

NHS Orkney

Annual report on the 2011/12 audit



Prepared for NHS Orkney and the Auditor General for Scotland
July 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds

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Key messages

2011/12

The Scottish public sector faces significant challenges in balancing budgets while also delivering on its commitments. In 2011/12 we assessed the key strategic and financial risks being faced by NHS Orkney. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

We have given an unqualified audit report on the financial statements of NHS Orkney for 2011/12. We also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

The Board achieved all of its financial targets in 2011/12 and returned a saving against its total Revenue Resource Limit (RRL) of £0.117 million as at 31 March 2012. The Board received £0.959 million brokerage from the Scottish Government Health and Social Care Directorates (SGHSCD) during 2011/12 which was used to support the achievement of financial balance. NHS Orkney has a history of receiving brokerage, with a total of £4.38 million received since 2009/10. In 2011/12, the Board has made good progress in improving its financial position by achieving savings of £2.753 million against a planned savings target of £2.746 million, although £0.404 million of these savings were achieved on a non-recurrent basis and will require to be achieved recurrently in 2012/13. Brokerage is being repaid to the SGHSCD over a five year period from financial year 2013/14 onwards. The Board's financial planning arrangements include regular monitoring, reporting and updating of information to allow potential risks to be addressed promptly.

In 2011/12 the Board met or exceeded a number of challenging performance targets set by the Scottish Government and, in a number of areas, performance continues to improve. However some performance targets were not fully achieved and in those cases the Board has established actions to improve performance.

In 2011/12, the Board had sound governance arrangements in place which included a number of standing committees overseeing key aspects of governance. The Board also had an effective internal audit function and anti-fraud arrangements.

NHS Orkney has arrangements in place to consider national performance reports issued by Audit Scotland. However, there is little evidence that the Board has addressed the issues raised in the report *Using locum doctors in hospitals*. In addition, the Board has not formally considered the *Questions for Board Members*, contained in the *Role of Boards* report, designed to assist non-executives to assess their own Board.

Outlook

The position going forward continues to be very challenging, with limited increases in funding, increasing cost pressures and significant savings targets. To achieve continuing financial balance the Board will require to deliver £1.418 million of recurring cost savings and this represents a major challenge for the Board and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

The significant financial challenges that the Board will face in 2012/13 and beyond will require the Board to prioritise further its use of resources. This will make maintaining or improving on the performance targets set by the Scottish Government even more challenging.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of NHS Orkney. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of NHS Orkney.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that NHS Orkney understands its risks and has arrangements in place to manage these risks. The Board and accountable officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to the Board and the Auditor General for Scotland and should form a key part of discussions with the Audit Committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the Board. The information in this report may be used for the Auditor General's annual overview of the NHS in Scotland's financial performance later this year. The overview report is published and presented to the Public Audit Committee of the Scottish Parliament.
6. The management of the Board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the Directors' Report, governance statement and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion in that the financial statements of NHS Orkney for 2011/12 give a true and fair view of the state of the body's affairs and of its net operating cost for the year.
11. NHS Orkney is required to follow the 2011/12 Government Financial Reporting Manual (the FReM) and we confirm that financial statements have been properly prepared in accordance with the FReM.
12. We have also reviewed the Board's governance statement and concluded that it complies with Scottish Government guidance.

Regularity

13. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and income shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the accountable officer as to her view on adherence to enactments and guidance. No significant issues were identified for disclosure.

Accounting issues

14. A complete set of accounts was not ready at the start of our audit on 14 May. We received parts of the accounts to enable us to audit the figures while officers worked on the narrative disclosure. We appreciate that timescales are tight for the preparation of accounts, and for the

audit of accounts. We have agreed with management that we will discuss ways to improve the accounts preparation and audit process for 2012/13. The standard of the supporting papers and the timely responses from NHS Orkney staff did allow us to conclude our audit within the agreed timetable and provide our proposed opinion to the Audit Committee on 26 June 2012 as outlined in our Annual Audit Plan.

15. Several errors were identified during the audit, where if adjustments were made these would have a net effect of increasing by £42,000 net operating costs for the year shown in the Statement of Comprehensive Net Expenditure. The net impact on the balance sheet would be to decrease net assets by £42,000. These errors, while more than clearly trivial, were immaterial to the accounts as a whole. Officers in Finance proposed not to adjust the accounts for these errors and we concurred on this.
16. As required by auditing standards we reported to the Audit Committee on 26 June 2012 the main issues arising from our audit of the financial statements. The main points were as follows:

Capitalisation of grouped assets

17. The health capital accounting manual allows Boards to capitalise groups of assets that individually are below the £5,000 de minimis level, providing they meet certain criteria including
 - the value of the grouped assets is more than £20,000
 - the items are functionally interdependent
 - the items are acquired at the same date, and fall under the same managerial control.
18. Our audit review identified a number of smaller assets capitalised during the year which did not meet these criteria. The total amount involved was £53,000 (net of depreciation) and we agreed with the Board that it was not necessary to adjust for this error. Capitalisation procedures, however, should be reviewed in 2012/13.

Risk area 1

Reconciliation between ledger and fixed asset register

19. The net book value of assets recorded in the fixed asset register is £69,000 lower than the net book value of the assets recorded in the ledger. The Board is investigating the reasons for this. The amount is not material to the financial statements and it has not been classed as an unadjusted error because it is not yet clear whether the ledger or the fixed asset register is correct. In advance of the 2012/13 financial statements, the difference between the ledger and the fixed asset register will be fully reviewed and addressed by the Board.

Risk area 2

Prior year adjustments - donated assets

20. The 2011/12 FReM required Boards to change the accounting treatment for donated assets which led to the removal of the donated asset reserve from their accounts. This requirement

was a change in accounting policy which was reflected in the financial statements of NHS Orkney with appropriate amendments made to prior year comparatives.

Heritage assets

21. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. From 2011/12 Boards were required to separately disclose any heritage assets. During 2011/12 the Board conducted a review of non-current assets which identified that no such assets are held by the Board.

Outlook

Endowments

22. As a result of an agreed derogation from the FReM, NHS Scotland Boards were not required to consolidate endowment funds within their 2011/12 financial statements, in terms of IAS 27, Consolidated and Separate Financial Statements. The Treasury and Scottish Government have delayed the consolidation of NHS Endowment Funds until financial year 2013/14.

Impairment of assets

23. The outline business case for the new Kirkwall care facility, including a replacement for the Balfour Hospital, is due to be presented to the Board for approval in early 2013. If it is approved, the Board will need to impair the value of the existing Balfour Hospital as it will ultimately close and be replaced with a new facility. This is reflected in the Board's financial plan 2012 - 2017, which includes an impairment charge of £1.535 million per year, with a total impairment of £7.8 million.

Financial position

24. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
25. Auditors consider whether audited bodies have established adequate arrangements and examine:
- financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
26. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

The Board's financial position as at 31 March 2012

27. NHS Orkney is required to work within the resource limits and cash requirement set by the Scottish Government Health and Social Care Directorates (SGHSCD). In 2011/12, the SGHSCD required NHS Boards to differentiate between core and non-core expenditure for both revenue and capital.
28. The Board achieved all its financial targets in 2011/12 as outlined in Table 1 below:

Table 1: 2011/12 Financial Targets Performance £'000s

Financial Target	Target	Actual	Variance
Revenue Resource			
Core	43,396	43,303	93
Non Core	1,718	1,694	24
Capital resource			
Core	731	649	82
Non Core	-	-	-
Cash position			
Cash requirement	47,000	46,857	143

29. The Board has achieved a surplus of £0.117 million. The Board had budgeted to break even against its Revenue Resource Limit in 2011/12. Historically, Boards have relied upon a measure of non-recurring funding to achieve financial targets. However, due to the one-off

nature of this type of funding, the tighter financial settlement compared to the past and reduced flexibility within expenditure budgets, there is less scope for reliance on non-recurring income to achieve financial balance as NHS Boards seek to rationalise their cost base.

30. The Board received £0.959 million brokerage from the SGHSCD during 2011/12 which was used to support the achievement of financial balance in 2011/12. This brokerage is being repaid to the SGHSCD over a five year period from financial year 2013/14 onwards. The Board has received a total of £4.38 million brokerage since 2009/10. Brokerage repayments are deducted from the Board's allocation in accordance with the agreed repayment schedule.

Capital Resource Limit

31. The Board underspent against its total Capital Resource Limit (CRL) in 2011/12 with total capital expenditure of £0.649 million. The total capital allocation consisted of £0.731 million of core capital allocations, with no non-core capital allocations.

Workforce reduction

32. The 2011/12 financial statements include £2.041 million of costs in relation to the Board's Voluntary Severance Scheme (VSS). During 2011/12 there were 44 exit packages approved under VSS which the Board estimates will produce approximately £1.050 million of recurring savings per annum. A sample of exit packages was selected and checked by the audit team to ensure that exit packages approved under the VSS were supported by a business case, including risk assessment, which was signed by the relevant Director/ Manager and business cases were approved by the Remuneration Committee. No issues were identified from our audit testing.

Financial planning to support priority setting and cost reductions

Financial sustainability and the 2012/13 budget

33. The cost challenges facing the Board are significant and in some cases there is an element of uncertainty about further potential increases in costs. The Board plans to achieve a recurring break even position in 2012/13. In 2011/12 the Board's cost savings plan, together with brokerage from the Scottish Government, was pivotal to the Board achieving financial balance. The Board set a cost savings target of £2.746 million, and £2.753 million was achieved, with £2.349 million of this balance being achieved on a recurrent basis and the remaining £0.404 million being achieved on a non-recurrent basis.
34. The Board's ability to achieve financial balance continues to be dependent on it successfully implementing its cost savings plans. In future years, the Board plans to achieve at least 3% per annum cash efficiency savings, and in 2012/13 planned savings are equivalent to 4.3% of the Board's baseline revenue allocation. This represents a major challenge to the Board and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

35. The Board continues to face significant cost pressures relating to the rate of growth in prescribing costs and the anticipated increases in workforce costs during 2012/13. There is also a commitment to strategic investment in services, with a planned investment fund of at least 1.5% of core RRL, equating to £3.62 million over the life of the plan.
36. All additional expenditure will require to be met from the Board's existing resource and as a result any significant fluctuations in these costs will present a major challenge to NHS Orkney achieving financial balance for the coming year. The cost savings are to be achieved through a number of means, including all aspects of efficiency and productivity with particular focus on service redesign, prescribing costs, property costs and procurement.
37. The Board has made good progress in improving its financial position, by achieving its very challenging savings target. Delivery of the cost savings plan in 2012/13 will be a continuing challenge. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. Failure to achieve planned cost savings will impact on the Board's ability to achieve a recurring break even position.
38. The Board's Local Delivery Plan (LDP) for 2012/13 aligns the Board's strategic priorities with its financial plans, workforce plans and asset plans. The Board's financial planning arrangements include regular monitoring, reporting and updating of information to allow potential risks to be addressed properly. It is therefore important that the Board continues to closely monitor costs in order to take any required remedial action through supplementary cost saving schemes.

Risk Area 3

Outlook

Significant financial risks beyond 2012/13

39. The Board's 2012/13 financial plan indicates that the Board will be required to achieve cash savings of at least 3% per annum in future years in order to continue, after allowing for investments, to achieve financial balance. The majority of the cost savings in each year are expected to be generated from recurring sources. These levels of savings will be challenging as the majority of readily achievable savings initiatives will have already been identified in recent years.

Risk Area 3

Investment in new care facility

40. The outline business case for the new Kirkwall care facility, including a new hospital to replace the Balfour Hospital, is due to be presented to the Board for approval in early 2013. This will be a major project for the Board going forward and will require careful project planning and management. The Board needs to replace premises which are not fit for purpose to deliver 21st century healthcare, and failure to have the outline business case approved would put

their planned model of care provision at serious risk. NHS Orkney is working closely with the Scottish Government to ensure deliverability of the proposed revenue financed development.

Risk Area 4

Pension costs

41. The financial statements include a net pension costs liability of £370 million for the NHS Superannuation Scheme based on an actuarial valuation carried out for the year to 31 March 2004. A more recent actuarial valuation was carried out at 31 March 2008, however the publication of this valuation was placed on hold by HM Treasury pending the outcome of public sector pension reforms. Given periodic actuarial valuations are key to determining the adequacy of employer and employee contributions to the Scheme, publication of the latest actuarial valuation will bring clarity as to the adequacy of current contributions to meet the future commitments of the Scheme.

Governance and accountability

42. The three fundamental principles of corporate governance: openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
43. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
44. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
45. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

46. The corporate governance framework within NHS Orkney is centred on the Board which is supported by a number of standing committees that are accountable to it:
 - Audit Committee
 - Finance and Performance Committee
 - Orkney Health and Care Partnership Board
 - Staff Governance Committee
 - Quality and Improvement Committee
 - Remuneration Committee
47. *The Role of Boards – a follow-up audit* was carried out by local auditors in 2011/12 to assess the progress that NHS Orkney has made to improve the performance and operation of its Board against the recommendations made in Audit Scotland's national performance report *The Role of Boards* (September 2010).
48. In carrying out the study we used a checklist based on the key issues identified in the national report and this checklist was discussed with the Board Secretary who provided supporting evidence as appropriate. Our draft report was issued to the Board in June 2012 and our

findings indicated that a number of initiatives are being progressed by NHS Orkney to improve the operation of the Board, although the Board has not formally considered the *Questions for Members* within the *Role of Boards* national report.

Risk area 5

49. Overall, the Board had sound governance arrangements in place in 2011/12.

Patient safety and clinical governance

50. Patient safety is at the heart of clinical governance and risk management and a number of national arrangements and initiatives are in place to assist Boards. NHS Healthcare Improvement Scotland (NHS HIS) has lead responsibility for reviewing Boards' performance in relation to patient safety, and for working with Boards to improve patient safety. The remit of the Healthcare Environment Inspectorate (part of HIS) is to reduce the risk of healthcare associated infections (HAIs) in acute hospitals through assessment, inspection and reporting of Boards' performance against HAI standards.
51. NHS Orkney is performing well in relation to HEAT targets to reduce HAIs so that by March 2013: staphylococcus aureus bacteraemia cases are 0.26 or less per 1,000 acute occupied bed days; and the rate of clostridium difficile infections in patients 65 and over is 0.39 cases or less per total occupied bed days. At March 2012, the Board reported that both these standards were currently being exceeded, however further clarification was being sought in relation to clostridium difficile.

Partnership working

52. Partnership working in the NHS covers a number of areas, including partnerships with staff groups, local authorities, the voluntary sector and regional planning with other NHS Boards. NHS Orkney and Orkney Islands Council have established Orkney Health and Care, a Community Health and Social Care Partnership (CHSCP), to provide care and public health services under a single integrated management structure. Orkney Health and Care contributes to one of the key principles set out in the Scottish Government's Better Health, Better Care publication which emphasises the need for 'ensuring better, local and faster access to health care'.
53. Internal Audit carried out a review of NHS Orkney's governance arrangements relating to Orkney Health and Care and concluded that arrangements were satisfactory. They made no recommendations for improvement in their report.

Internal control

54. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

55. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2011/12 RSM Tenon, the Board's internal auditors, provided their opinion that, based on the internal audit work undertaken during the year, there were no significant concerns that required specific mention in the annual governance statement. Our audit has confirmed that we concur with this assessment.

Internal audit

56. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit). We carried out a review of internal audit and concluded that the internal audit service operates in accordance with Government Internal Audit Standards and has sound documentation standards and reporting procedures in place. We did not place formal reliance on internal audit work for our financial statements audit, but we did take account of their work in a number of other areas. This not only avoided duplication of effort but also enabled us to focus on other significant risks.

Governance statement

57. The governance statement, provided by the Board's accountable officer, reflects the main findings from both internal and external audit work, and highlights the process by which the accountable officer obtains assurances over the adequacy and effectiveness of the system of internal control. This is a new format of disclosure for 2011/12 as specified by the SGHSCD. The new format includes the requirement for an overt assurance that arrangements have been made to ensure best value. Overall it was concluded by the Board that no significant control weaknesses or issues have arisen, that no significant failures have arisen in the expected standards for good governance, risk management and control, and that appropriate arrangements for best value are in place. Our audit has confirmed that we concur with this assessment.

Computer services review

58. As part of our 2011/12 audit we carried out a computer services review within NHS Orkney. This involved a high-level risk based assessment of information and communication technology (ICT) services in five key areas; governance and delivery, strategy, access controls and compliance, asset protection and business continuity. Our report was issued on 29 June 2012.
59. Our overall assessment is that NHS Orkney has made improvements in the provision of ICT arrangements and has implemented areas of good practice, including:
- a clearly defined ICT organisational structure.
 - a formal project planning/management process, with regular reporting to the eHealth programme board.

- standards and working practices/procedures for ICT staff which are clearly defined, up to date and accessible to all staff via the intranet.
 - formal processes for the addition and removal of users on the corporate network and the introduction of good password practice.
 - formal change control procedures, with the appropriate level of separation/control around movement between test and live environments.
 - specific personnel with accountability for ICT security, and a formal method of reporting, recording and following up of incidents.
 - network activity and performance monitoring, with appropriate detection and prevention controls and good controls over remote access.
60. The biggest challenge for NHS Orkney is the size of the ICT department, with consequent risks to segregation of duties. However, we have identified areas where improvement can be incorporated into current operational practice, which may mitigate some of these risks by:
- undertaking a refresh of the existing NHS Orkney e-Health Strategy which expired at the end of March 2012.
 - clearly defining roles/staff responsibilities in up to date job descriptions and making sure that the correct level of skills and expertise are maintained and kept under review.
 - reinforcing the recently improved processes for requesting access permissions to the network and the introduction of routine monitoring of superuser activity which will help mitigate the segregation of duties risk.
 - introducing a mechanism for ensuring that business areas get the appropriate level of service from the ICT department and to enable the ICT department to prioritise and manage its workload effectively.
 - undertaking a refresh of the information security policy to include recent technological advances and reflect current best practice as well as introducing proactive monitoring of IT security.
 - introducing a formal risk analysis/management method to assess the level of security which should be applied to the organisation's ICT assets and introducing regular evidenced checks of hardware assets.
 - ensuring that there are adequate business continuity plans and disaster recovery arrangements in place, and tested, to guarantee service continuity in the event of a serious incident occurring.
61. An action plan has been agreed with officers to ensure that arrangements are put in place to address the risk areas identified from the review.

Use of government procurement cards and other credit cards

62. Across the public sector government procurement cards have been used to reduce the costs relating to the purchase of small items and some internet based purchases where a credit card is the most effective way of making payment. A recent significant fraud, in another public

body, which in part resulted from misuse of the government procurement card highlighted that bodies need to ensure that their processes for the use of these cards are fit for purpose.

63. In 2011/12, NHS Orkney did not use government procurement cards or corporate credit cards. We understand that the Board is obtaining a corporate credit card, and will therefore need to ensure that procedures and controls over the use of the card are appropriate.

Prevention and detection of fraud and irregularities

64. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
65. NHS Orkney has a range of measures in place to prevent and detect fraud, including Standing Financial Instructions, a Code of Conduct for staff and a range of policies that are available to staff via the intranet. The Board has entered also into a formal partnership agreement with NHSScotland Counter Fraud Services and a Counter Fraud Champion and Fraud Liaison Officer are in place to ensure reports are circulated to appropriate managers and to the Audit Committee.
66. The Board's internal auditor, RSM Tenon, has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud. Additionally, the Board has agreed a formal protocol covering a programme of payment verification checks with the Practitioner Services Division of NHS National Services Scotland.
67. We concluded that the Board's arrangements were adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely.

NFI in Scotland

68. NHS Orkney participates in the National Fraud Initiative (NFI). This is a counter-fraud exercise that uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error. Where matches are identified, public bodies are required to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved.
69. The most recent data matching exercise collected data from participants in October 2010 and the national findings were published by Audit Scotland in May 2012. Participants should now be preparing for the 2012/13 exercise where data will be requested by October 2012. The national report published in May 2012 includes a self-appraisal checklist that all participants were recommended to use prior to NFI 2012/13.

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

70. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in NHS Orkney are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

Partnership working

71. This is very much a developing area at a national level. In December 2011 the Cabinet Secretary for Health and Wellbeing announced the Scottish Government's plans to integrate adult health and social care across local government and the NHS. The main proposals are:
- Community Health Partnerships will be replaced by Health and Social Care Partnerships (HSCPs) The partnership will be the joint responsibility of the NHS and local authorities, and will work with the third and independent sectors
 - HSCPs will be accountable to Ministers, Chief Executives and Chairs of NHS Boards, leaders of local authorities and the public for delivering new nationally agreed outcomes. These will initially focus on improving older people's care.
 - As a minimum NHS Boards and local authorities will be required to produce integrated budgets for older people's services.
 - The role of clinicians and social care professionals in the planning of services for older people will be strengthened. NHS Orkney has already invested in a number of new lead professional posts in nursing AHP and general practice which will be key in moving forward.
72. A smaller proportion of resources, money and staff, will be directed towards institutional care and more resources will be invested in community provision. The Scottish Government launched a consultation on the integration of adult health and social care on 8 May 2012. The consultation sets out proposals to inform and change the way that the NHS and local authorities work together and in partnership with the third and independent sectors. NHS Orkney and Orkney Islands Council have already established Orkney Health and Care to deliver health and social care services under an integrated management structure, so the Board has a valuable contribution to make to this consultation. We will monitor progress in this area.

NHS waiting times

73. The Auditor General has asked Audit Scotland to examine the use of patient unavailability codes in the management of NHS waiting times. This follows the recent critical review into

NHS Lothian's reported misuse of patient unavailability codes and recognises the importance of this for patients and the public and the need for independent assurance.

74. Audit Scotland will look at how these codes were being used by health boards in Scotland during the past year. Audit Scotland will prepare a report on its findings which the Auditor General will present to Parliament after its summer 2012 recess. In addition, Boards' internal auditors have been requested by the SGHSCD to carry out a review of waiting times as part of their 2012/13 internal audit plans. The results of this work are to be reported by 17 December 2012.

Best value, use of resources and performance

75. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.
76. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.
77. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
78. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. Audit Scotland has prepared a series of best value toolkits to facilitate its reviews in these areas.
79. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
80. This section includes a commentary on the best value / performance management arrangements within NHS Orkney. We also note any headline performance outcomes / measures used by NHS Orkney and any comment on any relevant national reports and the Board's response to these.

Management arrangements

Best value

81. In March 2011, the Scottish Government issued new guidance for accountable officers on *Best Value in Public Services*. The guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
82. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

83. NHS Orkney is committed to the principles of best value and continuous improvement. We will continue to monitor the Board's arrangements for demonstrating its commitment to best value and continuous improvement.

Best value toolkit: people management follow up

84. As part of our 2011/12 audit work we conducted a follow-up of the Board's 2010/11 self assessment exercise against the people management best value toolkit. The outcome of this review was summarised in KPMG's 2010/11 annual audit report and considered by the Audit Committee in June 2011. The original report highlighted a number of areas where there was scope for further improvement.

Strategies, policies, procedures and structure

85. The 2011 report highlighted the need for:
- Approval of a human resources strategy setting out the organisation's approach to people management.
 - Review of how the information on the eKSF system can be linked to the corporate learning and development plan, which in turn links to the corporate strategy.
 - Changes within the human resources service to more effectively utilise the resources available, with the human resource redesign taking into account a number of factors including the workforce plan, the organisation strategy and specific local issues.
 - Implementation of a human resource IT system.
86. Key areas of progress made in the last year include:
- Approval of the Board's first workforce strategy by the Board in April 2012 and a workforce plan which underpins the strategy and will, through the Local Delivery Plan, aid the alignment of the workforce strategy with the Board's finance and clinical strategies.
 - Agreement of a workforce action plan of ten workforce planning priorities based around the workforce plan objectives. A Workforce Steering Group has been established to oversee the successful delivery of the plan. Progress is reported to the Area Partnership Forum quarterly and the Staff Governance Committee on a 6 monthly basis.
 - The Employee Director has taken ownership of the staff governance action plan and regularly updates the Area Partnership Forum of progress. The Board has raised the profile of staff governance issues through an internal survey looking at the ways of improving involvement and communications and through the establishment of a Staff Governance and Staff Health working group 'Fit2'.
 - Consideration of the human resources service review by the corporate management team, with strategic support and advice continuing to be developed through a Partnership Agreement with NHS Grampian. A national HR system 'eESS' will be implemented by NHS Orkney.

- Regular updates on organisational change reported to the Area Partnership Forum. Further direct communications on this area is undertaken with staff through the monthly newsletter, staff communication forum and staff blog.
- Periodic external surveys to obtain feedback from patients and the public on the services they have provided. From these surveys specific actions are identified and progress is reported through to the CMT.

Integrating workforce planning with other planning processes

87. Previous areas for improvement included the need to:
- fully integrate workforce and financial planning, supported by shared information systems
 - consider increasing the Board's exposure to external benchmarking by developing systematic processes to allow the organisation to assess its people management performance against external standards
 - develop and monitor key performance information in relation to the human resources service (in addition to the HEAT targets)
88. The Local Delivery Plan (LDP) gives a basis for future service delivery and examines performance, workforce and risks and sets out the framework for achievement of corporate objectives. The LDP informs the annual financial and workforce plans. The LDP had highlighted the need to deliver significant financial savings as a key driver for workforce planning.
89. The Finance and Performance Committee is responsible for assuring the Board that NHS Orkney is effectively controlling workforce related costs. These monitoring reports' primary focus is on identifying whether the cost control elements of the Board's workforce arrangements are robust. Financial savings in relation to the workforce were mainly made through: establishment control; vacancies management; sickness absence management; grade/skills mix; and overtime, bank and temporary staff usage.
90. The Board and Orkney Islands Council have implemented a new structure, Orkney Health and Care. Orkney Health and Care is the partnership between Community Social Services and the community functions of NHS Orkney. The Board has agreed to produce a joint workforce development strategy for Orkney Health and Care for 2012 to 2016 and this process has also enabled further discussion on shared services with the council (for example joint Occupational Health and Training Service).
91. Staff costs are included in annual budgets, and progress and performance indicators are reported to the Finance and Performance Committee. To continue to ensure that workforce arrangements are appropriately monitored and managed, a range of key performance indicators are currently being developed by the Board as part of its workforce strategy. A system of evaluation and feedback is also being considered to inform the human resources service of perceived performance and suggestions which will help improve performance.

Manage and develop performance of staff

92. The 2011 review highlighted that the Board needed to consider the costs of investment in training and development, and evaluate value for money, impact and effectiveness in supporting corporate objectives.
93. The Board had previously identified that where staff were undertaking a KSF development review that fewer than the national average felt it helped them to improve how they did their jobs, helped them agree clear objectives for their work or were satisfied with the training they received. This year has seen the Board focus on improving the staff experience during the appraisal and a number of training events have taken place on appraisal skills.
94. All learning courses are now evaluated for impact related to the individual, team and organisation. Line managers are also encouraged to hold pre and post discussions with staff members within the development review process to gain an understanding of how effective the training has been. These evaluations are used to assess the courses and have allowed improvements in courses to be investigated. An area of improvement currently being considered is making more explicit links between training and development activities with the organisation and team objectives.
95. As part of this linkage the Workforce Plan incorporates the Learning Development and Organisational Development Plans. These have been developed in line with service plans and using information from personal development plans.
96. The Board also continues to look for improvements in training methods, with initiatives including using in-house training and further development of online training facilities.

Value, communicate with and involve staff

97. The 2011 review concluded that the Board could improve the transparency of the link between performance and reward. As part of the response, the Board has undertaken an internal survey covering communication, and how staff would like the organisation to communicate and engage with them. This resulted in the establishment of Team Orkney Communications (TOC) which is a staff forum anyone can attend. Feedback from this initiative has been supported by staff.
98. Good news messages are now delivered at TOC and through the new monthly newsletter. In addition the 'Fit2' group are working on a staff conference later this year, where staff will be invited to present posters on the work done by the teams.
99. In relation to employees' wellbeing, the Board has achieved the silver Healthy Working Lives award and is currently working towards the gold standard. Healthy Working Lives is an NHS initiative aimed at encouraging and supporting good practice in workplace health and safety, and employee wellbeing.
100. A review of communications undertaken by internal audit concluded that effective communication channels, both internal and external, are maintained by the organisation.

Conclusion

101. It is crucial for NHS Orkney to have effective workforce planning arrangements in place in order to secure best value and meet challenging performance targets. The Board continues to develop its arrangements to ensure that workforce plans are properly aligned to service and financial plans. The original best value assessment is being used to inform the people management framework, but a separate action plan was not developed or agreed by the Board to address the areas for improvement. We recommend the Board undertakes a mapping exercise to ensure that the various initiatives underway are addressing the issues identified, as appropriate, with no unintended omissions.

Risk area 6

Using locum doctors - a follow-up audit

102. *Using locum doctors in hospitals - a follow up audit* was carried out by local auditors in 2011/12 to assess the progress made by NHS Orkney against the recommendations made in Audit Scotland's national report *Using Locum Doctors in Hospitals* (June 2010). This follow-up assessed the extent to which the Board is using locum doctors more efficiently, effectively and safely. The assessment was undertaken by evaluating:

- Can the NHS Board show it is using locum doctors more efficiently?
- How is the NHS Board managing demand for locum doctors?
- How is the NHS Board ensuring patient safety when using locum doctors?

103. In carrying out the study we used a checklist based on the key issues identified in the national report. The national report was noted by the NHS Orkney Audit Committee, but we have seen no evidence that the checklist contained in the report has been considered by members or officers.

104. Officers highlighted that demand for locum doctors is forecast by medical and primary care staff. However it is not clear how this is translated into budgets and how the budgets in these areas are monitored against actual spend.

105. Information is held electronically detailing the reasons for the use of locums, the period covered and the costs. This information is used in compiling the Workforce Controls report which is monitored quarterly by the Finance and Performance Committee and shows the spend trend over the year (there is no comparison with budget or prior years). It is therefore difficult to gauge whether there is a reduction in the requirement or the demand for locum doctors year on year or against budget.

106. No other performance information is collated and reported to management on locum doctor usage. Currently there has been no benchmarking of performance information with other NHS Boards.

107. The Board advises that the national contract for locum agencies is used where the Board requires a locum, however there are no reports monitoring the use of the contract.

- 108. The Board's Locum Request Guidelines set out the procedures for procuring locum doctors, clearly outlining the authorisation process. The guidelines do not set out when it is appropriate to use locum doctors. All locums are sourced by the Human Resources Service on receipt of an authorised Locum Request Form in line with the guidelines.
- 109. There is no clear policy in place for reducing the use of locum doctors for annual leave and study leave. The trend analysis highlights locum spend reduced over the year, but it is unclear if this is due to actions being taken as there is no clear policy in this area.
- 110. The Locum Request Guidelines cover the requirement for pre-employment checks, induction and the supervision of locums. An evaluation of locums' performance is required for the initial period of cover provided or if there are concerns about a particular locum's performance after a period of cover. We have been advised that where performance issues are raised that this would be discussed by senior management. Management noted that there has been no performance issues (particularly in relation to patient safety) raised through the evaluation process to date.

Conclusion

- 111. The Locum Request Guidelines and the evaluation of locum performance provide several assurances on managing the demand for locum doctors and ensuring patient safety. It is, however, difficult to gauge whether there is a reduction in the requirement or the demand for locum doctors year on year or against budget as there is no clear policy for reducing spend in this area and there has been no benchmarking of information with other NHS Boards. Overall, the Board has not demonstrated that it has addressed the issues raised in the national report.

Risk area 7

Service redesign

- 112. Our annual audit plan highlighted that a key element of NHS Bodies' response to the need to deliver high quality services in a challenging financial environment is to focus on the design and sustainability of its services. NHS Orkney has a strong focus on service redesign, linked to its implementation of the Board's clinical strategy "Our Orkney, Our Health - Transforming Clinical Services" and to its achievement of planned efficiencies.

Performance management

- 113. The Board regularly monitors performance reports and continues to develop and refine its performance reports to better understand and manage performance.
- 114. NHS Orkney is subject to an annual review which is chaired by the Cabinet Secretary for Health and Wellbeing. The annual review highlights good performance, acknowledges the significant challenges faced by NHS Orkney as a small island Board and identifies areas where specific action would be required to improve health and treatment.

Overview of performance targets in 2011/12

115. The Board receives regular performance reports on progress towards achieving the key performance targets set by the Scottish Government (HEAT targets and standards). The Board demonstrated good performance against a number of challenging HEAT targets by the end of March 2012 including the alcohol intervention screenings, child healthy weight intervention and cardiovascular health checks targets. However some targets were not achieved, including 3% reductions in energy based carbon emissions and 1% reduction in energy usage and (for the final quarter of 2011/12) the 62 day cancer referral to diagnosis target. There were two data quality issues which affected reporting against HEAT targets for fluoride varnishing for 3 and 4 year olds and reductions in emergency inpatient bed days rates for people aged 75 and over.
116. The Board's performance in the current priority areas of waiting times, delayed discharges and healthcare associated infections is also monitored:
- The Board is achieving the Government waiting times target that from December 2011 the total maximum journey will be 18 weeks from referral to treatment.
 - The 2011/12 HEAT standard requires Boards to have no patients waiting in excess of 6 weeks. As at March 2012, the Board reported that there were 4 patients whose discharge from hospital had been delayed in excess of 6 weeks.
 - In terms of Healthcare Associated Infection (HAI), the standards require Boards to reduce HAIs so that by March 2013: staphylococcus aureus bacteraemia cases are 0.26 or less per 1,000 acute occupied bed days; and the rate of clostridium difficile infections in patients 65 and over is 0.39 cases or less per total occupied bed days. At March 2012, the Board reported that both these standards were currently being achieved, however further clarification was being sought in relation to clostridium difficile.

National performance reports

117. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. The findings and key messages of these studies are published in national reports.
118. The Board's Audit Committee receives national performance reports, which are also presented to other committees where relevant. Reports in the last year that may be of relevance to the Board are shown in Table 2 below and can be found on the Audit Scotland's website.

Table 2: A selection of national performance reports 2011/12

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|---|--|
| <ul style="list-style-type: none">• Transport for Health and Social Care (Aug 2011)• Scotland's Public Finances – Addressing the Challenges (Aug 2011)• A Review of Telehealth in Scotland (Oct 2011) | <ul style="list-style-type: none">• Overview of the NHS in Scotland's performance 2010/11 (Dec 2011)• Cardiology services (Feb 2012)• Commissioning social care (Mar 2012) |
|---|--|

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Outlook

Performance

- 119.** Over recent years the Board has invested substantial resources in order to achieve challenging performance targets set by the Scottish Government. The significant financial challenges that will be faced in 2012/13 and beyond may require the Board to prioritise its resources. This will make maintaining or improving performance even more challenging.
- 120.** In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of 'Specific Duties' which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013. We will consider progress made by the Board in implementing these requirements as part our 2012/13 audit.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	30 March 2012	10 April 2012
Report to Audit Committee in terms of ISA 260	8 June 2012	26 June 2012
Independent auditor's report on the financial statements	8 June 2012	26 June 2012
Computer Services Review	29 June 2012	9 October 2012
The Role of Boards – follow-up audit	31 July 2012	9 October 2012
Annual Report on the 2011/12 Audit	31 July 2012	9 October 2012

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	18	<p>Capitalisation of grouped assets</p> <p>Our audit identified a number of smaller assets capitalised during the year which did not meet the £20,000 threshold limit for capitalisation of grouped assets.</p> <p>There is a risk that proper accounting practice is not followed.</p>	The Board will review its revenue and capital spending plans in 2012/13 to ensure they recognise the criteria for grouped assets.	G O'Brien, Director of Finance	Already Implemented
2	19	<p>Reconciliation between ledger and fixed asset register</p> <p>The net book value of assets recorded in the fixed asset register is £69,000 lower than the net book value of the assets recorded in the ledger. There is a risk that the value of fixed assets is misstated in the financial statements.</p>	The Board is investigating the reasons for this.	S Shah, Head of Finance and Performance	October 2012
3	38 & 39	<p>2012/13 savings target</p> <p>The Board faces a number of financial challenges in delivering the LDP.</p> <p>There is a risk that it may not be able to make its savings targets in 2012/13. The longer term</p>	Regular reporting to Finance and Performance Committee and Corporate Management Team on savings achieved to date and progress on future plans.	G O'Brien, Director of Finance	Already commenced and in place throughout the year.

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		financial plan is a significant challenge to the Board moving forward.			
4	40	<p>Investment in new care facility</p> <p>NHS Orkney is presenting its outline business case for the planned new care facility in Kirkwall for Board approval in early 2013. The Board will then seek Scottish Government approval. If the OBC is not approved this will put the Board's planned model of care at serious risk.</p>	Project Plans to develop case for change and ultimately OBC developed and considered by Shadow Project Board.	C Cowan, Chief Executive	Already in place and continued through out year.
5	48	<p>Role of Boards follow up</p> <p>The Board has not formally considered <i>The Role of Boards</i> national report, including the questions for Board members designed to assist non-executive directors assess the role of their own Board. There is a risk that the Board's governance arrangements are not in line with best practice.</p>	The report and the follow up will be taken by the Board at its November development session.	J Aim, Corporate Secretary	November 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
6	101	<p>People management BV toolkit follow up</p> <p>The Board did not prepare an action plan arising from the 2011 review of the People Management BV Toolkit, although various improvement actions are progressing.</p> <p>There is a risk that the various initiatives underway are not addressing all the issues identified.</p>	Comparative exercise as recommended to be undertaken and reported through the Staff Governance Committee.	J Nicol, Head of HR	October 2012
7	111	<p>Use of Locums follow up</p> <p>NHS Orkney monitors its use of locums and is trying to minimise the use and cost of locum cover.</p> <p>However, from the evidence provided for our audit review, the Board has not demonstrated that it has addressed the issues raised in the national report. There is a risk that the Board cannot demonstrate best value in this area.</p>	Report to be prepared for October Audit Committee identifying good practice, areas for improvement and suggested timelines and responsibilities.	M Roos, Medical Director	October 2012