



NHS ORKNEY

Annual report on the 2013/14 audit

Prepared for the Board of NHS Orkney and the
Auditor General for Scotland

August 2014



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Key messages

Financial statements

- Unqualified auditor's report on the 2013/14 financial statements.
- Audited financial statements submitted to Scottish Government after the 30 June 2014 deadline due to additional work required to correct a material mis-statement.

Financial position

- The Board required £1 million brokerage to achieve break even against total RRL in 2013/14.
- Recurrent savings of £0.423 million against a planned savings target of £1.029 million.
- Financial management and forecasting require improvement.

Governance & accountability

- The Board had sound governance arrangements in place.
- The Board has an effective internal audit function and sound anti-fraud arrangements.
- The Board has still to agree a model for health and social care integration with Orkney Islands Council.

Best Value, use of resources & performance

- The Board has an established framework in place for monitoring and reporting performance.
- In 2013/14 the Board performed well against waiting times targets and the treatment time guarantee, but did not achieve its smoking cessation HEAT target

Outlook

- A breakeven position in each of the next five financial years is forecast. This will only be achieved if a combination of efficiency savings and new or increased income are realised to bridge the funding gap.

Financial Statements

We have given an unqualified audit opinion on the financial statements of NHS Orkney for 2013/14.

The Board achieved all of its financial targets in 2013/14 and broke even against its total Revenue Resource Limit (RRL). However, this was achieved only after receiving £1 million brokerage from the Scottish Government Health and Social Care Directorates (SGHSCD) in March 2014. The Board reported that its financial position was negatively affected largely by the cost of locum cover for medical staff. It has agreed a repayment profile for the new brokerage and the remaining balance of previous brokerage, a total of £4.062 million. Repayments will start from 2016/17, when the Board will receive additional National Resource Allocation Committee (NRAC) parity funding. This is an increase in its funding allocation, based on a national resource allocation formula which calculates target shares of NHS funding for each health board. This is anticipated to be £0.5 million in 2015/16 and £3.8 million in 2016/17.

The Board achieved recurrent savings of £0.423 million against a planned savings target of £1.029 million; it delivered the remaining £0.606 million on a non recurring basis.

We identified during our audit that the financial statement presented to us included a material misstatement in respect of the Board's treatment of accounting entries deriving from the revaluation of its land and buildings during 2013/14. Time taken by the Board to resolve this matter resulted in the 30 June deadline

for submission of the audited accounts to the Scottish Government being missed. The accounts were approved by the Board and certified by the auditor on 4 July 2014.

Financial position and financial management

As noted, the Board required brokerage funding of £1 million in order to break even. The reported year to date financial position for 2013/14 was in deficit in each report to the Finance and Performance Committee, but the reports did not sufficiently detail how the Board expected to bridge the gap between the year to date position and the forecast break even.

The Board has been reliant on non-recurrent savings in order to secure break even in recent years and the financial plan for 2014/15 indicates continuing reliance on non-recurring savings.

The financial plan includes indicative recurring savings of £0.755 million and £0.557 million for 2015/16 and 2016/17 respectively. A further £0.173 million of non recurring savings in 2015/16 and £0.381 million in 2016/17 will also be needed. Together with the need to repay brokerage to SGHSCD, delivering a breakeven budget over the coming years will be challenging for the Board. The Board recognises the challenging operating environment and needs to develop detailed plans to deliver the planned savings. A Recovery Plan has been prepared and was agreed by the Finance and Performance Committee on 27 May 2014.

Governance and accountability

In 2013/14, the Board had sound governance arrangements with

the standing committees overseeing key aspects of governance. The Board also had an effective internal audit function and anti-fraud arrangements.

Audit Scotland's national report on the management of patients on NHS waiting lists found limitations in the systems used to provide an audit trail on how waiting lists were managed. The 2012/13 local review of waiting times carried out by internal audit gave substantial assurance that the Board's internal controls over this area were operating effectively; there were two low level procedural recommendations for improvement. The 2013/14 follow up review by Internal Audit concluded that NHS Orkney had fully addressed the recommendations in the 2012/13 internal audit report on waiting times and was making good progress with the recommendations from the Audit Scotland and Scottish Parliament's Public Audit Committee reports. The Board has provided written assurance to the Scottish Government that improvement actions identified by internal audit have either been implemented or are in progress.

The Board and Orkney Islands Council have not agreed a model for the integration of health and social care. Orkney is one of the few remaining areas in Scotland that has yet to decide on a model. The Scottish Government requires arrangements for governance, planning and resourcing to be in place by April 2015. The council has indicated that its preferred model is the 'body corporate' and the Board and the council must work together to ensure delivery of appropriate arrangements within the required timescale.

Best Value, use of resources and performance

The Board has an established framework in place for monitoring and reporting performance and is committed to continuous improvement.

The Finance and Performance Committee provides assurance to the Board that arrangements to deliver against organisational performance measures, and to secure economy, efficiency, and effectiveness in the use of all resources, are working effectively.

The Board has arrangements in place to consider national performance reports issued by Audit Scotland, whereby local performance is assessed against national findings and improvement actions identified. Reports are noted by the Audit Committee and then referred to the appropriate governance committee to identify improvement actions where appropriate and monitor these actions to confirm implementation.

The Board achieved two of its three targeted measures for final delivery by 31 March 2014 and has performed well against waiting times targets and the treatment time guarantee.

Outlook

The Board is predicting a balanced budget position in each of the years from 2013/14 to 2017/18. However, this is dependent on the delivery of efficiency savings each year to compensate for the gap between available funding and the cost of services. This balanced budget position also includes repayment of £4.062 million brokerage to SGHSCD from 2016/17.

The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. Achieving sustainability in the medium term will require innovation and vision to design and deliver the services needed to serve the future needs of citizens. It will also require robust financial management and financial planning.

The new hospital and healthcare facility is a key part of the Board's future service delivery. The Board is now entering the procurement process to identify its partner for the design, construction and financing of the new facility, as well as for its maintenance for 25 years after completion of construction.

Introduction

This report is a summary of our findings arising from the 2013/14 audit of Orkney Health Board (NHS Orkney). The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.

Our responsibility, as the external auditor of NHS Orkney, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The management of NHS Orkney is responsible for:

- preparing financial statements which give a true and fair view
- implementing appropriate internal control systems
- putting in place proper arrangements for the conduct of its affairs
- ensuring that the financial position is soundly based.

This report is addressed to the Board and the Auditor General for Scotland and should form the basis of discussions with the Audit Committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public

reporting.

This report will be published on our website after it has been considered by the Board. The information in this report may be used for the Auditor General's annual overview of NHS financial performance. The overview report will be published and presented to the Public Audit Committee of the Scottish Parliament later this year.

A number of **local and national reports** have been issued during the course of the year. These reports (**Appendix I**) include recommendations for improvements. 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.

The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix II** sets out the **key audit risks** identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Appendix III is an **action plan** setting out the issues, risks and recommendations arising from the audit. Officers have considered the issues and agreed to take the specific steps in the column

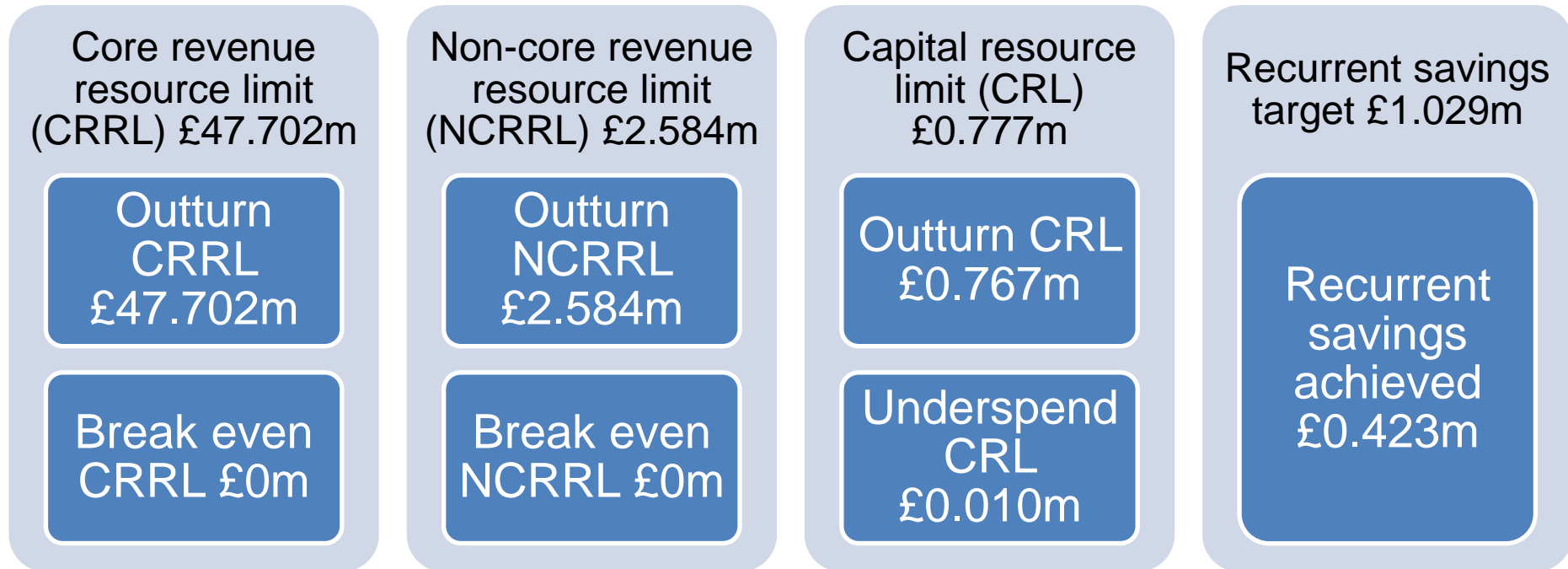
headed "Management action/response".

We recognise that not all risks can be eliminated or even minimised. What is important 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 proposed management action and have a mechanism in place to assess progress and monitor outcomes.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements



Audit opinion

We have given an unqualified opinion that the financial statements of NHS Orkney for 2013/14 give a true and fair view of the state of the affairs of the Board and its group and of their net operating cost for the year.

Other information published with the financial statements

Auditors review and report on other information published with the financial statements, including the Directors' Report, Strategic Report, Governance Statement and the Remuneration Report. We have nothing to report in respect of these statements.

Regularity

The Public Finance and Accountability (Scotland) Act 2000 requires auditors to certify that, in all material respects, the expenditure and income shown in the accounts was incurred or applied in accordance with relevant legislation and guidance issued by Scottish Ministers. We addressed the requirements of the Act through a range of procedures, including obtaining written assurances from the Accountable Officer. We have given an unqualified opinion on regularity in our 2013/14 auditor's report.

Accounting issues arising

During the course of our audit we identified that a number of presentational and monetary adjustments were required in the financial statements. These were discussed with management who agreed to amend the unaudited financial statements.

The most significant adjustments were in respect of the Board's treatment of accounting entries deriving from the revaluation of its land and buildings during 2013/14. The effect of these adjustments was to increase expenditure by £1.359 million and decrease net assets by £0.508 million. The more significant changes related to:

- £1.154 million impairment charge arising from the 5 yearly revaluation of land and buildings. The Board received £1.1 million additional Annually Managed Expenditure funding from the Scottish Government to cover this cost.
- £1.633 million prior year adjustment to remove a Revaluation Reserve balance for assets which had a nil net book value. This balance was credited to the General Fund.

In addition, two minor unadjusted errors were identified during the course of the audit, where if adjustments had been made, net assets would have increased and operating costs would have decreased by £0.020 million.

We reported in previous years that the draft accounts and the audit trail provided by the supporting working papers package were not completed in accordance with the agreed timescale, and were not ready when the audit team started onsite work. We are pleased to report that the quality and timeliness of the supporting working papers has improved and the 2013/14 draft accounts were ready for us when we started the financial statements audit on 12 May.

Report to those charged with governance

We presented our report to those charged with governance (ISA 260 report) to the Audit Committee on 4 July 2014. The primary purpose of this report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points are set out in the following paragraphs.

Revaluation of Non Current Assets

As required by its accounting policies and statutory guidance, the Board revalued its properties during 2014 and its asset register was updated to reflect the valuer's report. However, the matching of the new values (from the valuer's report) to the component assets in the asset register, and the related accounting entries were incorrect. The large number of component assets within the asset

register added to the complexity of the process. The extent of the error and uncertainty meant that the draft accounts contained a material misstatement and would have to be amended or receive a modified audit opinion.

The Board agreed to amend its disclosures in the annual accounts for the revaluation, supported by finance officers from NHS Fife who provided assistance with this process. The year end entries for the revaluation were removed and the cost and depreciation figures confirmed back to prior year audited figures, plus the depreciation charge for the year. This provided a base from which to re-work the revaluation entries. The revaluations from the valuer were then updated to the asset register on a line by line basis and journals generated to reflect these values in the ledger.

We confirmed that the net book value of the properties agreed overall to the valuer's report. We also confirmed the underlying integrity of the Revaluation Reserve and associated depreciation and cost of the assets. A prior year adjustment was required to remove £1.633 million from the Revaluation Reserve as at 1 April 2012 which related to assets with a nil net book value.

A revised impairment figure of £1.154 million was calculated and charged to 2013/14 expenditure. The Board was given £1.1 million additional Annually Managed Expenditure (AME) funding from the Scottish Government to cover this impairment.

These adjustments resulted in an unqualified audit opinion for the 2013/14 financial statements. The re-working of the revaluation in the asset register and ledger, and the subsequent audit of that

process, meant that the original agreed timescale for sign-off of the accounts (30 June) was not met. The Board agreed a delayed sign-off date of 4 July with the Scottish Government and the accounts and the audit opinion were both signed on that date.

The Board commissions a full revaluation of all its land and buildings every five years. The Board may wish to consider a phased revaluation across the five year period so that a smaller number of assets are affected each year. The Board has a large number of component assets within its asset register; it should review its componentisation policy to see if a simpler policy and a smaller number of components would be more appropriate to the size of the Board's estate. **(Action plan no 1)**

As noted, the Board received assistance from its colleagues in NHS Fife to help resolve the accounting entries required to accurately reflect the result of the revaluation. The capacity of the Board's finance team was reduced during the year following the departure of a senior member of staff, whose post wasn't filled. We understand that as a result of this matter, it is now the Board's intention to reintroduce experienced resource into the finance team during 2014/15, which we consider to be a positive outcome. **(Action plan no 2)**

Endowment Fund Accounts

The 2013/14 accounts manual requires host boards to consolidate NHS endowment funds established by the National Health Service (Scotland) Act 1978, where material, into their financial statements. The Orkney Health Board Endowment Funds were consolidated

into the NHS Orkney's financial statements for 2013/14. The basis of consolidation is merger accounting with any intra-group transactions between NHS Orkney and the endowment funds eliminated on consolidation. The consolidation required the restatement of prior year comparative figures and the inclusion of a consolidated opening balance sheet at 1 April 2012.

The endowment fund figures used in the consolidation process were based on a draft set of endowment fund accounts. The required audit adjustments were made to the endowment fund accounts and the audited accounts were approved and signed by the trustees on 24 June 2014.

There were some minor errors in the disclosure of endowment fund realised and unrealised gains and losses in the Board's accounts. The Board has agreed to review its consolidation processes for 2014/15 to ensure all figures are correctly included and that a clear audit trail is provided, in particular for accounting entries related to gains and losses on investments.

Outlook

The financial statements of the Board are prepared in accordance with the Government financial reporting manual (the FReM). The main new standards adopted in 2014/15 are:

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements

- IFRS 12 Disclosures of interests in other entities

Compliance with FReM is mandatory; however, the impact of the adoption of the new standards is unlikely to be significant to the financial statements of NHS Orkney.

Financial position and financial management

NHS Orkney is required to work within the resource limits and cash requirement set by the SGHSCD. Final RRL and CRL were agreed with SGHSCD on 26 June 2014, after the 2013/14 year end. The Board achieved all of its financial targets in 2013/14, including break-even against its Revenue Resource Limit, but required £1 million brokerage and £1.1 million additional AME funding to reach this position.

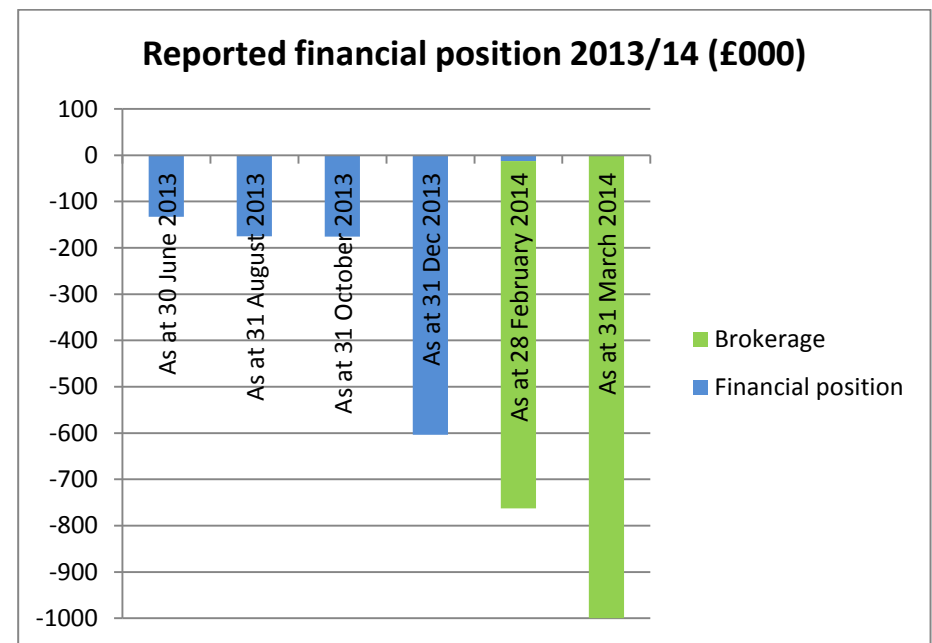
Financial management

Reports to the Finance and Performance Committee throughout 2013/14 indicated a continuing overspend against RRL, with a significant deterioration over the second half of the year. The reported overspend increased from £0.133 million as at 30 June 2013 to £0.176 million as at 31 October 2013, and to £0.604 million as at 31 December 2013 (reported in January 2014). An overspend of £0.836 million (as at 31 January 2014) was reported to the 27 February 2014 Board meeting.

NHS Orkney discussed its financial position with the Scottish Government in February 2014 and the Scottish Government agreed a level of financial support at £0.750m, which was later revised to £1.000 million in March 2014. Repayment of this and previous brokerage (a total of £4.062 million) has been renegotiated to start

from 2016/17 when the Board will receive additional NRAC funding.

Financial reports to the Board's Finance and Performance Committee reported a worsening month on month overspend throughout 2013/14, but continued to forecast that the Board would manage to break even by the year end. The reports did not provide detailed actions as to how the Board was planning to achieve a year end break even position. The 2013/14 overspend, which was largely due to locum costs to cover vacant medical posts and to allow GPs to take annual and study leave, resulted in the need for brokerage from the Scottish Government.



The quality of financial forecasting provided to the Board could also

be improved to help avoid material changes to the year end outturn in the final months of the year.

We note that the Chief Executive has asked Internal Audit to conduct a detailed diagnostic review of the Board's 2013/14 financial position. This review will consider the Board's approach to budget setting and in year financial management, variance analysis and forecasting. The review will seek to identify the factors that contributed to the deterioration in the reported financial position towards the end of 2013/14, and inform the Board's approach to financial management and reporting. **(Action plan no 3)**

Service level agreements

The Board does not have detailed formal service level agreements (SLAs) for all the services it receives from other NHS boards. In particular, the Board is not currently able to monitor the level of services it receives against an SLA with NHS Grampian, although patient activity data is received to demonstrate that Orkney patients have been treated. It is also unclear which services are included and which services constitute an 'add-on' at additional cost to the Board. The year end values for these contracts are agreed between the directors of finance at the boards, after consideration of relevant factors. The current contractual framework is not robust enough to easily demonstrate if the Board is receiving value for money. **(Action plan no 4)**

Capital expenditure

The Board spent a total of £0.767 million on capital projects during 2013/14. This amount was within its total Capital Resource Limit

(CRL) of £0.777 million.

The Board's final CRL reduced from the initial allocation due to a capital to revenue transfer of £0.200 million for application to its programme to address non added value elements of backlog maintenance that could not be charged to capital. The Annual State of NHSScotland Assets and Facilities Report (December 2013) indicated that £7 million (around 90%) of the Board's backlog maintenance relates to the Balfour Hospital. This backlog should be addressed in 2018, when a new hospital is planned to open and replace the existing Balfour Hospital.

Financial sustainability

Historically, boards have relied upon a measure of non-recurring funding to achieve financial targets. There is a risk that over reliance on non-recurring income to achieve financial balance becomes unsustainable. Longer term financial plans should be based upon recurring expenditure streams as a basis for reviewing and redesigning models for service delivery.

The Board's Local Delivery Plan (LDP) for 2014/15 aligns strategic priorities with financial plans, workforce plans and asset management plans. Its financial planning arrangements include regular monitoring, reporting and updating of financial information in the form of regular financial reports to the Finance and Performance Committee. As noted, these financial reports did not clearly detail how the in year deficit position would be recovered.

The Board's five year financial plan indicates a break-even position in each of the next three years, followed by a surplus in 2017/18

and 2018/19. The plan assumes efficiency savings of around £1.5 million in 2014/15 and £0.9 million in the following two years. Anticipated future funding uplifts are in the range of 2.7% for the period 2014/15, 1.8% for 2015/16 and 1.5% thereafter.

The Board reported through the 2014/15 LDP that all of the £1.567 million savings required have been identified for the year. There remains a risk that these efficiency savings are not delivered. The Board should ensure detailed formal plans are produced covering all the required savings for 2014/15 as a priority. The Chief Executive presented the Recovery Plan to the Finance and Performance Committee in May, and reported first quarter savings of £0.290 million against a £0.320 million trajectory. **(Action plan no 5).**

The updated National Resource Allocation position was published earlier this year. NHS Orkney is approximately £4.3 million below its target share in terms of baseline funding under the NRAC parity funding. The Board anticipates receiving an additional £0.5 million of NRAC parity funding in 2015/16 and £3.8 million in 2016/17. The Board's repayment of its brokerage has been renegotiated to start from 2016/17, to align with the additional NRAC funding.

Workforce pressures

During 2013/14 the Board incurred significant costs in relation to locum staff. Costs increased from £1.060 million in 2012/13 to £1.375 million, an increase of 30%. The number of agency staff has increased by 1.9 FTE, from 12.2 FTE to 14.1 FTE (annual average). The Board has recruited a number of staff to key posts in year, but there are some posts which remain unfilled despite several

recruitment campaigns. The Board has some employees who work extra hours to provide locum cover, but external locums are also needed to maintain levels of patient care. These locums command much higher rates of pay than in-house staff and the 2014/15 LDP notes that the Board's locum costs can be £3000 per day. Continued reliance on locum workers at very high pay rates will have a significant negative impact on the Board's plans to achieve the savings required for longer term sustainability. **(Action plan no 6).**

Cost of pension provision

Following the advice of the Scottish Government, Note 24 in the financial statements for 2013/14 "Pension Costs" reflects a net liability of £370 million for the NHS Superannuation Scheme arising from the most recent actuarial valuation. This figure is based on the last quinquennial actuarial valuation on the NHS Superannuation Scheme which was for the year ended 31 March 2004. While there was a more recent actuarial valuation carried out at 31 March 2008, the publication of this valuation has been postponed by HM Treasury pending the outcome of public sector pension reforms. Given that 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. Future, potentially increased, contribution rates will need to be managed as part of the cost base.

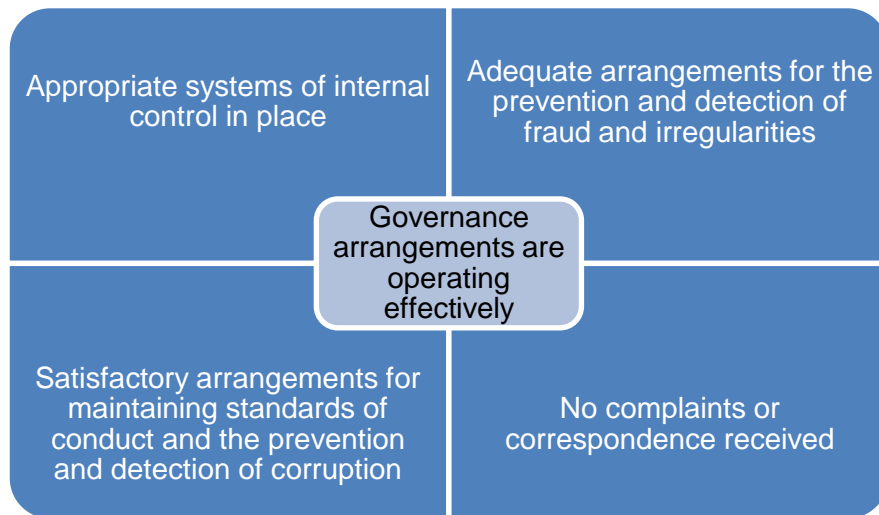
Changes in pension legislation came into force in 2012 requiring that all eligible employees must be automatically enrolled into a

workplace pension scheme. All employees between 22 and state pension age who earn more than the earnings trigger will be automatically enrolled in either the NHS Pension Scheme or another qualifying scheme. The Board has incurred costs of around £0.072 million in relation to auto-enrolment of staff into the pension scheme.

Outlook

The Board is predicting a balanced budget position in each of the years from 2013/14 to 2017/18. However, this is dependent on the delivery of efficiency savings each year to compensate for the gap between available funding from current sources and the cost of services. The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. The cost of locum cover, pension provision, prescribing and hospital drugs and costs arising from the new hospital and healthcare facility are issues which will impact on the future financial position of the Board.

Governance and accountability



The Board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHS Orkney and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

The corporate governance framework within NHS Orkney is centred on the Board which is supported by a number of standing

committees. Based on our observations and audit work, our overall conclusion is that the governance arrangements within NHS Orkney are operating effectively.



Internal control

As part of our audit we reviewed the high level controls in a number of NHS Orkney systems that impact on the financial statements. This audit work covered Payroll, Family Health Services and Accounts Payable. Our overall conclusion was that NHS Orkney had appropriate systems of internal control in place during 2013/14.

Internal audit

Scott-Moncrieff, the Board's internal auditors, provide the Board and Accountable Officer with independent assurance on the overall

risk management, internal control and corporate governance processes. To avoid duplication, we place reliance on internal audit work where appropriate. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work.

The review of internal audit was carried out as part of our planning process and concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

We did not place any formal reliance on Internal Audit reviews this year for the purpose of obtaining direct assurances for our financial statements audit, but for the wider governance aspect of our audit we took account of their 2013/14 reports.

ICT audit: Your Business @ Risk

Your Business @ Risk (YB@R) is a web-based survey that helps bodies quickly assess procedural, cultural and ethical compliance risks that have the potential to undermine the effectiveness of their information governance policies.

All users of eHealth facilities within NHS Orkney were invited to participate in the web based survey to assess their awareness of security issues and their role in reducing risk to the organisation.

Our review identified a number of areas where NHS Orkney staff demonstrated an adequate level of awareness of good practice.

However, the survey also identified an apparent lack of knowledge and awareness among staff in many areas, representing potential risks to the organisation. It was agreed with the Director of Finance that the outcomes from the survey would be communicated to staff and that risk areas identified would be addressed through the Executive Management Team. Information on the survey outcomes was published in the April 2014 'Keyhole' newsletter.

Arrangements for the prevention and detection of fraud

The Board's arrangements in relation to the prevention and detection of fraud and irregularities were adequate, although we note that the Board's actions to comply with Counter Fraud and Fraud Prevention CEL11 (2013) were progressing slowly.

NHS Orkney participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that the Board has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI. No frauds have been identified at NHS Orkney in 2013/14.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

The arrangements for the prevention and detection of corruption in NHS Orkney are satisfactory and we are not aware of any specific issues that we need to record in this report.

Correspondence referred to the auditor by Audit Scotland

No correspondence was received in relation to NHS Orkney.

Integration of adult health and social care

The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. The Act offers some flexibility on the partnership arrangements for the governance and oversight of integrated health and social care services. The integration will be complex and challenging and requires engagement at the highest level between the Board and Orkney Islands Council to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose. This will require:

- The establishment of a local integrated partnership and related governance arrangements.
- Integrated budgets for health and social care.

- Joint responsibility for strategic and locality planning in Orkney.

Three joint development sessions have taken place with members and senior officers from Orkney Islands Council and NHS Orkney. The council has indicated the 'body corporate' model as its preferred model, which delegates the functions and budgets of the health board and council to an Integration Joint Board. However, the partners have not formally agreed which model they will adopt for governance, planning and resourcing of integrated health and social care services.

The health board and council will need to work together to ensure that the unified service is in place by the statutory date of 1 April 2015. They will also need to manage the impact of continuing uncertainty on Orkney Health and Care staff and existing shared working arrangements, while the new arrangements are being developed. (**Action plan no 7**)

Outlook

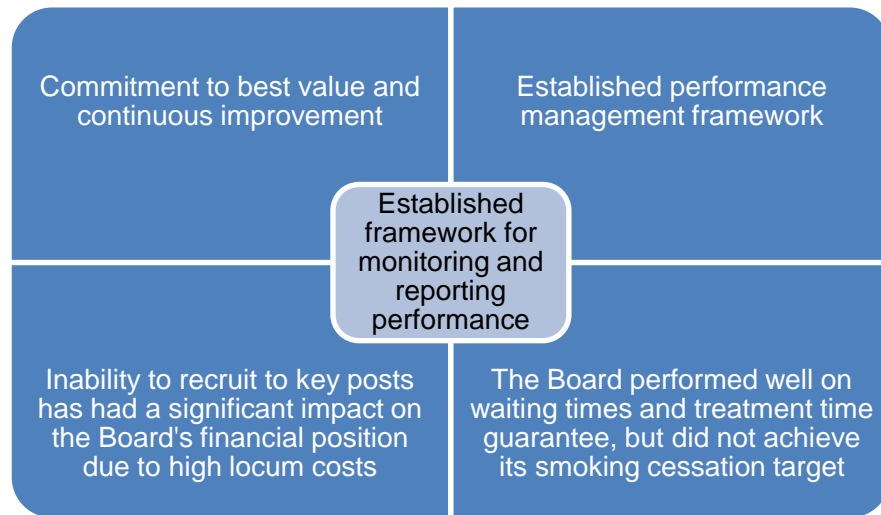
The Scottish Government has opened a two part consultation on regulations and guidance to be issued by Ministers under the Public Bodies (Joint Working) (Scotland) Act 2014. The consultation will inform the approach to matters relating to the integration scheme, delegated functions and the national health and wellbeing outcomes.

The consultation on the first set of draft Regulations began on 12 May and will conclude on 1 August 2014. The consultation on the second set of draft Regulations began on 27 May and will conclude

on 18 August 2014. The Board has considered the two sets of draft regulations and will provide a response to the consultation within the set deadlines.

As part of the Board's consideration process, the regulations will be shared with the Area Partnership Forum, the Area Clinical Forum and associated advisory structures. Heads of service have also been asked to discuss the regulations with staff and to share their feedback with the Corporate Management Team.

Best Value, use of resources and performance



Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

Arrangements for securing Best Value

NHS Orkney 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.

Use of resources: workforce planning and management

Workforce planning is part of the corporate planning process which supports the Local Delivery Plan. The Board agreed a workforce strategy to cover the period 2012-15, recognising that transforming the workforce is vital to delivering the Board's planned models of care. Annual workforce plans support the delivery of this strategy.

The Board has filled several key posts this year, but continues to experience difficulty in recruiting to some posts, despite active recruitment campaigns. The cost of using locums to provide medical cover has been noted elsewhere in this report.

The Board is developing arrangements with NHS Grampian to support staff training and maintain clinical expertise. Skills mix analysis has been carried out to confirm appropriate nursing levels in the hospital and a review of community nursing is underway.

NHS Orkney has absence management processes to support staff back to work and it has maintained its sickness absence levels below the national sickness absence target of 4% for the past two years.

Performance management

The Board has an established performance management framework in place, but has agreed that some changes should be made to arrangements. The focus on improving financial forecasting and reporting to support the achievement of financial

targets is one of these developments. Also, a number of staff and Board members sit on several groups or committees with responsibility for improvement: work to inform the Board's approach to quality, which began in December 2013, is now completed and a new structure has been approved. We are satisfied that appropriate arrangements were in place within NHS Orkney for 2013/14, albeit the Board was unable to successfully deliver on all its national targets. The Board achieved two of its three targeted HEAT measures for final delivery by March 2014 (child healthy weight interventions and fluoride varnish applications for 3-4 year olds); it did not achieve its smoking cessation target.

We note that the Finance and Performance Committee agreed in its Development Plan 2014/15 to move its focus from finance to clinical service targets. The Board will need to ensure that robust scrutiny of financial performance is undertaken, to support the delivery of financial targets going forward. **(Action plan no 3)**

Performance reporting

The Board produces an annual report which is publicly available on its website. The Board agreed in its response to our 2012/13 Annual Audit Report action plan (no. 5) that "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." The agreed deadline was September 2013. The Board did not meet its own deadline for the Annual Report 2012/13 or the Scottish Government's expected publication date of 31st October,

publishing in February 2014. Publication was delayed until after the receipt (in December 2013) and Board review (in February 2014) of the Annual Review letter from the Scottish Government, which is reproduced in the Annual Report. The Annual Report 2012/13 did include all the expected information, including our audit opinion on the summary financial information, and the Summary of Capital Resource Outturn, which had both been missing from the 2011/12 report. **(Action plan no 8)**

National performance audit reports

The Board has arrangements in place to consider national performance reports issued by Audit Scotland, whereby local performance is assessed against national findings and improvement actions identified. These actions are monitored by the appropriate governance committee to confirm implementation. A summary of national performance audit reports is included in appendix I.

Management of patients on NHS waiting lists

Audit Scotland carried out a review of waiting times across the health service in Scotland following reported misuse of patient unavailability codes at NHS Lothian. The review recognised the need for independent assurance on the management of waiting times to restore public confidence in the system.

A follow up review was published in December 2013. The review found that the trend of reducing use of unavailability codes noted in

the original report continued during 2012 and 2013. The review also noted that Boards were improving controls and audit trails in the systems used to manage waiting lists. In particular, there is a stronger focus on how boards record and monitor the reasons for patient unavailability.

NHS Orkney's initial internal audit report on waiting times (Oct 2012) concluded that the Board could take substantial assurance that their internal controls in this area were suitably designed, consistently applied and effective. The report included two low level procedural recommendations for improvement.

The follow up report in November 2013 covered the progress made by NHS Orkney in implementing the actions from the 2012/13 Waiting Times internal audit report, the Audit Scotland report on management of waiting times and the Scottish Parliament's Public Audit Committee report on waiting times. Internal Audit concluded that NHS Orkney had fully addressed the recommendations in the 2012/13 internal audit report on waiting times and was making good progress with the recommendations from the Audit Scotland and Public Audit Committee reports.

Internal Audit also assisted the Board with establishing the process of monthly internal audits of waiting times data. Internal Audit developed local guidance for operational staff undertaking audits of waiting list management, and carried out the four initial monthly audits. Internal Audit's testing in April 2014 found that five out of 19 periods of unavailability (26%) had no comments on the system to support the period of unavailability being applied.

Management of patients on NHS waiting lists - audit update, December 2013

Boards should:

- ensure their management of waiting lists includes scrutinising how they use all waiting list codes, not just unavailability codes
- implement the national controls framework to assess whether they have all the necessary controls in place to manage waiting lists, and address the gaps they need to fill
- implement our previous recommendation about making sure they identify patients with additional support needs and provide the required support
- ensure letters to patients about the treatment time guarantee provide clear and detailed information
- use the new codes to monitor unavailability due to patient choice reasons as part of their overall capacity planning
- use the tool being developed by ISD Scotland to monitor indicators for the management of waiting lists and benchmark their performance against other boards.

Following Board engagement with the providers of the TOPAS system, it has been confirmed that the unavailability comments field on TOPAS will be made mandatory in the next system upgrade (which is expected in 2014).

Overview of performance targets in 2013/14

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.

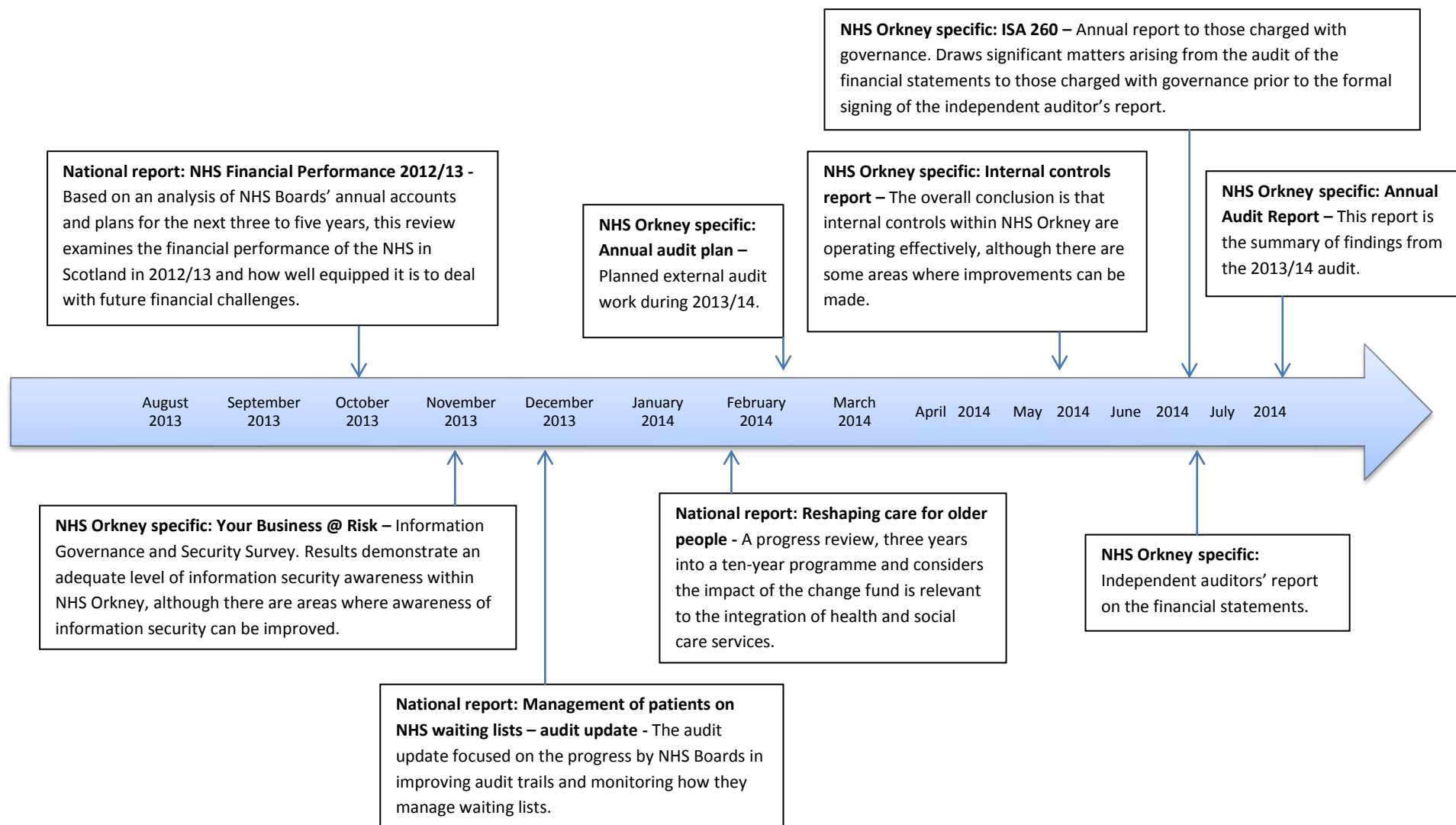
NHS Orkney targeted delivery towards 15 HEAT measures during 2013/14. Twelve of these measures ultimately conclude in future years. Of the three targeted areas for final delivery by March 2014: the Board achieved its target of child health weight interventions over the three years ending March 2014, and also the target for applications of fluoride varnish for 3 and 4 year old children. It did not achieve its smoking cessation target. The Board also met its targets for faster access to mental health services.

Waiting times and treatment time reports are presented to each Finance and Performance Committee meeting. To date, NHS Orkney has performed well against the 12 week treatment time guarantee, and no local breaches were recorded in 2013/14.

Outlook

In common with other NHS Boards, NHS Orkney faces unprecedented demand for increased and improved services arising from changing demographics, lifestyles, health inequalities, increasing public expectations, the availability of new drugs, treatments and technologies and the impact of health service specific inflation. As demand, and the consequent cost of healthcare, continues to grow, the Board will struggle to deliver at current funding levels. The scope of what can be done to respond to tough financial pressures is limited: services will need to be transformed to improve quality, while also making them more efficient and sustainable.

Appendix I – Summary of Audit Scotland reports 2013/14



Appendix II - Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
<p>Financial position: the Board's reported year to date position was behind budgeted RRL mainly due to high locum and UNPACS costs. The Board required £1 million brokerage towards the year end to break even in 2013/14.</p> <p>A significant proportion of the Board's savings were non-recurring which may have an impact on future financial plans.</p>	<p>We reviewed the financial monitoring reports presented to the Board; we have attended audit committee meetings and discussed the Board's financial position with relevant officers.</p> <p>The 2013/14 funding allocation to NHS Orkney was confirmed to the Scottish Government notification dated 7 May 2014. SG funding for 2013/14 included £1 million brokerage, which is repayable from 2016/17.</p> <p>The additional £1.1 million AME funding allocation for impairment arising from the revaluation of land and buildings was agreed to the Scottish Government notification issued 26 June 2014.</p> <p>Transfer of £0.200 million from the capital to revenue resource limit during the year, in recognition that the capital funding allocation was being used to fund the backlog maintenance works, was agreed to Scottish Government allocation letter of 7 May 2014.</p> <p>We concluded from the performance of our year end procedures that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and that expenditure was valid and correctly classified between revenue and capital.</p>

Audit Risk	Assurance procedure
<p>Financial management: Financial monitoring reports do not include enough details explaining how the forecast break even position at year end will be achieved. The Board required £1 million brokerage towards the year end to break even in 2013/14.</p>	<p>We have attended Audit Committee and reviewed Board papers to observe the level of additional information provided by officers to members and how members scrutinise and challenge information presented to them. We have reported our concerns regarding financial management on pages 13-14. (Action plan no 3)</p>
<p>Finance department capacity: the Head of Finance (our key contact for the financial statements) left the Board in Dec 2013 and has not been replaced. The workload and capacity of remaining staff represents a risk to delivery of the accounts at year end.</p>	<p>We discussed our expectations for the year end procedures with the Principal Accountant responsible for the accounts preparation process this year. She has amended some year end procedures and the draft accounts and supporting working papers were ready for us in accordance with the agreed timescale.</p> <p>The small size of the finance team has presented some challenges during the audit; the Director of Finance gave an assurance in our Annual Audit Plan that he planned to recruit additional finance staff; we note this has not yet happened. The finance team's reduced capacity may have contributed to the difficulties that they experienced in capturing the results of the revaluation in the annual accounts.</p>
<p>Previous internal controls audit findings: areas of internal control identified as needing improvement.</p>	<p>We issued our 2013/14 Review of Internal Controls report in May 2014. The report included an update on progress in implementing last year's agreed management actions. As part of our internal controls testing we carried out an initial systems review of the PECOS ordering system. Based on our review and testing of the financial systems outlined above, we concluded that the key internal controls within these systems were operating effectively and that we could take assurance from these systems in our audit of the 2013/14 financial statements.</p>

Audit Risk	Assurance procedure
<p>Financial Statements working papers package: previously, a complete set of accounts and working papers showing a full audit trail have not been ready at the start of our audit.</p>	<p>We issued a Financial Statements Working Papers Requirements checklist to finance staff in advance of the financial statements preparation process; finance staff agreed to identify and retain supporting documents for large/key transactions through the year to provide an audit trail for interim and final accounts testing. We had regular discussions with Finance staff throughout the year regarding these requirements.</p> <p>A full set of working papers and the draft accounts were ready for us at the start of the financial statements audit on 12 May.</p>
<p>Endowment Funds consolidation into health board accounts for the first time in 2013/14.</p>	<p>We obtained component auditor assurance from the auditors of the Endowment Fund accounts confirming their audit approach, compliance with auditing standards and the results of their audit. The Board had agreed an earlier timescale for the preparation and audit of the Endowment Fund accounts to allow for consolidation and audit certification in advance of the Board accounts being certified. The Endowment Fund accounts received an unqualified audit opinion from AJB Scholes.</p> <p>We checked the Board's process for consolidating Endowment Fund accounts within the Board accounts. We concluded that the Endowment Fund accounts figures were appropriately consolidated, with only minor errors in disclosure.</p>
<p>Health and Social Care Integration: NHS Orkney and Orkney Islands Council have not yet agreed which integration model to adopt, and the date for implementation of integration requirements is April 2015.</p>	<p>We have monitored reports to the Board on the progress of integration discussions with Orkney Islands Council. The council has indicated a 'body corporate' as its preferred model. However the Board and council have not yet formally agreed a preferred integration model.</p>

Audit Risk	Assurance procedure
<p>New hospital and healthcare facility: accounting for the design and construction of the new facility and also correctly accounting for the impairment of the existing Balfour Hospital and related assets.</p>	<p>We have monitored Board reports on the progress of the project: approval of the Outline Business Case, planning permission in principle granted by the council; approval by the Scottish Government. The Board is about to enter the procurement process and the OJEU notice has been published. Arrangements are also underway for the Bidders' Day which is being held at the Pickaquoy Centre on 14 August.</p> <p>We have discussed the accounting requirements for impairment with the Board; impairment of the Balfour Hospital (due to the limited remaining useful asset life) will start after the approval date for the Final Business Case.</p>

Appendix III – Action plan

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
1/11	<p>Revaluation of land and buildings</p> <p>The Board's application of the 5 yearly revaluation of its land and buildings was materially misstated in the draft accounts. The re-work of the asset register and accounting entries for the revaluation was time consuming and required a delayed sign-off of the accounts. The Board's large number of component assets added to the complexity of the process.</p> <p>Risks</p> <p>The accounting and asset register revaluation entries are made every five years; staff may not retain the skills needed to apply the correct process after a five year period.</p> <p>Also, the large number of components may mean that excessive staff time is spent processing individual valuation changes in the asset register.</p> <p style="text-align: right;"><i>Continued overleaf</i></p>	<p>The Board's asset register does appear to be overly complex due to the volume of assets contained within it.</p> <p>A review of the frequency of revaluations i.e. moving to a rolling programme together with an evaluation of the benefits of moving to a more streamlined asset register will be undertaken.</p> <p>A full revaluation of the Balfour will be required during the financial year (2015/16) as we approach financial closure on the NPD agreement for the new facility, all other assets could be revalued at different times.</p> <p style="text-align: right;"><i>Continued overleaf</i></p>	Director of Finance	October 31st 2014 for completion of the report.

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
1/11 contd.	<p>Recommendation</p> <p>The Board should consider whether a phased approach to revaluation, spreading revaluation of its assets over the 5 year period, would be more appropriate.</p> <p>The Board should also consider whether its componentisation policy has over-complicated the process of maintaining the asset register.</p>	<p>A streamlining exercise of the number of assets may have financial consequences in terms of a revision to the Board's forecast depreciation charge for future years. This and the actual process for streamlining the assets on the asset register will need to be carefully assessed.</p> <p>The Director of Finance will commission an exercise to evaluate the impact and associated workload with a report to be prepared for consideration by the Audit Committee.</p>		

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
2/11	<p>Finance team capacity</p> <p>The capacity of the Board's finance team was reduced during the year following the departure of a senior member of staff, whose post was not filled.</p> <p>Risk</p> <p>The Board does not have sufficient finance team capacity to deliver robust levels of financial management and planning.</p> <p>Recommendation</p> <p>The Director of Finance should review the level of skills and experience in his team to ensure that they have sufficient capacity to deliver robust levels of financial management and planning.</p>	<p>The Director of Finance has utilised the period of the vacancy to review the skills, expertise and capacity of the remaining team and has concluded that additional capacity is required.</p> <p>The Head of Finance post will be recruited to and additional resources will be factored in in terms of revised arrangements for financial accounting support and potential for an ongoing arrangement with NHS Fife.</p> <p>Head of Finance post advertised on SHOW site 6th August, interviews scheduled for 19th September.</p>	Director of Finance	All revised arrangements to be in place by 31 st October, subject to recruitment.

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
3/14 & 22	<p>Financial management</p> <p>The Board reported an ongoing overspend throughout the year, which increased to £0.876 million overspend in February 2014. Financial reports were not sufficiently detailed to show members what actions were being taken to correct the projected overspend.</p>	<p>Revised arrangements put in place for 2014/15 onwards. A new performance regime has been introduced led by the Deputy Chief Executive whereby closer examination of all performance measures, financial and non financial, are reviewed with service managers.</p>	Deputy Chief Executive	June 2014 Already in place
	<p>Risk</p> <p>Information provided to the Board is not sufficiently transparent and detailed to enable sound decision making; financial forecasting is not robust enough to notify management of problem areas and trigger corrective action.</p>	<p>Content and layout of financial reports has been amended to include forecasts of outturn expenditure and resulting budgetary variance. Forecast expenditure will be based on information provided by budget holders.</p>	Director of Finance	June 2014 Already in place.
	<p>Recommendation</p> <p>The Board should develop more robust financial planning arrangements to forecast and minimise overspends. We also recommend giving more detailed information to Board members on actions being taken to correct forecast overspends.</p>	<p>Actions are required on a monthly basis from budget holders on budgetary variances and these actions are contained in the narrative that is presented to the Board or Finance and Performance Committee.</p>		June 2014 Already in place

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
4/14	<p>Service level agreements (SLAs)</p> <p>The Board does not have a detailed formal service level agreement with NHS Grampian against which service delivery can be measured. Year end SLA values are agreed between the boards' directors of finance.</p> <p>Risk</p> <p>The Board cannot monitor standards of service delivery against a measurable target, and cannot easily demonstrate that it receives value for money.</p> <p>Recommendation</p> <p>The Board should develop a more robust contractual framework for services provided by other NHS boards.</p>	<p>The Board has agreed SLAs with NHS Grampian for Mental Health services, NHS Greater Glasgow and Clyde, NHS Lothian and NHS Highland for a range of acute services. Depending on the Board these are either cost per case agreements or agreed volumes with associated tariffs.</p> <p>A gap exists in relation to NHS Grampian due to issues in relation to the completeness of activity data.</p> <p>The need for a comprehensive SLA with Grampian is fully recognised, not least for financial planning purposes but also to fully understand the potential impact of repatriation of services.</p> <p>A new SLA will be put in place for 2014/2015 onwards.</p>	Director of Finance	October 2014

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
5/15	<p>Delivery of Planned Savings</p> <p>Delivery of the Board's cost savings plan for 2014/15 and subsequent years is very challenging in the face of significant cost pressures.</p> <p>Risk</p> <p>If the Board cannot achieve the savings required, the financial sustainability of the Board's services is at risk. There is also the risk of over reliance on non-recurrent savings.</p> <p>Recommendation</p> <p>The Board should formally document detailed plans for required savings throughout 2014/15 and ensure that its financial reports sufficiently capture any risks around the achievement of its financial targets.</p>	<p>The Board has a challenging savings target for 2014/2015, noting that over 66% of the target is non recurring due to the non recurring nature of the pressures facing the Board.</p> <p>A savings plan has been developed and agreed by the Finance and Performance Committee.</p> <p>Monthly updates will be prepared and reported to the Corporate Management Team with performance against target to be a standing item on the Finance and Performance Committee agenda.</p>	Chief Executive	Already in place.

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
6/15	<p>Locum costs</p> <p>The spending on locum staff increased significantly (30%) in 2013/14. NHS Orkney as a remote and rural health board faces continued challenges in recruiting staff to some key posts e.g. consultants, GPs. Whilst the use of locum staff provides flexibility to the care system and temporary cover for vacancies and staff absence, it is important that controls are in place to minimise avoidable periods of cover and that trends and patterns are managed and monitored closely.</p> <p>Risk</p> <p>Continued reliance on locum staff to this extent will have a significant impact on the Board's ability to achieve the savings required for longer term sustainability.</p> <p>Recommendation</p> <p>The Board should ensure that controls are in place, and that trends and patterns of locum staff use are managed and monitored closely with a view to reducing costs.</p>	<p>It is important to separate the ongoing difficulty in recruitment leading to the need for locums and a robust process for procuring those locums when need is established.</p> <p>Costs will be minimised through the use of rota management coupled with all orders being routed through PECOS in order to achieve greater visibility of the timeframes and associated costs.</p> <p>In relation to need, and with particular reference to the Isles Network of Care, there is a need to establish if the existing service model is sustainable from a service quality and delivery focus.</p>	<p>Director of Finance</p> <p>Chief Executive</p>	<p>PECOS ordering already in place</p> <p>October 2014</p>

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
7/19	<p>Health and Social Care Integration</p> <p>The Public Bodies (Joint Working) (Scotland) Act requires health boards and councils to develop integrated arrangements for delivery of adult health and social care services (as a minimum) by April 2015. The Board and Orkney Islands Council have not yet jointly agreed their integration model for governance, planning and resourcing of these services.</p> <p>Risk</p> <p>The partners do not agree appropriate arrangements for integration, which may cause reputational damage and lack of confidence in their ability to work together and deliver integrated services.</p> <p>Recommendation</p> <p>The Board and Orkney Islands Council must work together to ensure that the unified service is in place by the statutory date of 1 April 2015. They will also need to manage the impact of continuing uncertainty on staff and existing shared service arrangements, while the new arrangements are being developed.</p>	<p>An Organisational Development plan has been agreed by the Board and OIC and both parties are working towards the agreed development timetable.</p> <p>The Board of NHS Orkney will agree its preferred integration model at its meeting on 28th August 2014.</p> <p>An agreed integration scheme will be developed that allows the Board and OIC to meet their responsibilities in relation to timescale and staff governance.</p>	Chief Executive	December 2014

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
8/22	<p>Publication of Annual Report</p> <p>The Board's Annual Report 2012/13 was not published until February 2014, 11 months after the year end. This was also after the Board's agreed internal deadline of September 2013 and the Scottish Government's expectation of publication by 31 October 2013. Publication was delayed to allow inclusion of the Annual Review letter from the Scottish Government, received in December 2013.</p> <p>Risk</p> <p>The Board's performance information made available to the public is not up to date.</p> <p>Recommendation</p> <p>The Board should agree a publication schedule that complies with government expectations and makes information available to the public while it is still recent.</p>	The Annual Report will be published in accordance with the required timetable.	Chief Executive	November 2014