the Operating Cost Statement, the Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and notes 1.0 to 7.0 and 9.0 to 29.0 under the National Health Service (Scotland) Act 1978. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out in note 1.0.

This report is made solely to the parties to whom it is addressed, and not to individual members, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Respective responsibilities of the Board Members, Accountable Officer and Auditors

As described in the Statement of Health Board Members' Responsibilities and the Statement of the Chief Executive's Responsibilities, the Board and the Accountable Officer of Orkney Health Board are responsible for the preparation of the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder. The Accountable Officer is responsible for ensuring the regularity of expenditure and income. The Board and Accountable Officer are also responsible for the preparation of the Directors' Report. Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

We report our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder and whether, in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We also report if, in our opinion, Orkney Health Board has not kept proper accounting records, or if we have not received all the information and explanations we required for our audit.

We review whether the Statement on Internal Control complies with the guidance issued by the Scottish Executive Health Department, "Corporate governance: Statement on Internal Control". We report if, in our opinion, the statement does not comply with the guidance or if it is misleading or inconsistent with other information we are aware of from our audit. We are not required to consider whether the Statement covers all risks and controls, or form an opinion on the effectiveness of Orkney Health Board's corporate governance procedures or its risk and control procedures.

Additionally, we read the Directors' Report published with the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income shown in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Orkney Health Board and the Accountable Officer in the preparation of the financial statements and of whether the accounting policies are appropriate to Orkney Health Board's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error, and that, in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

Financial Statements

In our opinion, the financial statements give a true and fair view of the state of affairs of Orkney Health Board as at 31 March 2005 and of its net operating cost, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder.

Regularity

In our opinion, in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

PricewaterhouseCoopers LLP
Glasgow
26 July 2005

Appendix 5: Other formal reports submitted during the 2004/05 process

	Financial Statements	Governance & Business Control	Performance
• Internal Controls Report 2004/05	√	√	
• Follow Up of 2003/04 Audit Recommendations	√	√	
• Staff Governance Report 2004/05			√

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