

Orkney Health Board

Annual report on the 2012/13 audit



Prepared for Orkney Health Board and the Auditor General for Scotland
July 2013

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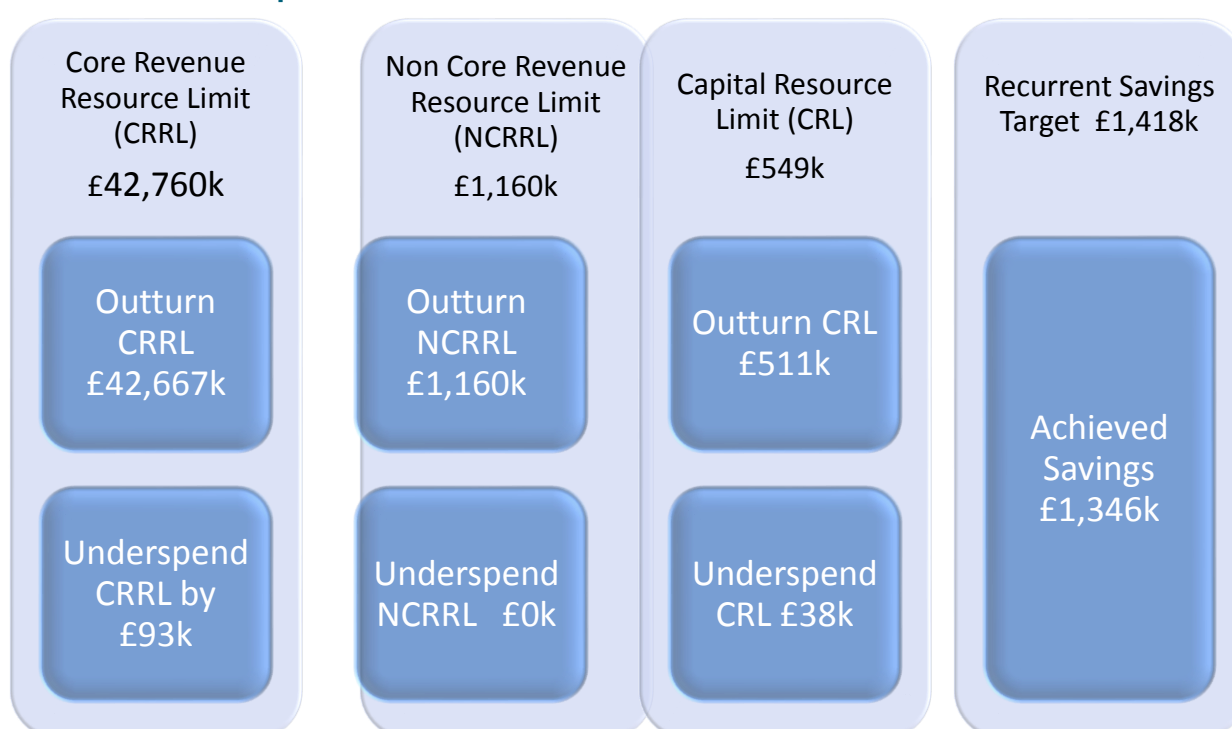
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Key Messages

2012/13 Key Facts

The Scottish public sector is experiencing significant financial challenges in providing expected levels of service within the agreed financial framework. In 2012/13 we assessed the key strategic and financial risks being faced by Orkney Health Board. 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 findings. The key financial messages are summarised in Exhibit 1 below.

Exhibit 1: Financial performance 2012/13



Financial statements

We have given an unqualified audit report on the financial statements of Orkney Health Board for 2012/13. 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.

Financial position and use of resources

The Board achieved all of its financial targets in 2012/13 and returned an underspend against its total Revenue Resource Limit of £0.093 million as at 31 March 2013. Total efficiency savings of £1.346 million were delivered, which was 5% below the target of £1.418 million

savings for 2012/13, yet well ahead of the national target of 3%. Delivering planned savings, particularly recurring savings, going forward remains a challenge for the Board.

The Board received £4.380 million additional financial support (brokerage) from the Scottish Government Health and Social Care Directorates (SGHSCD) between 2009/10 and 2011/12, to support the Board's financial position and service delivery. The Board and SGHSCD have agreed repayment of the outstanding balance over a 5 year period from 2013/14, at £0.738 million per year. The Board's financial position has improved recently, as a result of concentrated efforts to deliver targeted savings and redesign services to achieve efficiencies, and no brokerage was required in 2012/13.

The total capital budget was £0.549 million in 2012/13; the Board's capital expenditure was £0.511 million, resulting in a small underspend (£0.038 million).

Governance and accountability

In 2012/13, the Board had sound governance arrangements which included a number of standing committees overseeing key aspects of governance. These included the Orkney Health and Care Partnership Board; Audit; Staff Governance; Finance and Performance; and Quality and Improvement Committees. The Board also had an effective internal audit function and anti-fraud arrangements.

Performance and best value

The Board has an effective framework in place for monitoring and reporting performance, although it has plans to develop this further. The Finance and Performance Committee scrutinises performance in detail and regular reports are presented to the Board to provide members with assurance of the overall performance of Orkney Health Board.

In 2012/13 the Board met or exceeded a number of performance targets set by the Scottish Government. This includes 26 weeks referral to treatment for specialist child and adolescent mental health services; 18 week referral to treatment for psychological therapies; and reduction in staphylococcus aureus bacteraemia infections.

However, the Board did not achieve its performance targets in some areas such as smoking cessation; child healthy weight intervention; admission targets for stroke patients; reduction in clostridium difficile infections; and reductions in energy based carbon emissions and energy usage.

Waiting times

Audit Scotland's report on the management of patients on NHS waiting lists, following NHS Lothian's reported misuse of patient unavailability codes, recognised the need for independent assurance on the management of waiting times to restore public confidence in the system.

A local review of waiting times carried out by internal audit concluded that 'controls are in place to ensure that patient data is accurate and up to date', and that 'the Board is proactive in identifying where there are potential breaches of waiting times targets'. Internal audit made

two low priority recommendations for improvement. The Board provided written assurance to the Scottish Government that improvement actions identified by internal audit had either been implemented or were in progress.

Integration of health and social care

The integration of health and social care is a key Scottish Government policy. Orkney Health Board and Orkney Islands Council established their health and social care partnership 'Orkney Health and Care' (OHAC) in 2010. Partnership arrangements have continued to develop since then and there is now a single integrated OHAC management structure in place. However, there is a need for further clarity between the partners on responsibilities, structures and funding in order to fully realise the benefits of partnership working.

Outlook

The financial position going forward is becoming even more difficult than previous years with limited increases in funding, increasing cost pressures and demanding savings targets. To achieve continuing financial balance, whilst investing in frontline clinical services, the Board will need to deliver £1.03 million of recurring cost savings in 2013/14. This will make maintaining or improving on the performance targets set by the Scottish Government even more challenging.

In this context, the Board faces a number of performance challenges not least the maintenance of access targets. The new 12 week Treatment Time Guarantee, which is now a legal requirement (from 1 October 2012), requires significant resources to achieve and sustain. Managers are fully aware of the legislative nature of this guarantee and there have been no breaches to date for on-island treatment. Any breaches for patients who are referred directly to Aberdeen for treatment appear on NHS Grampian reports.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Orkney Health Board. 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 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 Orkney Health Board.
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 Orkney Health Board 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 Orkney Health Board for 2012/13 give a true and fair view of the state of the body's affairs and of its net operating cost for the year.
11. Orkney Health Board is required to follow the 2012/13 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 addressed this requirement 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. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. However, we experienced a delay in receiving the full draft financial statements

for audit. As agreed with senior finance officers, we started our financial statements audit a week earlier than last year, covering a few selected account areas, and the relevant working papers for these areas were provided to us as requested. We received the working copy of the SG accounts template on 13 May; this contains the accounting statements, notes and SFRs, so we could audit the figures while officers worked on the final draft of the narrative disclosure. However, a full set of financial statements including narrative disclosure was not received until 27 May, and this caused a delay in the audit testing which requires the full financial statements. We received a package of working papers with the SG accounts template; cross referencing of the working papers to support the audit trail could be improved. There is a short, much pressurised period for NHS accounts preparation and audit; we will meet with Finance staff to discuss ways to improve the process for next year.

Risk area 1

15. A small number of errors were identified during the audit, where if adjustments were made these would have a net effect of £40,000. The net impact on the balance sheet would be to increase net assets by £40,000
16. As reported to the Audit Committee on 25 June 2013, there were no significant issues which required to be brought to the committee's attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties. However, we wish to highlight the following point in relation to the information in Note 24 Pension Costs:

Pension costs

17. Following national guidance from the Scottish Government, Note 24 of the accounts: Pension Costs reflects a Scotland-wide net liability of £370 million for the NHS Superannuation Scheme arising from the most recent actuarial valuation for the year 31 March 2004. A more recent actuarial valuation was carried out at 31 March 2008, but the publication of this valuation has been 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 costs. There is a risk that the cost required to meet employer pension obligations could rise once the results of the valuation are known.

Risk area 2

Outlook: Endowments

18. As a result of an agreed derogation from the FReM, NHS Scotland boards were not required to consolidate endowment funds within their 2012/13 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. The consolidation process will be reviewed as part of our audit of the 2013/14 financial statements.

Financial position

19. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
20. 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.
21. 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 2013

22. Orkney Health Board is required to work within the resource limits and cash requirement set by the Scottish Government Health and Social Care Directorates (SGHSCD). In 2012/13, the SGHSCD required NHS boards to differentiate between core and non-core expenditure for both revenue and capital. The Board achieved all its financial targets in 2012/13 as outlined in the table below:

Exhibit 2: 2012/13 Financial Targets Performance £000s

Financial Target	Target	Actual	Variance
Revenue Resource			
Core	42,760	42,667	93
Non Core	1,160	1,160	0
Capital resource			
Core	549	511	38
Non Core	0	0	0
Cash position			
Cash requirement	50,000	48,596	1,404

23. The Board has achieved a £0.093 million surplus against its Revenue Resource Limit budgeted break-even position in 2012/13. The Board's financial position has improved following concerted efforts to deliver targeted efficiencies and redesign services, including

close working with the Scottish Government's tailored support team. No brokerage was required in 2012/13 to achieve financial balance.

24. The Board received £4.380 million brokerage from the SGHSCD between 2009/10 and 2011/12. This was used to fund the transitional costs associated with the implementation of the Board's Healthcare Strategy and to manage a voluntary severance programme. No brokerage was required in 2012/13. The agreed repayment schedule will see £3.690 million being repaid over the next 5 years through efficiency savings and some identified asset sales. The Board's efficiency savings target remains very challenging; the 2012/13 target was not fully achieved. There is a risk that the planned savings are not achieved and investment in services may therefore be curtailed in order to repay brokerage.

Risk area 3

25. Also, given the current economic climate, there is a risk that the income received from the sale of assets may not be as anticipated and repayments would have to be met from other funds.

Risk area 4

26. 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.

Capital Resource Limit

27. The Board's total capital expenditure in 2012/13 was £0.511 million, resulting in a small underspend (£0.038 million) against its £0.549 million Capital Resource Limit. The Board's initial capital allocation was amended several times during the year (and after the year end) as shown in Exhibit 3. The number of funding adjustments adds to the complexity of budget management within the health board.

Exhibit 3: Capital allocation and outturn 2012/13

Date		£ million
April 2012	2012/13 initial capital allocation	1.000
November 2012	Energy Efficiency funding	0.138
January 2013	Capital to revenue transfer for backlog maintenance	(0.200)
February 2013	Carried forward to 2013/14	(0.400)
April 2013	HFS funding	0.011
	2012/13 final capital allocation (capital resource limit)	0.549
	2012/13 capital expenditure	(0.511)
	Underspend against allocation (capital resource limit)	0.038

Financial planning to support priority setting and cost reductions

28. The Board's Local Delivery Plan (LDP) for 2013/14 aligns its strategic priorities with its financial plans, workforce plans and asset plans. The 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.

Workforce Strategy

29. The Board is committed to ensuring that workforce management contributes to efficiency savings and also addresses the needs of redesigned services. For example, voluntary severances (4 in 2012/13 and 47 in 2011/12) are used to support service redesign and efficiency. A nursing skills mix review is underway and in some new service areas additional staff input will be needed. The Board continues to face significant challenges in recruiting to some posts and in managing locum and agency staff costs. Collaboration with neighbouring boards increases capability and capacity across a number of areas (both clinical and administrative). The Board's workforce strategy 2012-2015 was approved in June 2012 and is supported by an annual workforce plan. The strategy is aligned with the Board's LDP.

Service Redesign

30. Orkney Health Board's "Our Orkney, Our Health - Transforming Clinical Services" strategy sets out the Board's vision for the redesign and sustainability of services. The strategy is aimed at providing a service model that is 'fit for the future'. This service redesign includes the use of technology to provide more services locally; a revised model of care for the outer isles (although there are difficulties recruiting to some key posts); the Orkney Health and Care partnership with the council to integrate community health care and social care; planned replacement of the Balfour Hospital; and working in collaboration with neighbouring health boards to access specialist skills and increase capability and capacity.
31. The Board has made good progress in recent years in redesigning more efficient and sustainable services which address the needs of Orkney's population. Building on work by management and the Scottish Government's tailored support team, the Board has made improved its financial position in recent years, through service redesign and efficiency savings, to achieve a recurring break even position this year, and ended its need for brokerage funding.

Outlook

Financial sustainability and the 2013/14 budget

32. Uplifts in financial settlements have been reducing in recent years as outlined below:

Exhibit 4: General funding uplift 2009/10 to 2012/13

Financial Year	General Uplift
2009/10	3.15%
2010/11	2.15%
2011/12	1.1%
2012/13	1.0%

33. Looking forwards, the indications are that funding uplifts are likely to be around 2.8 % in 2013/14 and 2.6% in 2014/15. Given the current economic conditions and the impact of national spending priorities, there is a risk that these pressures will have a significant impact on long term financial planning and the control of pay and non-pay costs, unless it is aligned to the LDP.
34. The cost challenges facing the Board (e.g. prescribing costs, locum costs, additional nursing input associated with the introduction of new services etc.) are significant and in some cases there is an element of uncertainty about further potential increases in costs. There are provisions in the 2013/14 Financial Plan to cover these issues. The Board plans to make a small recurring surplus in future years, but this is expected to be offset by a forecast non-recurring deficit to produce a break even position in 2013/14.
35. The Board's ability to achieve financial balance is again largely dependent on it successfully developing and implementing a comprehensive cost savings plan. For 2013/14, it needs to achieve £1.03 million of recurring cost savings which is the equivalent of 3% of its baseline revenue allocation. This will be 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.
36. Any additional expenditure will require to be met from the Board's existing resources and as a result fluctuations in these costs could present challenges to Orkney Health Board achieving financial balance for the coming year. In particular, the Scottish Government, from April 2013, will no longer fund UNPACS (acute unplanned activity) expenditure in excess of 1.5% of Core Revenue Resource Limit. The Board has benefitted from this funding arrangement in recent years. To help mitigate this impact, the Board has now entered into a service level agreement with NHS Greater Glasgow and Clyde to reduce the financial impact of further unplanned treatments as far as possible.

Governance and accountability

37. 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.
38. 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.
39. 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.
40. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

41. The corporate governance framework within Orkney Health Board is centred on the Board which is supported by a number of standing committees that are accountable to it:
 - Audit Committee
 - Quality and Improvement Committee
 - Staff Governance Committee
 - Finance and Performance Committee
 - Orkney Health and Care Partnership Board
 - Remuneration Committee

NHS Boards annual reports

42. NHS boards are required to publish an annual report. The principal purpose of the annual report is to account to the community the Board serves and to other stakeholders for key aspects of its performance during the year, and to give an account of its stewardship. The presentation, structure, design, format and distribution of local NHS annual reports is a matter for individual NHS boards. However, the Scottish Government has issued guidelines detailing information which should be included in the annual report.

43. Orkney Health Board produces an annual report which is publicly available on its website. The 2011/12 annual report was published in February 2013, after the expected publication date of October 2012, as the Board wanted to include the Annual Review letter from the Health Secretary (received December 2012). The annual report contained the Annual Review letter (which included key performance targets); details of inspectorate visits and a link to the inspection reports; complaints information; Board membership; summary financial information; and links to the full financial statements, the Board's "Our Orkney, Our Health - Transforming Clinical Services" strategy and the Public Health Department Annual Report 2011/12. However, it did not include:
- an audit opinion on the financial information in the report; or
 - a summary of capital resource outturn.

Risk area 5

Patient safety and clinical governance

44. Overall, clinical governance is within the remit of the Quality and Improvement Committee. The Committee provides assurance to the Board that the principles and standards of clinical governance are applied to health improvement and protection across Orkney. Patient safety is at the heart of clinical governance and risk management. The Healthcare Environment Inspectorate (HEI) has a key role in helping NHS boards reduce the risk of Hospital Associated Infection (HAI) in acute hospitals through assessment, inspection and reporting of boards' performance against HAI standards. The Board achieved its HEAT target for reducing staphylococcus bacteraemia (including MRSA) infections, with a total of 2 cases against a target maximum of 4; however there were 6 cases of clostridium difficile infections in patients aged 65+ against a target maximum of 4. The 2013/14 HEAT target will be even more challenging to achieve as it lowers the maximum target rate and applies to all patients over the age of 15, not just those aged over 65.

Risk area 6

45. The February 2013 unannounced inspection of the Balfour Hospital by HEI resulted in four requirements and one recommendation. One of these requirements was previously raised in the July 2012 unannounced inspection, as a high priority requirement with a one month timescale for implementation. HEI expects their requirements to be implemented as a matter of priority.

Risk area 7

Partnership Working

46. Partnership working is being actively promoted by the Scottish Government as a means of making service delivery more efficient and cost effective. The Board has a well established Community Health and Social Care Partnership, Orkney Health and Care, and there are other good examples of partnership working. However, there is a need for clarity between the OHAC partner bodies around structures, responsibilities and funding in order to fully realise the benefits of partnership.

Risk area 8

47. There is a need to invest in a new hospital and care facilities across Orkney as a whole and the Kirkwall Care Campus is seen as a start to that investment. This joint project between Orkney Health Board and Orkney Islands Council proceeded initially on the basis of agreeing a site for the Care Campus and the method of procuring the development subject to each party progressing financial and legal considerations. At the end of March 2013, the Council decided that its best value option was to extend residential care places in an existing care home facility rather than build new care facilities as part of the Care Campus. This has altered the scope of the project, which is now a new replacement Rural General Hospital incorporating two existing Health Centres and dental facilities in Kirkwall, at an estimated construction cost of circa £60m and equipment cost of circa £6m. A preferred public sector site has been identified, with negotiations underway for its purchase. The intention is to submit an Outline Business Case to the Capital Investment Group for consideration during 2013. Any further delay to the approval of the outline business case may put the Board's planned model of care at risk. The Balfour Hospital has been identified for some time as not being fit for purpose.

Risk area 9

Internal control

48. 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. The extent of this work is informed by their assessment of risk and the activities of internal audit.
49. 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 2012/13, RSM Tenon, the Board's internal auditors, provided their opinion that, based on the internal audit work undertaken during the year, significant assurance can be given that there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently.
50. The exception was the 'Adults with Incapacity' report, which concluded that the Board could not take assurance that the controls upon which the organisation relies to manage this risk were suitably designed, consistently applied or effective. Service managers attended the Audit Committee meeting to review the matter and the Committee recommended a number of actions including: discussion with the Area Medical Committee on assurances to be obtained from GPs; a report to demonstrate progress against the report's action plan and a report on updated hospital procedures. The Audit Committee is actively monitoring progress of key improvement actions through its Action Log at each meeting.
51. As part of our audit we reviewed the high level controls in a number of Orkney Health Board systems that impact on the financial statements. This audit work covered a number of areas including general ledger, payroll, trade payables and family health services. Our overall conclusion was that NHS Orkney's systems of internal control were operatively effectively in

2012/13. This meant we could take assurance from these systems in our audit of the financial statements.

Internal Audit

52. 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). The review of internal audit was carried out in January 2013 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.

Also, we placed formal reliance on the work of internal audit on the general ledger legacy system for the purposes of our financial statements audit. This not only avoided duplication of effort but also enabled us to focus on other areas of risk.

Governance Statement

53. 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. Additionally, the governance statement includes the requirement for an overt assurance that arrangements have been made to ensure best value.
54. Orkney Health Board has a very detailed governance statement which describes the various elements of the corporate governance framework. It highlights areas where weaknesses have been identified and what action is being taken to address and improve these. For example, the 'Adults with Incapacity' internal audit report mentioned above; the Gibbins report on an external team investigation into serious concerns raised about working relationships and staffing levels; and the robustness of the Board's overall response and processes to support the principles of Significant Adverse Events.
55. Overall it was concluded by the Board that, other than the 'Adults with Incapacity' internal audit report mentioned above, 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.

Prevention and detection of fraud and irregularities

56. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
57. Orkney Health Board has a range of measures in place to prevent and detect fraud, including Standing Financial Instructions, a Code of Conduct for staff and a number of other policies that are available to staff via the Blog (intranet). The Board has also entered into a formal partnership agreement with NHSScotland Counter Fraud Services and a Fraud Liaison Officer

is in place to ensure reports are circulated to appropriate managers and to the Audit Committee.

58. The Board's internal audit function 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. In addition, the Board has agreed a formal protocol covering a programme of payment verification checks within the Practitioner Services Division of NHS National Services Scotland.
59. 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

60. Orkney Health Board participates in the National Fraud Initiative (NFI). The NFI 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.
61. NFI allows public bodies to investigate these matches and, if fraud or error, has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
62. The most recent data matching exercise collected data from participants in October 2012 with matches identified for follow-up in February 2013. All of the Board's 24 recommended matches are currently being investigated and to date, no instances of fraud have been identified. The Audit Committee receives regular reports on anti-fraud activities including NFI updates.
63. Overall, we concluded that the Board has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

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

64. 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.
65. The Board has a Code of Conduct for Board Members that is based on the Ethical Standards in Public Life etc. (Scotland) Act 2000. This includes a register of interests. The Board also has a Code of Conduct which applies to all employees. The Fraud and Corruption Policy and Response Plan, including summary guidance to staff, is available to staff and members.

66. We have concluded that the arrangements for the prevention and detection of corruption in Orkney are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Equality Act 2010

67. 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 of everyday business. The "NHS Orkney and Orkney Health and Care Mainstreaming Report April 2013", available on the Board's website, sets out the progress made by Orkney Health Board and Orkney Health and Care in meeting the requirements of integrating equality. The "NHS Orkney and Orkney Health and Care Equality Outcomes 2012-2017" report is also available on the website. This sets out the outcomes against which progress will be monitored.
68. In terms of the Equality legislation, the Board is required to publish information about its Equality outcomes, the actions taken by the Board and the progress made to achieve them. This is to allow the public to assess the organisation's performance on equality. Consequently, the Board must publish a report on the progress made no later than 30 April 2015.

Outlook

Partnership Working

69. Between 2011/12 and 2014/15 the Scottish Government's spending will fall by 5.5% (£1.5 billion) allowing for inflation. Reductions of this scale are a significant challenge for the Scottish Public sector. The Christie Commission report on the future of public services (June 2011) highlighted the need for a new, more radical, collaborative culture throughout Scotland's public services with a much stronger emphasis on tackling deep-rooted and persistent social problems in communities.
70. There is now a renewed focus on partnership working focused on community planning. Audit Scotland's recent report "Improving community planning in Scotland" (March 2013) highlighted that community planning has had little influence over mainstream public sector budgets and other resources used to date. The Scottish Government has re-emphasised the central role that community planning should play in driving the reform of public services. Indeed, the 'Statement of Ambition' published by the Scottish Government and the Convention of Scottish Local Authorities sets out high expectations of community planning and puts the community planning process at the core of public service reform by providing the foundation for effective partnership working, within which wider reform initiatives will happen.
71. The increasing importance of partnership working within a community planning framework is still evolving and we will monitor progress in this area over the next 12 months.

Best Value, use of resources and performance

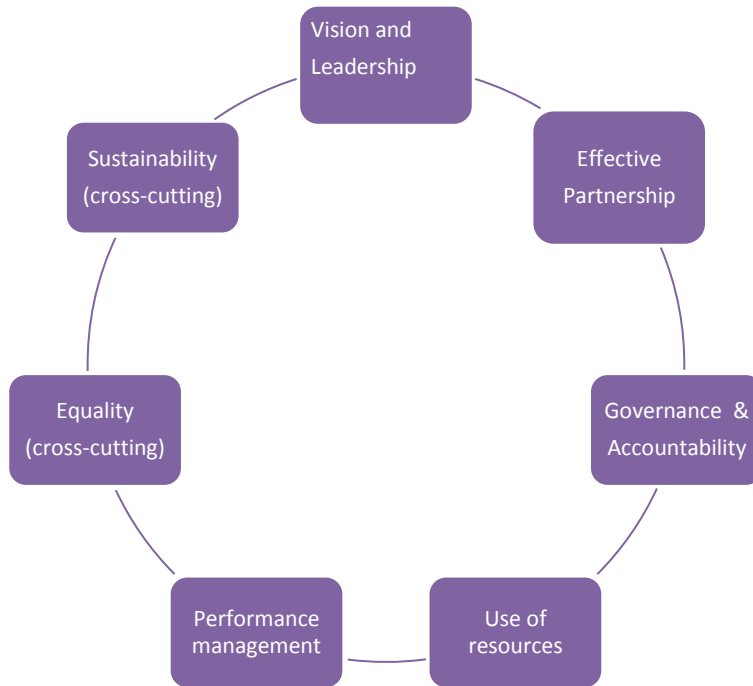
72. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.
73. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. 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.
74. 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.
75. 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.
76. 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.
77. This section includes a commentary on the Best Value and performance management arrangements within Orkney Health Board. We also note any headline performance outcomes and measures used by Orkney Health Board and any comment on any relevant national reports and the Board's response to these.

Management arrangements

Best Value

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

79. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:



80. Orkney Health Board is committed to the principles of Best Value and continuous improvement. This is demonstrated by the plans and actions of the Board, some of which are commented on below.

Service Redesign

81. Service redesign is central to the Board's plans for a sustainable, affordable, fit for purpose model of remote and rural healthcare, as covered in paragraphs 30 and 31.

Performance Management

82. A key element of Audit Scotland's approach to the audit of Best Value is the use of audit toolkits which cover the fundamental principles of Best Value. As part of our planned audit work for 2012/13, agreed with management, we applied a Best Value toolkit on performance management. The toolkit covered three main themes of performance management:
- Action and improvement oriented
 - Performance culture
 - Effective processes that deliver improvements.
83. The toolkit takes the form of a series of questions based on identified best practice. For each question we discussed with senior management the arrangements in place within Orkney Health Board. We also sample checked evidence provided by management to ensure consistency with the answers and this allowed us to form a view on the Board's level of development.

84. The Board's overall assessment is 'Better Practice' in all three themes. The Board was evaluated as having better practice for all but one toolkit question. This is a good position to build on, although there is still room for improvement. These results demonstrate the Board's positive commitment to Best Value and continuous improvement in performance management arrangements.

Scotland's Public Finances – Addressing the challenges

85. In the current year, we carried out a focussed follow-up audit on the "Scotland's public finances: addressing the challenges" report originally published in August 2011. Follow-up audits are being carried out in all health boards and councils in Scotland. In addition, follow-up audits are being carried out at 20 central government bodies, including the Scottish Government, Scottish Enterprise and Scottish Water.
86. The original report set out a number of key issues and risks expected to be faced by the public sector in the period 2010/11 to 2014/15. The main aim of the follow-up audit is to look at what action has been taken since the publication of the original report in August 2011 and what difference this has made. In particular, auditors were asked to consider two key questions:
- Does the health board have sustainable financial plans which reflect a strategic approach to cost reduction?
 - Do senior officials and non-executives demonstrate ownership of financial plans and are they subject to scrutiny before approval?
87. A key consideration in the Audit Scotland report was the extent to which workforce reductions were being used to deliver financial savings. This was not covered by the follow-up audit because of a separate study being carried out by Audit Scotland on changes to the Scottish public sector workforce which will look in detail at workforce planning.
88. We have concluded from our work that the Board continues to show a good understanding of the financial challenges it faces, and has been proactive in preparing financial plans to manage budget reductions. The Board has a clear understanding of its costs and the impact of efficiency savings on service delivery. We have also concluded that senior officials and non-executives demonstrate ownership of financial plans which they scrutinise before approval.
89. The Board may wish to consider further improvements to its approach to the financial planning framework by:
- extending its benchmarking beyond Scotland to UK health boards and private sector organisations with a view to identifying efficiencies and improvements
 - incorporating the views of service users in the planning framework, for example on cost reduction plans, where appropriate.

Overview of performance targets in 2012/13

90. The Board receives regular performance reports on progress towards achieving the key performance targets set by the Scottish Government (HEAT targets and standards). In addition, performance is subject to detailed scrutiny by the Finance and Performance Committee.
91. The Board has achieved good performance by either meeting or exceeding its targets in a number of areas. These include: delivering faster access to mental health services by significantly out performing the requirement for a maximum wait of 26 weeks referral to treatment for specialist Child and Adolescent Mental Health Services; and also by delivering 18 weeks referral to treatment for Psychological Therapies.
92. Some targets were not fully achieved. These include reducing the rate of clostridium difficile infections in patients aged 65 and over (6 cases occurred in relation to Orkney patients - although only 2 occurred in the Balfour Hospital itself - against a target limit of 4); the target for 90% of all patients admitted with a diagnosis of Stroke to be admitted to a designated unit on the day or day following admission; smoking cessation; child healthy weight intervention programme; and 3% reductions in energy based carbon emissions and 1% reduction in energy usage.

Risk Area 6

93. The Patients Rights (Scotland) Act 2012 introduced a statutory 12 week treatment time guarantee for eligible patients. This became effective from 1 October 2012. Waiting times and treatment times reports are presented to each Finance and Performance Committee meeting. To date, no patients treated on-island have breached the 12 week treatment time guarantee. Patients referred directly to Aberdeen for treatment would appear on NHS Grampian reports if they breached the 12 week period.

National performance reports

94. 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.
95. The Board has a formal process to ensure that the findings of national reports relevant to the Board are considered in detail to identify their potential impact and the Board's progress in addressing recommendations locally. These reports are discussed at Audit Committee and where improvements are identified actions are agreed locally and progress monitored. Reports in the last year that may be of relevance to the Board include:

Exhibit 5: A selection of national performance reports 2012/13

- | | |
|--|--|
| <ul style="list-style-type: none">• Management of patients on NHS waiting lists (February 2013)• Prescribing in general practice in Scotland (January 2013) | <ul style="list-style-type: none">• Health inequalities in Scotland (December 2012)• NHS Financial Performance 2011/12 (October 2012) |
|--|--|

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Management of patients on NHS waiting lists

96. Audit Scotland carried out a review of waiting times across the health service in Scotland following NHS Lothian's reported misuse of patient unavailability codes. The review recognised the need for independent assurance on the management of waiting times to restore public confidence in the system.
97. In addition, NHS boards' internal auditors were requested by the SGHSCD to carry out a review of waiting times as part of their 2012/13 internal audit plans and to report their findings by 17 December 2012. Shortly after this date, the Cabinet Secretary for Health and Well Being reported to the parliament the findings from internal audits carried out across the NHS in Scotland. The main findings were:
- there is no evidence of wide scale manipulation of waiting times across the National Health Service in Scotland
 - overall, the waiting times published by boards are reliable and accurate
 - the principal shortcomings relate mostly to the capability to record on some information technology systems, the consistent interpretation of guidance, and staff training
 - there are specific, localised issues in board areas that need to be addressed.
98. The Cabinet Secretary also made clear that he expected NHS boards to have implemented all locally identified recommendations for improvement by March 2013.
99. The internal auditors for Orkney Health Board reported their findings to the Audit Committee on 9 October 2012. They concluded that:
- controls are in place to ensure that patient data is accurate and up to date;
 - sample testing confirmed that periods of unavailability had been appropriately applied and although evidence was not always available due to the nature of the contact with the patient (i.e. telephone calls), trend analysis did not highlight any areas of concern;
 - NHS Orkney is proactive in monitoring breaches and potential breaches of waiting times targets and has a dedicated member of staff responsible for this, who is supported by the Information Services team and Medical Records team;
 - performance against waiting times targets is monitored through the Corporate Management Team, the Finance and Performance Committee and the Quality and Improvement Committee.

100. Internal audit made two 'low' recommendations in relation to procedural guidance and Board reporting where the current arrangements could be enhanced.
101. The SGHSCD have requested that all boards undertake a follow-up audit on the management of waiting times to ensure that planned improvements have been made and are working effectively. We will monitor the position at a future date.
102. Audit Scotland's report on the 'Management of patients on NHS waiting lists' published in February 2013 highlighted similar issues to those outlined above:
 - The systems used to manage waiting lists have inadequate controls and audit trails, and the information recorded in patient records is limited.
 - Most patients' records that were examined did not include enough information to verify that unavailability codes had been applied properly
 - Audit Scotland identified a small number of instances in which unavailability codes were used inappropriately. The limitations of waiting list management systems and the lack of evidence in patient records mean that it is not possible to determine whether these instances were due to human error, inconsistent interpretation of the guidance, or deliberate manipulation of waiting lists.
 - There was not enough scrutiny of the increasing number of patients recorded as unavailable.

Prescribing in general practice in Scotland

103. The overall aim of this national report was to examine prescribing in General Practices across NHS Scotland and identify the potential to improve prescribing economy, efficiency and effectiveness
104. The report highlighted that the NHS in Scotland spends almost £1.4 billion per year on drugs, of which almost £1 billion (70 per cent) is spent in general practice. Territorial NHS boards spend about ten per cent of their budgets on GP prescriptions and boards continue to identify this as a significant cost pressure.
105. The report noted that NHS Scotland has improved its management of GP prescribing and family doctors are getting more support and guidance on their prescribing. The report, however, indicated that there was further scope for improvements and the potential to save up to £26 million per annum without affecting patient care. The savings could mostly be achieved through reducing waste and cutting the use of less suitable medicines.

Health inequalities in Scotland

106. Reducing health inequalities has been a priority for successive governments in Scotland with the introduction of major legislation supporting this aim, such as the ban on smoking in public places and minimum pricing for alcohol. The Scottish Government's spending review reiterated its commitment to addressing health inequalities, and allocated around £170 million to NHS boards to directly address health-related issues associated with inequalities.

107. The national performance report assessed how well public sector bodies are working together to target resources at health inequalities. The report indicated that it was unclear how much money NHS boards and councils spend in this area or what it is spent on. Furthermore, the report highlighted that the Scottish Government takes account of deprivation and other local needs in allocating funding to NHS boards and councils. However, it is not clear how these bodies target their resources at local areas with the greatest need.

NHS financial performance 2011/12

108. This report provided an overview of the financial performance of the NHS in Scotland during financial year 2011/12. It also highlighted the financial sustainability, challenges and cost pressures facing the NHS.
109. The report noted that after several years of growth in public finances following devolution, public sector budgets are now falling. This reinforces the need for sound financial management and clear financial reporting, underpinned by good information and strong governance and accountability.
110. In 2011/12, spending on health accounted for about a third of the total Scottish budget and amounted to around £11.7 billion. Although the overall health budget has continued to increase in cash terms, it has been decreasing in real terms since 2009/10 and is projected to decrease further in real terms for the next three years.
111. The Scottish Government allocates over 90 per cent of the total health budget to 23 NHS boards, with the remainder retained by the Scottish Government to spend on other areas of its Health and Wellbeing Portfolio. While the overall health budget is decreasing in real terms, the Scottish Government has protected the total amount allocated to territorial boards and this will increase slightly in real terms (1.3 per cent) over the next three years. However, budgets for special boards will fall by 5.6 per cent in real terms.
112. The national report noted that the NHS in Scotland continued to manage its finances within total budget. However, this does not reflect the pressures faced by boards and a number of them had to rely on non-recurring savings to achieve balance. Moreover, some other boards needed extra help from the Scottish Government to break-even in 2011/12.
113. Boards are increasingly reliant on achieving savings to meet their financial targets, yet across the NHS 20% of savings plans are considered high risk, although some boards are indicating that they will have to achieve savings in excess of this level.
114. The national report highlighted that Scottish Government agreed to provide financial support in 2011/12 to Orkney Health Board to enable it to stay within its Revenue Resource Limit. This brokerage is to be repaid from efficiency savings and the sale of assets, over an agreed 5 year period. No brokerage was required by the Board in 2012/13.

Outlook

Performance

115. Over recent years the Board has invested substantial resources to achieve challenging performance targets set by the Scottish Government. The significant financial challenges that will be faced in 2013/14 and beyond make maintaining or improving performance even more challenging.
116. The Auditor General has been asked by the Public Audit Committee of the Scottish Parliament to provide an update on Audit Scotland's 'Management of patients on NHS waiting lists' report later this year. The audit work will focus on progress made by the NHS in establishing clear information audit trails and on the management and monitoring of waiting lists. The fieldwork for the report will be carried out at NHS boards in September and October of 2013 with a report to the Public Audit Committee by the end of December 2013.

Appendix A: audit reports

External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit Committee
Internal Audit Reliance Letter	31 January 2013	12 February 2013
Annual Audit Plan	2 February 2013	12 February 2013
Best Value Use of Resources - Performance Management	30 April 2013	12 June 2013
Internal Controls Management Letter	9 May 2013	12 June 2013
Report to Audit Committee in terms of ISA 260	18 June 2013	25 June 2013
Independent auditor's report on the financial statements	18 June 2013	25 June 2013
Annual Report on the 2012/13 Audit	31 July 2013	10 September 2013

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	14	<p>Draft Accounts</p> <p>A full set of financial statements including narrative was not made available until 27 May 2013.</p> <p>There is a risk that the accounts will not be audited by the 30th June deadline if the draft accounts are not provided timeously.</p>	<p>Will seek to accelerate the narrative in draft. But final narrative can not be available before mid May as data is subject to information still coming in, such as measures against HEAT performance targets.</p>	Head of Finance and Performance	May 2014
2	17	<p>Pension Costs</p> <p>The financial statements include a pensions liability based on the 2004 actuarial valuation. Publication of the 2008 actuarial valuation has been placed on hold by HM Treasury pending the outcome of public sector pension reforms.</p> <p>There is a risk that the cost required to cover employer pension obligations will rise once the results of the valuation are known.</p>	<p>Although Pensions remit falls in to SPPA, with NHS Orkney picking up an element of charges for a dozen historic early retirements, a decision to rebase the actuarial valuation rests with HM Treasury. As much as there is a risk the obligation will rise, it may also fall. NHS Orkney will monitor developments, accepting that there is a risk of higher (or lower) employer (and employee) contributions in the future.</p>	Director of Finance	No action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	24	<p>2013/14 Savings Target</p> <p>The Board's repayment of brokerage to the SGHSCD is dependent upon an anticipated level of efficiency savings. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years; and the Board did not fully achieve its planned savings for 2012/13. The delivery of the cost savings plan for 2013/14 remains challenging.</p> <p>There is a risk that the Board may not be able to achieve its savings targets in future years.</p>	<p>The Saving Target is challenging. Focused efforts will be driven by corporate management team and progress monitored by Finance & Performance Committee.</p> <p>Release of Funds to new investments will be restricted prior to efficiency savings being delivered.</p>	Director of Finance	31st March 2014
4	25	<p>Future Asset Sales</p> <p>The Board's repayment profile for brokerage also anticipates receipts from asset sales.</p> <p>Given the current economic climate, there is a risk that the income due from asset sales may not be realised.</p>	<p>A risk that the organisation will have to monitor. Already the capital plan has a contingency which will help to react to property receipts. At time of production of annual report two of the properties are under offer. Marketing efforts will continue.</p>	Head of Finance and Performance	On-going 2013/14
5	43	<p>Annual report</p> <p>The Board's 2011/12 annual report did not include all the information listed in the Scottish Government guidance on NHS annual reports.</p> <p>The annual report is an</p>	<p>The preparation process for the 2012/13 annual report has been advanced to commence earlier in year, and developed through the whole corporate management team to allow for improved internal review.</p>	Board Secretary	Sept 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		important communication tool to inform the local community of progress and performance against key targets and confirm the Board's stewardship of public funds.			
6	44 & 92	<p>Healthcare Associated Infections</p> <p>The Board breached its 2012/13 HEAT target for reducing the rate of clostridium difficile infections. The 2013/14 HEAT target rate has changed to become even more challenging to achieve.</p>	<p>Various measures have been further developed in 2012/13 and will continue in 2013/14, with NHS Orkney operating a Patient Harm Reduction Plan;</p> <p>The continued rollout of performance dashboards;</p> <p>Incident reporting database: staff are trained on its use at induction;</p> <p>An extensive programme of in house staff training in relation to patient safety and the dashboards.</p> <p>NHS Orkney invited the NES Aseptic technique road show to Orkney in March; the new aseptic technique eLearning module was delivered to around 40 staff.</p> <p>A huge amount of work has been undertaken and continues into 2013/14 with staff following the introduction of the National Infection Prevention and Control Manual Policy and implementing the Standard Infection Control Precautions (SICPs).</p>	Infection Control Manager	On-going

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			A Clinical Risk Assessment form has been devised and refined to meet local requirements and a national database established for recording the compliance against staff performing the Clinical Risk Assessment and thereafter the screening results.		
7	45	<p>Healthcare Environment Inspectorate</p> <p>One of the high priority requirements in the HEI inspection report on its unannounced February 2013 visit to Balfour Hospital was also reported in the previous inspection report as a high priority requirement.</p> <p>Failure to implement inspection recommendations may put patient safety at risk.</p>	<p>This element that was highlighted in the HEI reports related to the use of temporary closures on sharps bins. This is a slide mechanism which is on the sharps bin and should be closed when the sharps bin is between uses. Basically it is more of a safety mechanism which prevents the sharps coming out of the box should it tip over.</p> <p>Since the audits it has seen constant monitoring and awareness raising by Senior Charge Nurses, the Infection Control Nurse and the Hospital Manager. It has improved dramatically but with locums and bank staff, the occasional open sharps bin is still found.</p> <p>Daily checks by infection control staff are undertaken, feedback to person in charge and checks undertaken by SCN on the wards and highlighted during safety briefs.</p>	Hospital Manager	Actions already implemented.

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
8	46	<p>Partnership working</p> <p>There is a need for clarity and agreement between the Orkney Health and Care partners on structures, responsibilities and resolution of funding in order to fully realise the benefits of partnership working.</p>	<p>Aligned budgets for 2013/14 are agreed. Further work to be progressed in preparation for the Public Bodies (Joint Working) (Scotland) Bill.</p>	Chief Executive	<p>Aligned budgets - completed. Finalise recharges for OHAC staff - Sept 2013</p>
9	47	<p>Kirkwall Care Campus</p> <p>The scope of the care campus project has changed following a council decision to refurbish and extend their existing care home rather than build a new facility within the Kirkwall care campus. The outline business case (previously expected to be approved early 2013) is now expected to be approved in Autumn 2013.</p> <p>If there is further delay to the approval of the Outline Business Case or other aspects of the project, the Board's planned model of care will be at risk.</p>	<p>The organisation is focused on the Transforming Clinical Services Programme of which the care campus is a key element.</p> <p>Staff team and technical advisors are focused on delivery of OBC and monitored through Project processes. Financial and Legal advisors are now appointed.</p>	Chief Executive	OBC by end 2013/14.