



NHS ORKNEY

2014/15 Annual audit
report for the Board of
NHS Orkney and the
Auditor General for
Scotland

June 2015

The Auditor General for Scotland appoints external auditors to NHS bodies in Scotland.
(www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Auditor General has appointed Stephen Boyle as the external auditor of NHS Orkney for the period 2013/14 to 2015/16.

This report has been prepared for the use of NHS Orkney and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the health board. The information in this report may be used for Audit Scotland's annual overview report on the NHS in Scotland published on its website and presented to the Public Audit Committee of the Scottish Parliament.

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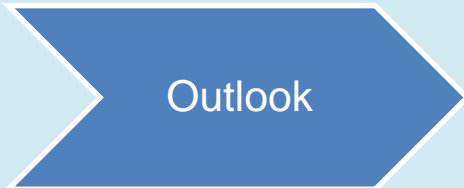
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Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none"> • The independent auditor's report on the 2014/15 financial statements is unqualified. • Audited financial statements were submitted to the Scottish Government by 30 June 2015.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none"> • All financial targets in 2014/15 were met. • A surplus of £0.068 million was achieved against total Revenue Resource Limit (RRL). • Total savings of £1.567 million were achieved (£0.669 million on a recurrent basis). • Financial reporting and scrutiny has improved in 2014/15. • Budget management developments are progressing.
 <p>Governance and transparency</p>	<ul style="list-style-type: none"> • The Board has sound and well-established governance arrangements in place. However, we note that there is scope to further improve performance reporting to committees and the Board throughout the year. • Systems of internal control operated effectively during 2014/15. • The Board has an effective internal audit function and robust anti-fraud arrangements. • Work, building on an established partnership model, is progressing further to develop detailed arrangements for health and social care integration. An Integration Programme Board has been established to progress an agreed joint project plan in advance of the Integration Joint Board (Shadow) being established. This work will ensure the Orkney Integration Joint Board will be operational by 1 April 2016.

 <p>Best Value</p>	<ul style="list-style-type: none">• The Board has identified the need to further enhance its performance management arrangements including reporting.• The Board is making progress in addressing HEAT targets and standards although not all targets were met.
 <p>Outlook</p>	<ul style="list-style-type: none">• The receipt of additional funding from the Scottish Government for 2015/16 will provide NHS Orkney with the financial platform to take forward the Board's transformation of its service plans in conjunction with its partners.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of NHS Orkney. The report is divided into sections which reflect our public sector audit model.
2. 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.
3. Our responsibility, as the external auditor of NHS Orkney, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of 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 should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. 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.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

<p>Audit opinion</p>	<ul style="list-style-type: none"> We have completed our audit and issued an unqualified opinion that the financial statements of Orkney Health Board for 2014/15 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.
<p>Regularity of income and expenditure</p>	<ul style="list-style-type: none"> In our opinion, in all material respects the expenditure and income in the financial statements was incurred or applied in accordance with relevant legislation and guidance.
<p>Other information</p>	<ul style="list-style-type: none"> We review and report on other information published with the financial statements, including the Management Commentary, Governance Statement and Remuneration Report. We have nothing to report in the audit opinion in respect of these statements, although we make some recommendations on page 8 for simplifying the narrative in future years.
<p>Consolidation template</p>	<ul style="list-style-type: none"> The Board's consolidation template has been audited to confirm that the figures are consistent with the audited financial statements. The template and accompanying assurance statement were submitted to the Scottish Government by the 30 June 2015 deadline.

Submission of financial statements for audit

9. We received the unaudited financial statements on 11 May 2015, in accordance with the agreed timetable. The working papers were of a good standard and finance staff provided effective support to the audit team which assisted the delivery of the audit to the agreed deadline.
10. Finance staff have made a number of improvements to the quality of the annual accounts, including the removal of superfluous information (e.g. large numbers of rows and notes containing zeroes). This is consistent with the good practice note issued by Audit Scotland in its publication *Improving the quality of NHS annual report and accounts* (December 2014). However, we think that there is scope to improve the arrangements for the preparation of the management commentary within the accounts. Although it presents a fair and balanced picture of NHS Orkney, the commentary is long, contains some repetition and uses very NHS-specific language; which a reader from outside the NHS may find difficult to understand. The addition of a glossary of terms would help increase the accessibility of the management commentary and the annual accounts more widely. **Action plan no.1**

Overview of the scope of the audit of the financial statements

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined

in our Annual Audit Plan presented to the Audit Committee on 24 March 2015.

12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
13. The concept of audit risk is of central importance to our audit approach. 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 audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial

statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
 17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of NHS Orkney we set our planning materiality for 2014/15 at £0.518 million (1% of gross expenditure). We report all misstatements greater than £5,000. Performance materiality was calculated at £0.259 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
 18. On receipt of the financial statements we reviewed our overall and performance materiality levels and adjusted these to £0.603 million and £0.302 million respectively. We concluded that our original audit approach remained appropriate.
- ## Evaluation of misstatements
19. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements, except for two items:
 20. Prescribing costs for February and March 2015 were over-accrued by £17,302. Prescribing information is received from the Practitioners Services Division two months in arrears so an estimated cost is accrued at the year end. The actual prescribing costs were £17,302 less than the accrued amount.
 21. There was a further over-accrual of £8,309 in relation to two 2014/15 invoices received after the year end.
 22. It is our responsibility to request that all errors be corrected, although the final decision on this matter rests with those charged with governance taking into account advice from officers and materiality. Management do not propose to adjust for the over-accruals as these amounts are not material to the financial statements; we agree that these are immaterial amounts.
 23. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The effect of the monetary adjustments is a £2,000 increase in Net Operating Costs and a £65,000 reduction in Other Comprehensive Expenditure. The main adjustment was to recognise realised losses of £2,000 and unrealised gains of £65,000 from the sale of available for sale financial assets (Endowment Funds investments). Other adjustments were movements between lines in the Statement of Consolidated Comprehensive Net Expenditure which had no overall impact on Net Operating Costs.

Significant findings from the audit

24. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
25. There are two areas considered significant enough to draw to your attention:
26. **Impairment of Balfour Hospital:** Following approval of the outline business case for the new hospital and healthcare facility in Kirkwall (by the Board on 27 February 2014 and by the Scottish Government on 8 July 2014) it was considered appropriate to revise the estimated remaining useful life of the Balfour Hospital, to reflect the anticipated opening of the new facility in September 2018. The Balfour Hospital was therefore revalued to determine the value it will have until September 2018; this resulted in an impairment of £8.332 million, for which the Board received non-core funding from the Scottish Government.
27. Finance staff proactively discussed their proposed accounting treatment with us at an early stage; we reviewed the accounting for the impairment and have concluded that it was in line with capital accounting guidelines.
28. **CNORIS provision and prior year adjustment:** Following an Audit Scotland review of consolidated accounting for the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) at Scottish Government level, guidance was issued to NHS boards by the Scottish Government confirming a change in the accounting treatment of CNORIS. The main change was that each board was required to create an additional provision in 2014/15 representing their share of the total liability of NHS Scotland in respect of CNORIS. Also, to ensure consistency of accounting treatment, NHS boards were asked to make equivalent adjustments to prior year figures in the accounts in order to comply with *IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors*.
29. A CNORIS provision of £0.485 million was included in the 2014/15 accounts representing the Board's share of the total liability of NHS Scotland as at 31 March 2015. The Board correctly processed opening balance and retrospective adjustments in line with International Accounting Standard 8 and as advised by the Scottish Government. The Board has received AME funding to cover the accounting changes so that there is no impact on the Board's outturn position.

Future accounting and auditing developments

Revisions to the financial reporting manual

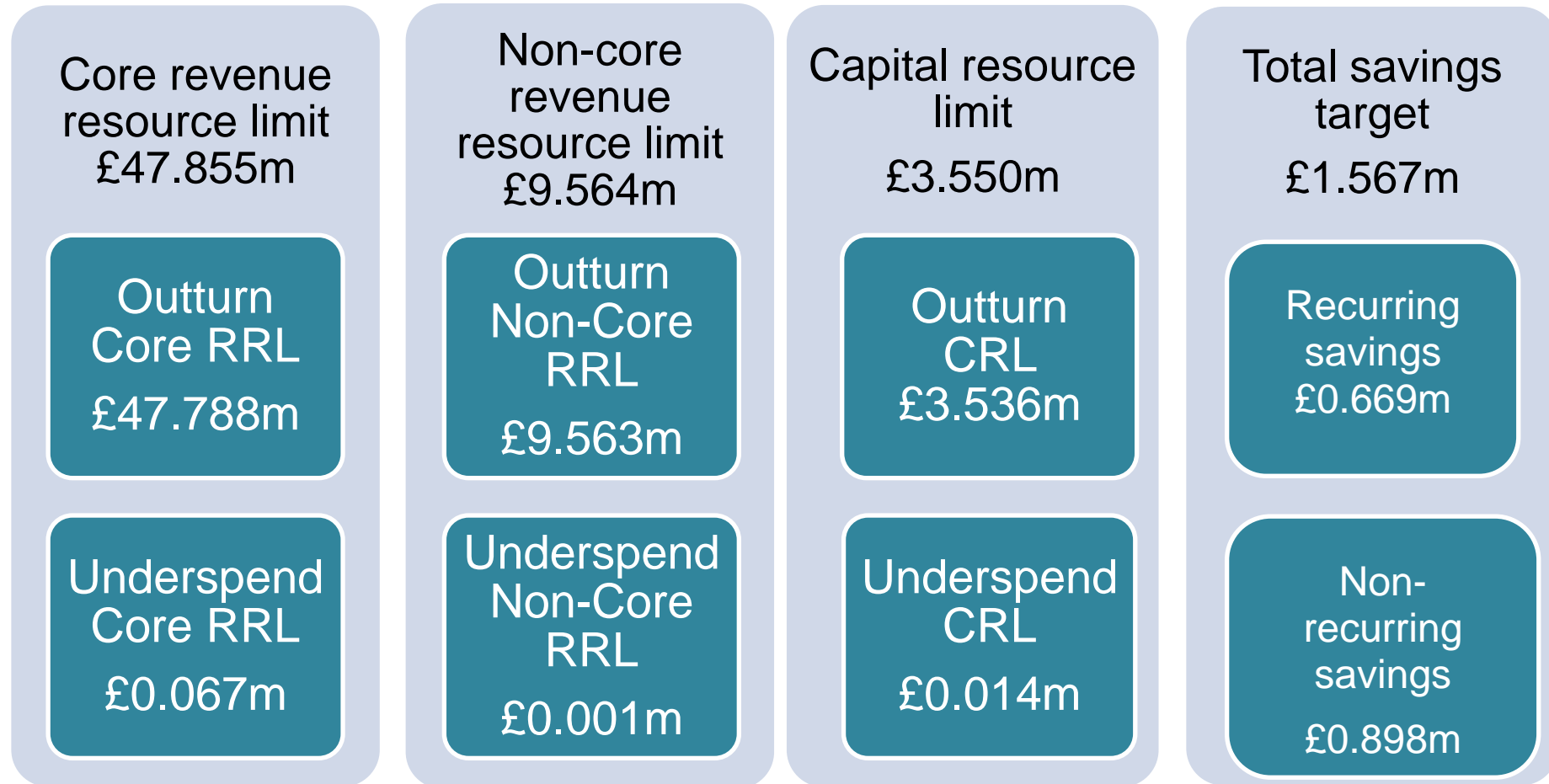
30. The financial statements of the Board are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:
- The adoption of IFRS 13 Fair value measurement.
 - Restructuring the annual report.
31. **(IFRS) 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. However, the 2015/16 FReM requires surplus assets to be measured at fair value in accordance with IFRS 13. The Board will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.
32. **Restructuring of the annual report:** the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:
- a performance report which will give a fair, balanced and understandable analysis of the Board's performance and will include an overview section and a performance analysis section.
 - An accountability report incorporating the following three main sections:

- corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
- remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
- parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.

Health and Social Care Integration

33. Integrated Joint Boards (IJBs) will be responsible for the strategic planning and commissioning of services within the scope of health and social care integration on, or before, 1 April 2016.
34. IJBs will be required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the UK. These requirements will apply for the financial year 2016/17, following the planned establishment of the Orkney Integration Joint Board on 1 April 2016.

Financial management and sustainability



Financial management

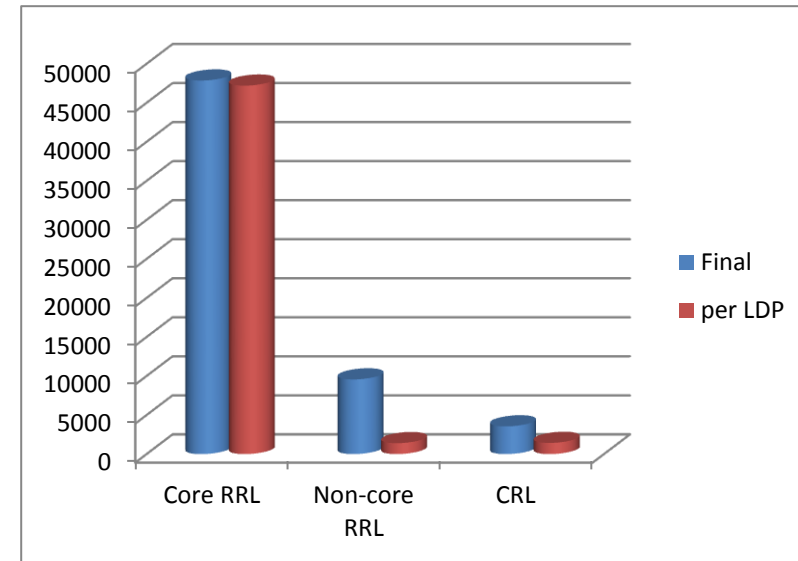
35. In this section we comment on NHS Orkney’s financial outcomes and assess the Board’s financial management arrangements.
36. Budget funding is agreed with the Scottish Government Health and Social Care Directorate (SGHSCD). It is a statutory requirement for the Board to ensure expenditure is within the Revenue Resource Limit (RRL) and Capital Resource Limit (CRL) set by the SGHSCD. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

37. Health boards are required to work within the resource limits and cash requirements set by the SGHSCD. The Board’s final RRL (£57.419 million) and CRL (£3.550 million) were agreed with the SGHSCD on 30 April 2015. The local delivery plan for 2014/15, approved by the Board on 24 April 2014, approved a revenue budget of £48.599 million, £47.199 million of which was core funding and £1.400 million non-core and a capital budget of £1.430 million. During the course of the financial year, it received further additional allocations from the SGHSCD, amounting to £8.820 million revenue and £2.120 million capital.

Exhibit 1

Comparison of final against original approved allocations per Local Delivery Plan (LDP) for 2014/15 (£'000)



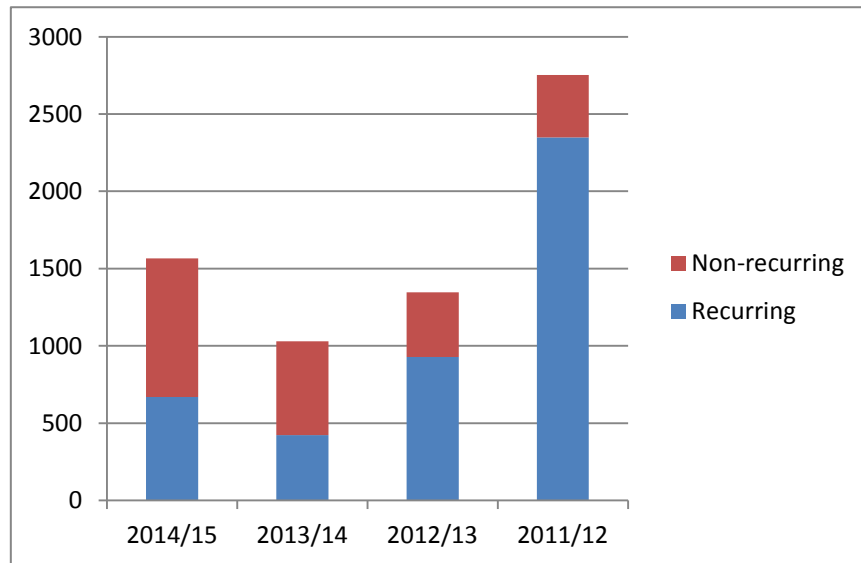
Source: NHS Orkney Annual Report and Accounts 2014/15

38. The final allocation for core RRL was £0.656 million more than the original allocation, due mainly to £0.600 million additional funding towards locum costs. The final non-core RRL allocation was £8.164 million more than the original allocation due to funding to cover the £8.332 million impairment of the Balfour Hospital. The CRL final allocation was also £2.120 million higher than the original allocation, to cover the acquisition of land and also professional and project team expenses related to the new hospital and healthcare facility.

39. The Board achieved all of its financial targets in 2014/15 and has reported that it delivered total efficiency savings of £1.567 million, in line with planned efficiencies in the 2014/15 LDP.

Exhibit 2

Annual efficiency savings split between recurring and non-recurring (£'000)



Source: NHS Orkney’s financial and performance reports to its Finance and Performance Committee and Audit Scotland’s Annual Audit Reports for the Board of NHS Orkney and the Auditor General for Scotland

40. Efficiency savings achieved in 2014/15 were 52.3% higher than last year. The Board adopted a planned approach to savings during 2014/15 as set out in the Recovery/Savings Plan developed and

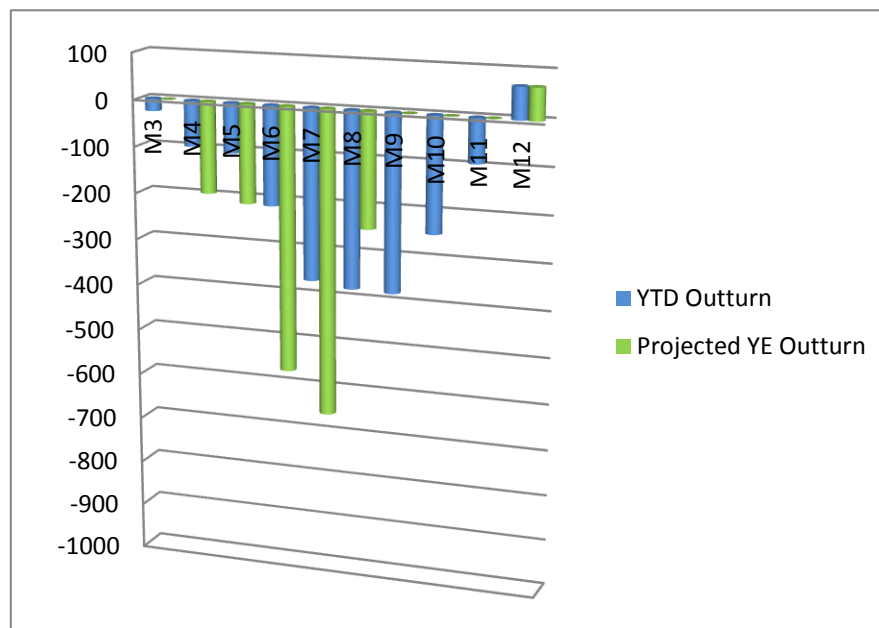
agreed by the Corporate Management Team and approved in May 2014. In year cost pressures, notably locum costs were also addressed to further minimise expenditure. Delivery of the approved savings plan achieved the Board’s recurring and non recurring targets. Recurring savings were £0.669 million (42.7%) (41.1% in 2013/14) which means the Board continued to rely on non recurring savings to deliver a balanced budget. The Board typically matches non recurring savings to items of non recurring expenditure. However, non recurring savings, as a feature of the Board’s approach to financial sustainability, increases its risks of achieving financial balance.

41. At the end of the first quarter of 2014/15, the Board reported an overspend of £0.026 million, with a break-even position forecast at year end. From the following month, in addition to a year to date overspend, the Board started forecasting a year end overspend, which increased from £0.195 million at July 2014 to £0.654 million at 31 October 2014. This forecast overspend was due in the main to locum and prescribing costs and the Board alerted the Scottish Government of a potential year end overspend of £0.450 million, after taking into account measures discussed and agreed by the Finance and Performance Committee in a series of special meetings held in October, November and December in response to the worsening financial outlook. We think that the Board has responded well to the financial challenges it faced during 2014/15 to secure the delivery of its financial targets.
42. Results from the end of November 2014 started showing signs of improvement, with the forecast year to date overspend reducing

from £0.376 million at 30 November 2014 to £0.245 million at 31 January 2015, with a break even position again being forecast for the year end.

The Board attributes this to the positive impact of implementing cost reduction schemes including managing locum spend and the additional allocation of £0.600 million from the Scottish Government for locum costs to reflect the exceptional pressures on an island board.

Exhibit 3: Year to date (YTD) actual and projected year end (YE) outturn savings (excess) against budget (£'000)



Source: NHS Orkney's Monthly Financial Performance Reports

Capital expenditure 2014/15

43. The Board remained within its Capital Resource Limit (£3.550 million). The most significant items of capital expenditure were the purchase of land for the new hospital and healthcare facility (£1.3 million); professional fees for the new hospital and healthcare facility (£1.1 million); and the CT scanner (£1.0 million).

Financial management arrangements

44. As auditors, we need to consider whether health bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the Director of Finance has sufficient status to be able to deliver good financial management
 - standing financial instructions and standing orders are comprehensive, current and promoted within the Board
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
45. We reviewed the Board's standing financial instructions and standing orders, which are updated annually within the Code of Corporate Governance, and concluded that they are comprehensive

- and current. The Board's Code of Corporate Governance is also available to all staff on NHS Orkney's intranet.
46. We noted in the annual audit plan that the impending departure of the Director of Finance would reduce the capacity of the finance team and have a potential impact on both the quality of the Board's internal controls and on its arrangements for the production of the annual report and accounts. The Board responded promptly to this risk and appointed an experienced interim Director of Finance, who effectively oversaw the production of the annual report and accounts. The Board has now appointed a new permanent Director of Finance who is expected to start in August 2015.
47. A Financial Management Performance Report (covering both revenue and capital) is submitted to all meetings of the Finance and Performance Committee, with a summary report from the Committee Chair submitted to each Board meeting. The quality of financial reporting to committee members has improved, with more details provided; not only explaining the variances against budget on year to date results, but also projecting a more realistic position at year end, with more detailed proposals included on how the forecast outturn could be improved.
48. The reports provide commentary on the impact of cost saving measures being taken or proposed on the forecast year end outturn. They also note any significant additional allocations received during the year. They could however be further improved by including a reconciliation showing in year movements between the outturn forecasts and the original approved budget. **Action plan no. 2**
49. As highlighted in our Annual Audit Report for 2013/14, the Chief Executive asked the Board's internal auditor to undertake a detailed review of the Board's 2013/14 financial position. This included an examination of the Board's approach to budget setting and in-year financial management. The Audit Committee considered this report in September 2014. In the main, recommendations included formalising ownership and accountability of budgets by budget holders, strengthening controls around locum spending and conducting a mid-year formal re-forecasting exercise with results reported to the Board.
50. Based on Internal Audit's follow up on the Board's progress in implementing the recommendations made, the Board has implemented all but one recommendation: "*All budget holders should be asked to formally agree and sign off their budget prior to the start of the financial year.*" This process is underway and is a priority for the newly appointed Principal Accountant (Financial Management).
51. As part of the Local Delivery Plan (LDP) 2015/16 preparation, a detailed review of every budget was carried out with each budget manager, to identify historical expenditure; compare this with budget available; and highlight any unfunded service activities which represent genuine cost pressures, which if not funded would require innovative ways of providing the service differently.
52. As auditors we observe a number of Board and committee meetings and review committee minutes each year to inform our approach to the audit. There is evidence of more active scrutiny and challenge

by members in relation to significant budget variances and the actions planned to address these.

Conclusion on financial management

53. We have concluded that the Board has improved its financial management arrangements over the past year, to support the review and scrutiny of its financial performance. In particular, it has improved the quality of financial forecasting, which enabled it to engage in early discussions with the Scottish Government about the cost pressures arising from locums.

Financial sustainability

54. Financial sustainability is concerned with whether the Board has the financial resources to meet the current and future healthcare needs of the communities it serves. In assessing financial sustainability we consider the Board's financial performance, financial planning, capital programmes and asset management and its workforce management.

Financial planning

55. The Board is required to prepare a Local Delivery Plan each year which aligns strategic priorities with financial plans, workforce plans and asset plans. The LDP recognises that the vast majority of resources are already committed on a recurring basis before the start of each year and there is limited flexibility available to the Board in the event that unforeseen demands on its services arise during the course of the financial year.

56. NHS Orkney's Local Delivery Plan for 2015/16 to 2019/20 was approved by the Scottish Government on 31 March 2015. In January 2015, the Scottish Government announced that where relevant, health boards would receive an extra £65 million to take them within 1% of parity under the NHS funding formula (NRAC), a year earlier than planned. The average uplift was 3.8% but NHS Orkney will receive 15.4% equating to an extra £5.5 million for 2015/16, £4.5 million of which is NRAC parity funding. This additional funding allocation has a material impact on its financial sustainability. It will increase NHS Orkney's ability to invest in increased performance whilst further improving population health, patient experience and staff development as described in the Board's Local Delivery Plan.

57. The Board is required to repay £3.0 million of brokerage during 2015/16, leaving a balance of £1.062 million to be repaid in 2016/17.

58. A 3% efficiency target is required of all boards. Territorial boards are allowed to retain and reinvest the savings locally. NHS Orkney's cash savings targets total £4.6 million over the five year period. This is based on a 2% target in 2015/16 and 2.6% in 2016/17 and 2017/18, 1.8% in 2018/19 and 0.7% in 2019/20. The rest of the savings required to achieve the 3% target will be efficiency savings rather than cash savings. It will be difficult for the Board to achieve higher savings target from 2019 given that efficiencies would have already been factored into planning for, and the design of, the new hospital and healthcare facility in Kirkwall, which will become operational in 2018.

59. The Financial Plan 2015-20 incorporates the following projections:

Exhibit 4

Key financial figures included in the LDP for 2015-20 (£'000)

	2015/16	2016/17	2017/18	2018/19	2019/20
Recurring expenditure	50832	52717	53918	55922	57093
Non recurring expenditure	304	1429	1942	12600	100
Total expenditure	51136	54146	55860	68522	57193
General provision for new investments/cost pressures	0	1228	1111	685	0
Savings target	950	1241	1260	875	334
Capital expenditure	2368	1714	7330	3395	1035

Source: NHS Orkney Local Delivery Plan for 2015-20

60. The improved funding levels for the Board give it additional resources for new investments and addressing future cost pressures. The Board is also forecasting significant non-recurring spends related to the new hospital and healthcare facility. The Board acknowledges the need for robust and transparent financial management to ensure the best possible use of this new money. The new hospital and healthcare facility will have a significant impact on both revenue and capital requirements. Whilst figures are still estimated and will be refined as tenders are finalised, the Board anticipates that there will be a need for non-core Annually Managed

Expenditure (AME) funding of approximately £12.0 million to cover the impairment of the new facility when it opens in 2018/19. There will also be a significant capital requirement to equip the new facility, estimated at £6 million in 2017/18 and £1.8 million in 2018/19. These amounts are reflected in the business case that was approved by the Board on 27 February 2014 and subsequently by the Scottish Government on 8 July 2014.

61. The Board is forecasting a recurring surplus at the end of 2015/16 and staying in recurring balance through the 5 year period of the plan. However, it continues to recognise that additional locum and drug costs beyond those which have been provided for in its financial plan, or unmet efficiency savings, could easily upset the planned recurring balance position. The Board also recognises that it cannot remain complacent and needs to develop a long-term financial strategy which sets out how it can spend the extra resources in order to position itself strongly against financial challenges in the future. **Action plan no 3**

Workforce management

62. During 2014/15 the Board incurred £0.762 million in agency staff costs (£1.375 million in 2013/14). The Board continues to experience difficulties in recruiting to vacant posts. Joint appointments with neighbouring Boards as part of a regional approach is being progressed by the Chief Executive.

63. In January 2015 internal audit reviewed the processes for the management of agency and locum staff at NHS Orkney and concluded that although there was scope for improvement, there

were no major weaknesses in controls. Areas of good practice noted in the report included: alternative options are being explored before resorting to use of locums; use of PECOS ordering system to ensure use of locum is approved before the service is rendered; and monitoring and reporting of locum costs is part of the budget and financial reporting arrangements which require budget holders to explain significant variances.

64. Areas for improvement included: agency locum rates paid by the Board are not consistent with the nationally agreed rates resulting in over charges; instances where approval to use a locum was given by non-clinician staff; and the absence of a formal succession plan in some clinical areas with specialist knowledge and skills. Succession planning in smaller territorial boards like NHS Orkney is particularly challenging, given the small number of medical staff within each of the specialties.

Cost of pension provision

65. New career average revalued earnings (CARE) public service pension schemes are being created from 1 April 2015.
66. A revaluation of the NHS pension scheme was carried out using pension scheme data as at 31 March 2012. This new valuation is being used to set a new employer contribution rate payable from 1 April 2015 to 31 March 2019. The new rate will be 14.9% of pensionable pay, compared to the rate of 13.5% which has been paid since 1 April 2009. The impact on employer's costs in 2015/16 has been quantified in NHS Orkney at approximately £0.240 million

recurring and has been reflected in the Board's 2015/16 financial plan.

67. The valuation also establishes a new employer cap that will apply from the next valuation, which will take place in 2017. This is required by the Public Service Pensions Act and is designed to enable future changes in cost above a certain threshold to be controlled by providing backstop protection for the taxpayer by ensuring that the risks associated with provision are shared with scheme members.
68. The employer contribution cost cap for the NHS pension scheme for Scotland is 11.5% of pensionable pay.

Conclusion on financial sustainability

69. Overall, we concluded that the Board's financial position is sustainable currently and in the foreseeable future, as a result of the NRAC uplift from the Scottish Government.

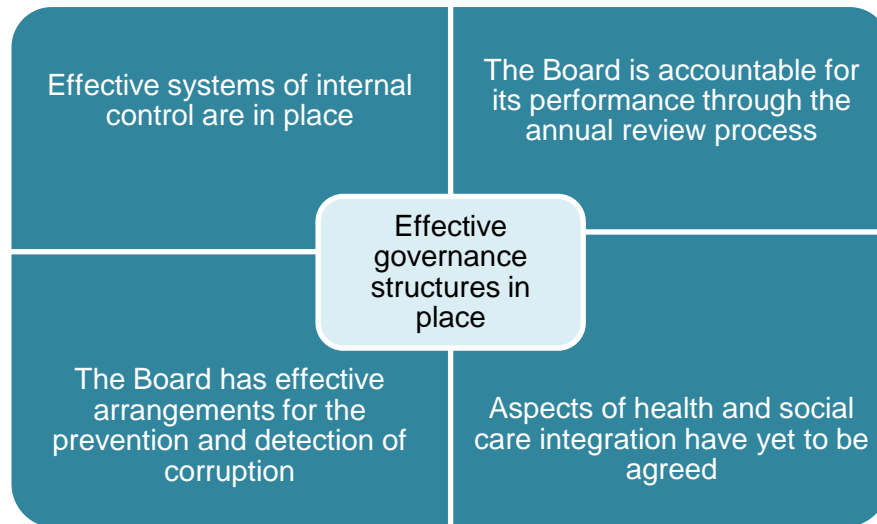
Outlook

70. The Board is predicting a balanced budget in each of the five years from 2015/16 to 2019/20. The additional NRAC funding will help the Board's financial position, but significant efficiency savings are also needed each year to bridge the gap between available funding from current sources and the cost of services.
71. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years and this

makes it more challenging for the Board to deliver balanced budgets in future.

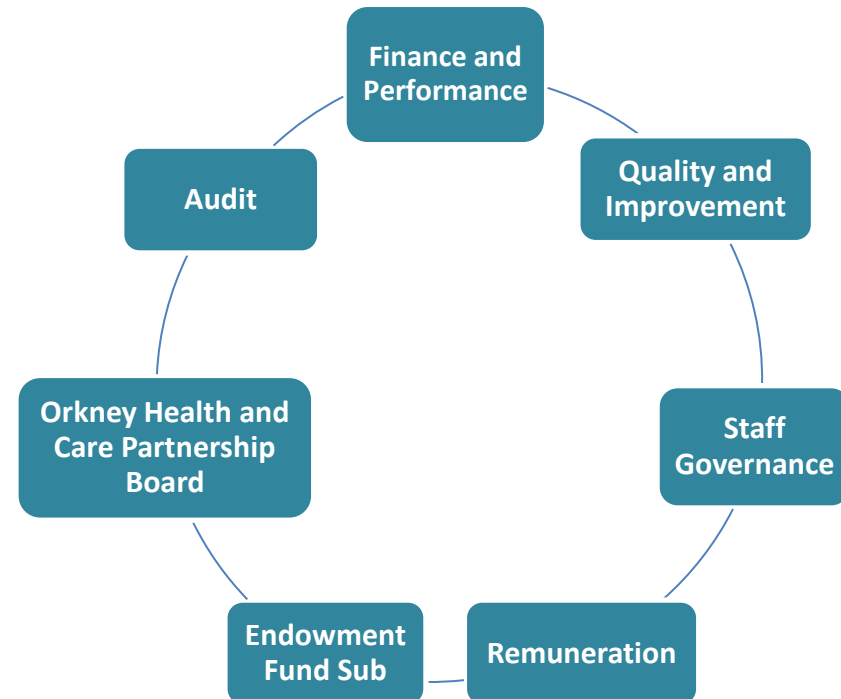
72. The Board is also faced with significant challenges arising from increases to its cost base. From 2015/16 pension reform will increase employer contribution rates, resulting in an additional £0.240 million to be funded by the Board on a recurring basis. From 2016/17 changes in national insurance will result in a further increase in the cost base amounting to £0.480 million per annum. In effect, the Board will have to meet this recurrent expenditure of £0.720 million without any additional funding from the Scottish Government.
73. At the same time there will be increasing cost pressures from the introduction of new drugs and technologies. Also, healthcare inflation in the UK is higher than general inflation. Over the last 20 years, general inflation in the UK averages just 2% a year while health service costs rose by 3.6% a year.

Governance and transparency



- 74. 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 of these arrangements.
- 75. NHS Orkney is managed by a Board of Executive and Non-Executive Directors and is accountable to the Scottish Government through the Cabinet Secretary for Health and Wellbeing. The Board's Chair and Non-Executives are appointed by the Cabinet Secretary based on their skills and expertise and ability to contribute effectively to local strategic decision making processes.

- 76. The Board is responsible for the strategic leadership and governance of NHS Orkney. It is supported in this role by a number of standing committees as illustrated below:



- 77. The standing committees meet on a regular basis throughout the year to consider relevant matters. We concluded that the Board has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

78. NHS Orkney has a Code of Corporate Governance which sets out:
- How the business of Orkney NHS Board and its Committees is organised
 - Members' Code of Conduct
 - Standard of Business Conduct for NHS Staff
 - Fraud Policy
 - Reservation of powers and delegation of authority
 - Standing Financial Instructions
79. The Code is reviewed annually to take account of any changes in legislation and outcomes from the Annual Development Sessions of the Board and its committees as appropriate.
80. Based on our observations and audit work, our overall conclusion is that the governance arrangements within NHS Orkney are operating effectively.

Transparency

81. Local residents should be able to hold the Board to account for the services it provides. Transparency means that residents have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using its resources.
82. The performance of all NHS boards is subject to an annual review process. The annual review aims to encourage dialogue and accountability between local communities and their Health Boards. The annual review for NHS Orkney was held on the 29 September

2014 and was attended by the Chief Executive, a Scottish Government official and the Board Chair. There was also an open session where members of the public could attend to ask questions of the Chief Executive and the Board.

83. Members of the public can also attend meetings of the Board and have ready access to Board papers on the internet. Registers of interest for Board members and GPs (who operate as contractors for the Board) are also available on the website.
84. The Board's committee meetings are currently held in private. A report from each committee chair and the committee minutes are publicly available within Board meeting papers.
85. Overall we concluded that the Board is open and transparent in conducting its business, but that there is scope for it to review whether some committee meetings could be held in public, to increase the accessibility of their discussions. **Action plan no. 4**

Internal control

86. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain sufficient audit evidence to support our opinion on the Board's financial statements.
87. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the Board's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

88. We reported our findings to the Interim Director of Finance on 24 April 2015 and the Audit Committee on 1 May 2015.

Internal audit

89. Scott-Moncrieff, the Board's internal auditor, provides the Board and Accountable Officer with independent assurance on the Board's overall risk management, internal control and corporate governance processes. 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. To avoid duplication, we place reliance on internal audit work where possible.
90. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
91. The internal audit plan for 2014/15 was complete. 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 2014/15 reports.

Arrangements for the prevention and detection of fraud

92. We assessed the Board's arrangements for the prevention and detection of fraud during the planning phase of our audit. This involved reviewing policies and procedures in a number of areas

including whistleblowing and liaison with Counter Fraud Services (CFS).

93. The Board's fraud liaison officer (FLO) works in partnership with CFS to promote anti-fraud activity and to advise members of current investigations within the NHS in Scotland.
94. In compliance with Counter Fraud and Fraud Prevention CEL11 (2013), the Board has carried out a self assessment of its counter fraud arrangements and highlighted "fraud awareness" among staff as an area which requires to be progressed. A Fraud Risk Assessment Methodology exercise will be included in the Internal Audit 2015/16 programme of work.
95. We concluded that the Board has put in place effective arrangements for the prevention and detection of fraud.

National Fraud Initiative in Scotland

96. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It 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.
97. Auditors are required to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

98. The Board has 222 data matches in total and has processed and reviewed 68, which includes all of the 32 recommended matches expected to be prioritised for review.
99. The Audit Committee has been kept abreast of the progress of the NFI 2014/15 exercise and we are pleased to note the Board's promptness in clearing all of the recommended matches. We noted that the Board's key contact has not been updated on the NFI online database (still shown as the former Director of Finance) and we have alerted the Board to this so this can be amended as appropriate. There are no issues of concern that we require to include in this report.

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

100. The Board has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for officers and members. Also, there are established procedures for preventing and detecting corruption including annual reviews of Standing Financial Instructions and Standing Orders.
101. Based on our review of the evidence we concluded that the Board has appropriate arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

Freedom of Information requests

102. The Board processed 85% of the 495 Freedom of Information (FOI) requests received in 2014/15 within the statutory timescales. This is an improvement from 2013/14 when 74% of the 406 requests received were answered within the 20 day deadline. We have no significant concerns about the procedures followed by the Board in processing FOI requests.

Vale of Leven Inquiry

103. The Vale of Leven Hospital Inquiry Report into the circumstances contributing to the high occurrence of C. Difficile at the Vale of Leven Hospital was published in November 2014. Following publication of the report health boards were required to carry out a self-assessment of their progress against the 65 recommendations directed at them.
104. A report to the Board in February 2015 reported that in Orkney 25% of the recommendations were fully implemented, 38% mostly, 33% partially and 4% have yet to begin. For recommendations which have yet to be fully implemented, the Board had identified the actions which require to be done and the timescale. The Action Plan will be monitored through the Quality and Improvement Committee.

Health and Social Care Integration

105. 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.

106. The Board and Orkney Islands Council agreed to adopt the 'body corporate' model for the provision of integrated health and social care across Orkney. This will result in the delegation of functions to a new legal entity, the Integration Joint Board (IJB) which will be responsible for overseeing the provision of services.
107. NHS Orkney and Orkney Islands Council submitted their Integration Scheme to the Scottish Government for approval by the 1st April 2015 deadline. Feedback and formal approval from the Scottish Government has not yet been received.
108. The Chief Officer of the IJB is currently being recruited. The Chief Officer will have a crucial role in terms of project management and ensuring completion of the strategic plan by the required date of 31 March 2016. In the absence of the Chief Officer, the Board and Orkney Islands Council have agreed the number of localities and have commissioned work to inform the Strategic Plan.
109. The Board and the council have still to agree some financial governance and assurance arrangements for the IJB, including the financial metrics that will be used in due course to assess whether integration has met its objectives; and a process for obtaining baseline data for measuring progress. This work is being progressed in line with the joint Integration Project Plan.
110. Internal audit are planning to carry out financial due diligence work in 2015/16 to provide the Audit Committee with assurance that the resources delegated to the IJB are adequate, and that appropriate financial information and support systems are available. The

reporting timescale for this work is still to be agreed. **Action plan no. 5**

111. In conclusion, until feedback and formal approval of the Integration Scheme is received from the Scottish Government, and the planned due diligence work is conducted by internal audit, there is a risk that health and social care integration arrangements may not be fully developed by the statutory deadline date of 1 April 2016.

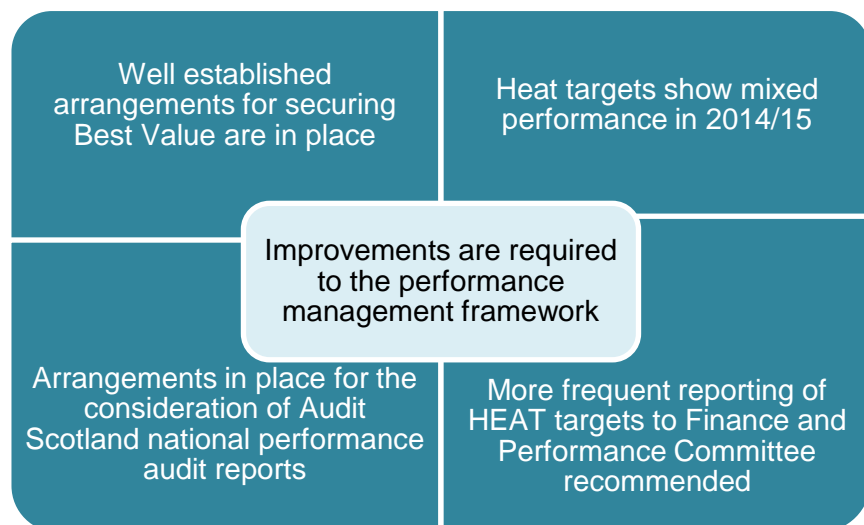
2020 Vision

112. The Scottish Government's vision is that by 2020 everyone is able to live longer healthier lives at home, or in a homely setting. The Board is addressing this challenging agenda through its local planning framework and the Local Delivery Plans for 2014-19 and 2015-20 consolidate the Board's priorities with the 2020 vision and Route Map.
113. Health and social care integration is also a key part of the Scottish Government's strategy to enable people to live healthy lives in a community setting. This has its own particular challenges as outlined above.
114. We have concluded that the Board is proactive in planning to ensure that people in Orkney are able to live longer, healthier lives at home as evidenced by plans in place to achieve the 2020 Vision.

Outlook

- 115.** Changes in Scotland's population mean that demands for health and social care will increase significantly over the next 20 years, at the same time that budgets are tightening. The NHS will not be able to continue to provide services in the way that it currently does, given the scale of changes required. It needs to do more to plan for how it will make the changes needed to provide sustainable care for the future.
- 116.** Increasing demand is already putting pressure on services. NHS boards need to better understand their demand, capacity and how patients move through the complex health and social care system so that they can match their capacity with current and future needs. Improvement work to support the implementation of the Board's Clinical Strategy and approved Outline Business Case objectives is being progressed and implemented as part of the transitional plans to ensure a state of readiness for transferring services into the new hospital and healthcare facilities.
- 117.** Health and social care integration is also an important element in supporting the delivery of the Scottish 2020 Vision. 2015/16 is a transitional year for health and social care integration. Work on key areas including financial governance and assurance is being progressed to ensure that the Board and its council partner are well placed to successfully deliver on this important strand of the Scottish Government's reform agenda.

Best Value



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

Arrangements for securing Best Value

119. As part of their work programme for 2014/15, Internal Audit conducted a high level review of the arrangements at the Board against the key Best Value themes set out by the Scottish Government. These themes are:

- Vision & leadership
- Effective partnerships
- Governance and accountability

- Use of resources
- Performance management.
- Equality
- Sustainability.

120. The review considered the overall strategic arrangements in place within NHS Orkney but majored on the arrangements surrounding the Transformational Change Programme. The review identified numerous arrangements in place which show that the Board is delivering continuous improvement against each of the key themes.

121. We have reviewed evidence underpinning the Board's BV arrangements including the Local Delivery Plan, performance management and reporting and committee papers.

122. Overall, we concluded that the Board has well established arrangements for securing Best Value and continuous improvement as confirmed by the Chief Executive in her Governance Statement within the 2014/15 Annual Report and Accounts.

Use of resources: workforce planning and management

123. The Board has a workforce strategy which covers the period 2012-15 and is currently being updated. The annual Local Delivery Plan is underpinned by a workforce plan which highlights the main workforce issues and pressures facing the Board and how the workforce planning process is contributing to efficiency savings

through review of productivity and efficiency and service re-design in the various departments of the Board.

124. The Finance and Performance Committee in its meetings in September 2014 and March 2015 requested special reports on workforce controls covering sickness absence management and bank and locum usage, in order to understand the range of workforce controls in place and obtain assurance on the extent of existing monitoring arrangements and actions being taken to reduce expenditure.
125. The Committee noted the range and effectiveness of the work controls in place; agreed to seek a breakdown of the reported sickness levels, although the low levels of sickness absence were commended; and sought assurance that the problem areas around authority of use of locums and bank staff and overtime were being dealt with. These points will be followed up via the Committee action log for future meetings.
126. NHS Orkney reported that it has maintained the lowest sickness absence rate among the territorial Boards in Scotland with an average of 3.81% for 2014/15, which is within the Scottish Government target of 4%.
127. The Board needs to conclude its update of the workforce strategy as this is a key element of effective service planning.

Performance management

128. Internal audit carried out a review of the Board's performance management arrangements in December 2014 and concluded that *"NHS Orkney has a performance management framework in place which enables it to completely, accurately and timeously monitor its performance against national performance indicators, such as HEAT targets. Responsible officers have been appointed for each HEAT target and regular reports are produced for the Board and governance committees detailing the progress against each performance indicator."*
129. The main recommendations for improvement related to:
 - lack of a robust and stable data management system to gather, hold, monitor and translate performance data into meaningful information;
 - absence of feedback from the Board and governance committees on the adequacy and relevance of performance information being reported; and
 - the need to demonstrate how the Board's activities and performance are contributing towards the achievements of the Orkney Community Planning Partnership key priorities.
130. Internal Audit revisited one of the points highlighted in the Audit Scotland report on *Community Planning Partnership in Orkney* which stated that "the 2014–17 Single Outcome Agreement lists the three priorities but the Orkney Community Planning Partnership has not yet articulated what they will mean in practice – there are no specific objectives, outcomes and measures for the priorities". NHS

Orkney will lead on the “Healthy & Sustainable Communities” priority but will also feed into the other two priorities. In response to the Internal Audit report, the Board said it will commit the people and resources required to support the priority areas. We plan to follow up the Orkney CPP report in September 2015.

131. The Finance and Performance Committee’s responsibilities include ensuring that appropriate arrangements are in place to deliver against the Board’s performance measures, which include HEAT targets.
132. Monitoring of the Board’s performance against the HEAT targets used to be part of the regular finance and performance monitoring reports presented to each Finance and Performance Committee meeting. We noted however that in 2014/15 only one update was provided to the committee in relation to the Board’s performance against its HEAT targets: results up to September 2014, reported to the December 2014 committee meeting. The Board should consider increasing the frequency of reporting in order to give members more opportunities to scrutinise performance and allow corrective action to be taken more timeously. **Action plan no 6**
133. We concur with internal audit’s conclusions on performance management and note that the Board has identified the need to improve its performance management arrangements in 2015/16.

Overview of performance targets in 2014/15

134. The performance of NHS Orkney is monitored by the Scottish Government against a number of HEAT targets and standards

which support the delivery of the Scottish Government’s national performance framework.

135. In 2014/15, NHS Orkney reported a mixed level of performance with respect to the HEAT targets. Some targets were fully met, some partially met and some were not met. Those performance indicators where targets were achieved include: Reduction in Carbon Emissions; Faster Access to Child and Adolescent Mental Health Services (CAMHS); Reduction in Emergency Bed Days for Patients Aged 75+ and 14 Days Delayed Discharge. The Early Access to Antenatal Services was only met in the final quarter of the year while the Fair Access to Psychological Therapies was met throughout the year but dipped to 71% in the final month of the year.
136. The targets for both Clostridium Difficile and Staphylococcus Aureus Bacteraemia infections on the other hand were breached in 2014/15. A self assessment detailing compliance with standard infection control procedures was submitted to Health Improvement Scotland. NHS Orkney will carry out a full self assessment against revised Healthcare Acquired Infection Standards by end of June 2015.
137. There are no HEAT targets in the 2015/16 Local Delivery Plan (LDP). The Board will however continue to monitor and report on HEAT standards as listed in the LDP and intends to invest in areas where performance is poor. NHS Orkney’s priority in 2015/16 is to invest in a performance system which will improve how it monitors and report on performance from wards/departments to the Board.

National performance audit reports

138. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the Board. These are outlined in appendix III.
139. As reported in previous years, NHS Orkney has processes in place to ensure that national performance audit reports and their impact on the Board are considered by the Audit Committee and other governance committees, as appropriate.
140. From our attendance at Audit Committees we concluded that the arrangements for considering national performance audit reports are consistent with good practice.

Equalities

141. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, each public body must publish a report on the progress made to achieve the equality outcomes it has set.
142. NHS Orkney published its "*Update on the progress made by NHS Orkney and Orkney Health and Care to make the Equality Duty an integral part of the way we function, as at April 2015*" on its website in April 2015. This report includes progress to date against the

equality outcomes 2013-17 identified by the Board in January 2013, which complies with the publication requirements of the Act.

Outlook

143. Audit Scotland in its annual overview of the NHS in Scotland highlighted that there are increasing signs of pressure on NHS Boards' ability to meet demanding performance targets. The strong focus, particularly in relation to waiting times targets, may not be sustainable when combined with the additional pressures of increasing demand related to demographic changes and the overall NHS budget starting to decrease in real terms.
144. The effort that NHS Boards are putting in to meeting challenging financial and performance targets each year makes it more difficult for them to focus on long-term planning required to achieve the 2020 Vision.

Appendix I – Significant audit risks

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

Audit Risk (identified in Annual Audit Plan)	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Financial position</p> <p>In common with other health Boards, NHS Orkney has a statutory requirement to break-even. After reporting a year-to-date overspend and projected year end overspend for several months, the Board is currently projecting a break-even position at year end, following implementation of cost pressure mitigation options and additional Scottish Government funding of £0.600 million. Its financial position remains very challenging. Financial pressures such as the cost of locum staff cover for vacant posts, the cost of drugs, increased employer pension contributions will continue to put the financial position of the Board at risk.</p>	<ul style="list-style-type: none"> • If the Board failed to break-even, we would have included an explanatory paragraph in the Independent Auditor's Report. • We performed extended cut off procedures at year-end to ensure expenditure and income transactions are recorded in the correct year. • We performed analytical review procedures to detect unusual trends or variances and obtain explanation from management. • We tested the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. 	<p>The Board achieved its statutory break even target, with revenue expenditure of £68,000 under the Revenue Resource Limit and capital expenditure of £14,000 under the Capital Resource Limit.</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>

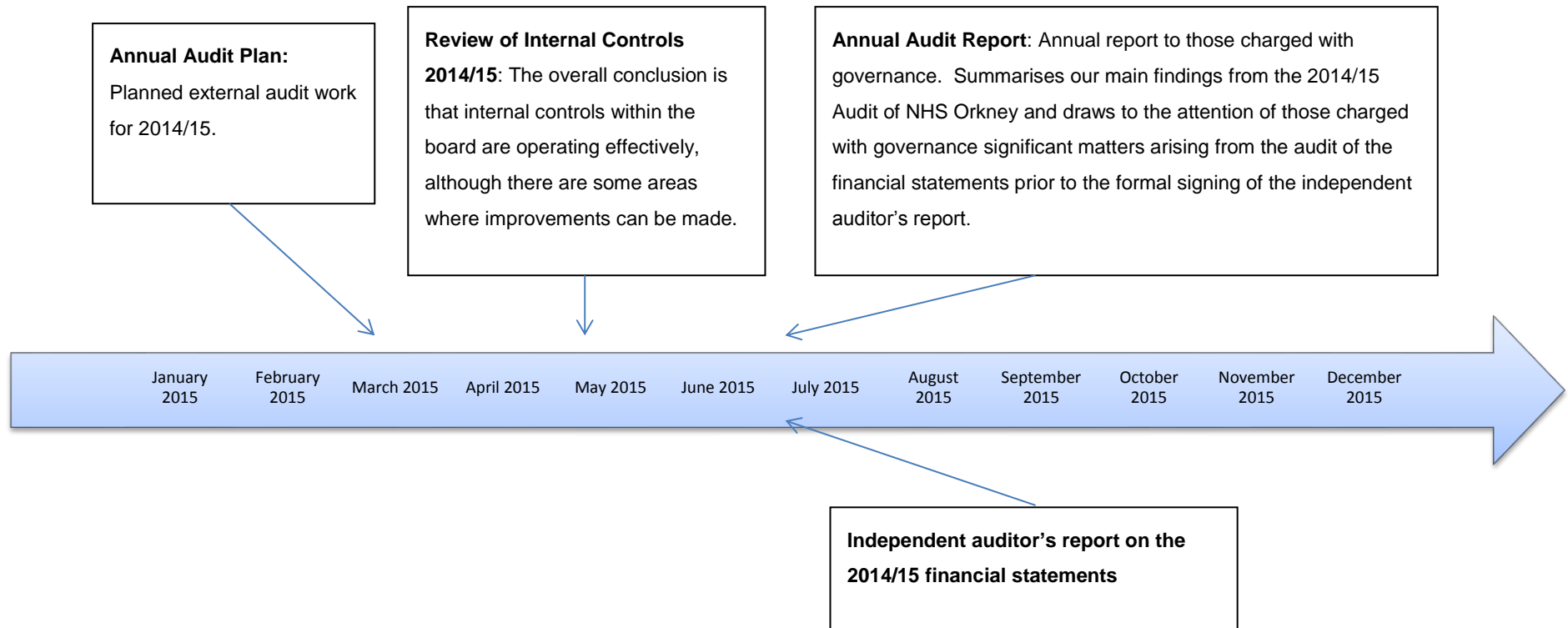
Audit Risk (identified in Annual Audit Plan)	Assurance procedure	Results and conclusions
<p>Management override of controls</p> <p>As stated in International Standard on Auditing 240, management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates and judgements • Evaluating significant transactions that are outside the normal course of business. 	<p>We concluded from our audit testing that the 2014/15 journal entries, accounting estimates and judgments and significant transactions which we reviewed were appropriate.</p>
<p>New hospital and healthcare facilities project</p> <p>It is important that the Board continues to receive regular updates on progress as the project progresses. Failure to successfully deliver the project on time and within budget will cause reputational and financial damage to the Board.</p> <p>The accounting for the impairment of the existing hospital facilities and for expenditure incurred on the new project may not accord with capital accounting guidance. Any error in this area is likely to be material to our audit opinion.</p>	<ul style="list-style-type: none"> • Review of progress reports on the new hospital. • Review of correspondence with Scottish Government and Scottish Futures Trust, including the SFT Key Stage Reviews. • Review of funding model and consider implications for our 2014/15 audit. • Testing of significant expenditure incurred on the new project to ensure proper classification into revenue and capital expenditure. • Review of accounting treatment for impairment of the existing hospital and consult with our Technical Service Unit as appropriate. 	<p>We concluded from our year end testing that expenditure incurred on the project was valid and correctly classified between revenue and capital.</p> <p>We also concluded that the accounting treatment for the impairment of the Balfour Hospital, to reflect its shortened estimated useful life up to 2018, was appropriate. Additional non-core funding for the impairment was agreed to the allocation letter from the Scottish Government.</p>

Audit Risk (identified in Annual Audit Plan)	Assurance procedure	Results and conclusions
Risks identified from the auditor’s wider responsibility under the Code of Audit Practice		
<p>Financial management</p> <p>Weaknesses have previously been identified in the Board’s approach to financial planning, forecasting and budgetary controls.</p> <p>Lack of effective financial management weakens the Board’s chances of recovering from its very challenging financial position.</p>	<ul style="list-style-type: none"> • In addition to the procedures outlined above under Financial Position, we also: • Reviewed financial reports and minutes of the Finance and Performance Committee, Audit Committee and Board meetings. • Monitored the Board’s progress in implementing Internal Audit’s recommendations. • Followed up the Board’s actions in response to our Annual Audit Report 2013/14 and the Auditor General’s section 22 report on financial management at NHS Orkney. 	<p>The level of detail within financial reports to the Finance and Performance Committee has improved, with more detailed explanation of actions taken or proposed to address budget variances, and more active challenge and scrutiny by members.</p> <p>The Board’s actions to improve budget management and forecasting, agreed in the action plan arising from internal audit’s review, are showing early signs of improvement, although the cultural changes such as increased ownership of budgets below head of service level will become more evident over time.</p>

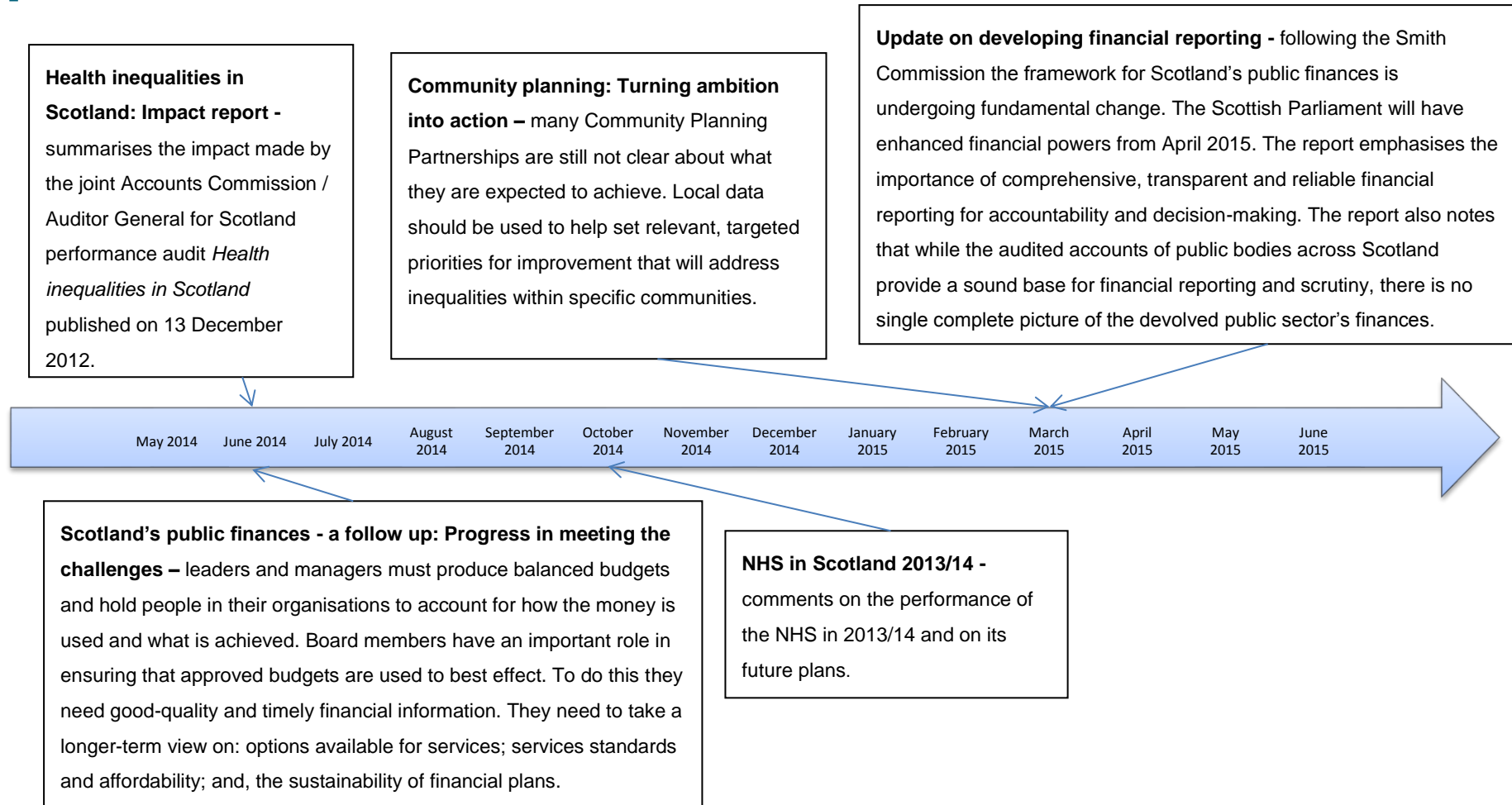
Audit Risk (identified in Annual Audit Plan)	Assurance procedure	Results and conclusions
<p>Finance team capacity</p> <p>We have previously reported our concerns regarding the capacity with the Finance team. The Board agreed to recruit to the Head of Finance post and arrange additional financial accounting support.</p> <p>The Director of Finance is leaving NHS Orkney in February 2015 to take up a similar role with the Scottish Ambulance Service. The continuing financial challenges facing the Board, the additional pressure on resources of the new hospital and healthcare facilities project and the impending preparation of the 2014/15 financial statements may prove too much for the existing team to accommodate.</p> <p>Reduced capacity in the finance team could compromise internal controls and leave the Board exposed to errors, fraud and misappropriation of funds. The financial statements and supporting working papers may not also meet the expected standard, leading to errors in the figures reported.</p>	<ul style="list-style-type: none"> • We issued a detailed financial statements working papers checklist to the Finance team specifying our expectations for the unaudited financial statements and supporting working papers. • We reviewed the Board's progress in recruiting additional resource and a new Director of Finance. • In advance of the year end, we reviewed the Board's proposals for revising its componentisation of assets within the fixed asset register; and the proposed capital accounting treatment of the valuation (for impairment purposes) of the Balfour Hospital and associated assets. 	<p>We concluded from our interim and year end testing that key internal controls operated throughout the year.</p> <p>We had regular discussions with Finance staff throughout the year regarding proposed accounting treatments and concluded from our year end procedures that accounting treatment was appropriate.</p> <p>The Board decided not to revise its componentisation of assets within the fixed asset register.</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 11 May. No material adjustments to the draft accounts were required.</p> <p>The Board has now appointed a new permanent Director of Finance who is expected to start in August 2015.</p>

Audit Risk (identified in Annual Audit Plan)	Assurance procedure	Results and conclusions
<p>Health and social care integration</p> <p>Progress with the health and social care integration agenda has been slow. The partnership may not be on track to be fully integrated by 1 April 2016 to deliver a clearer focus on joint working and a better, shared use of resources.</p>	<ul style="list-style-type: none"> • We reviewed the partnership's integration scheme and Integration Partnership Board minutes. • We reviewed progress towards establishing effective governance arrangements and comment in this Annual Audit Report. 	<p>The integration scheme was submitted on time for Scottish Government approval but has not yet received formal approval.</p> <p>The Chief Officer of the Integration Joint Board (IJB) is currently being recruited.</p> <p>Internal audit will be carrying out work in 2015/16 to provide assurance to the Audit Committee and the Board on the shadow arrangements to prepare for full operation of the IJB from 1 April 2016.</p> <p>We conclude that more work in key areas is needed to ensure that the IJB, including its governance arrangements, is fully operational by 1 April 2016.</p>

Appendix II - Summary of NHS Orkney local audit reports 2014/15



Appendix III - Summary of Audit Scotland national reports 2014/15



Appendix IV - Action plan

No. Page/p ar	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 8/10	<p>Accessibility of Management Commentary</p> <p>Although the Management Commentary within the Annual Report and Accounts presents a fair and balanced picture of NHS Orkney, the commentary is long, contains some repetition and uses very NHS-specific language.</p> <p>Risk:</p> <p>A reader from outside the NHS may find the narrative difficult to understand and therefore reduce the transparency of its reporting.</p> <p>Recommendations:</p> <p>A glossary of terms should be added to the Annual Report and Accounts to make it easier for a reader to understand the terms used, and increase the accessibility of the commentary.</p> <p>Repetition within the commentary should be removed when drafting the text, using cross references where appropriate.</p> <p>It should also be subject to early review by senior management prior to its submission to external audit.</p>	<p>The structure and components of the Management Commentary will be reviewed by the Chief Executive and Executive Directors during the autumn of 2015 to enable a revised narrative framework to be in place by 31st March 2016.</p>	<p>Chief Executive</p>	<p>31st Dec 2015</p>

No. Page/p ar	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 16/48	<p>Financial management performance reports</p> <p>The quality of financial reporting has improved, with more detailed explanation of outturn variances against budget and more detailed proposals on how the forecast outturn could be improved, but further improvements could be made.</p> <p>Risk:</p> <p>The impact of the various in-year changes to budget and the projected year end outturn (e.g. additional allocations, cost savings measures etc.) is not clearly summarised.</p> <p>Recommendation:</p> <p>The financial management performance reports to the Finance and Performance Committee should contain a reconciliation showing in year movements between the updated outturn forecasts and the original approved budget.</p>	A new format of reporting will be adopted to incorporate suggestions from our external auditors. The format will be shared with members of the Finance & Performance Committee and a format thereafter be agreed and implemented.	Director of Finance	30 th Sept 2015

No. Page/p ar	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
3 18/61	<p>Long term financial strategy</p> <p>NHS Orkney has elements of long term planning, but it has not developed these into a long term financial strategy for the delivery of sustainable and affordable services to meet future needs. Such a strategy could help the Board plan to reduce its reliance on non-recurring savings.</p> <p>Although the Board has 5 year projections as part of its LDP, the complexity of its business and the length of time for which it plans assets (e.g. the new hospital and healthcare facility) mean that longer term projections are used but not necessarily captured in a strategy.</p> <p>Risk:</p> <p>Without a clear long term strategy, the Board may find it difficult to demonstrate the affordability and sustainability of its plans for future service delivery and manage the impact of changes in its funding or circumstances.</p> <p>Recommendation:</p> <p>NHS Orkney should develop a clear long term financial strategy for the future delivery of services. The LDP should be extended to support the Board's longer term planning for new assets and potential changes in demographics.</p>	<p>NHS Orkney has undertaken a significant amount of longer term planning as evidenced by the Board's Clinical Strategy, Outline Business Case for the Hospital and Healthcare Facility and work to inform a Primary Care Strategy and Transformational Transitional Change Programme aligned with the Government 2020 Vision. NHS Orkney will continue to contribute to improving community planning arrangements and integration of health and care with Orkney Islands Council. In terms of a longer term financial strategy the above has been embedded into plans which also take account of horizon scanning projections associated with population health changes and subsequent demand on services. Our approach ensures that the Board is committed to a long term view that captures our ability to align our workforce to a redesign of services in ways that make them affordable and sustainable whilst delivering ongoing financial balance. Updates to key strategies and their financial impacts will be actively reviewed and monitored by the Finance & Performance Committee and plans adjusted accordingly.</p>	Chief Executive	31 st Dec 2015

No. Page/p ar	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
4 22/85	<p>Openness and transparency of decision making</p> <p>NHS Orkney’s committee meetings are held in private, although Board meetings, which include minutes from each committee, are held in public.</p> <p>Many elements of committee business (e.g. staff governance and clinical governance) are held in private because of the confidential and sensitive nature of these areas. However there are some areas which would not necessarily be considered confidential and which could be made more accessible to the public.</p> <p>Risk:</p> <p>Holding all committee meetings in private may not be seen as open and transparent decision making.</p> <p>Recommendation:</p> <p>NHS Orkney should review whether all of its committee meetings need to be held in private and where appropriate make committee papers available on its website.</p>	<p>The Board will consider this recommendation at a Board Development Session and in advance of this will seek out best practice from other Board areas to inform any changes in committee business arrangements.</p>	Chief Executive	31st Dec 2015

No. Page/p ar	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
5 25/110	<p>Health and social care integration assurance</p> <p>Internal audit are planning to carry out due diligence work on health and social care integration in 2015/16 to give the Audit Committee assurance on the financial and governance arrangements planned to support the Integration Joint Board.</p> <p>Risk:</p> <p>NHS Orkney may not have fully considered the IJB's financial arrangements before it becomes operational in April 2016.</p> <p>Recommendation:</p> <p>NHS Orkney should agree the timing and scope of internal audit's due diligence work to ensure it meets the needs of the Board and the requirements of the Scottish Government guidance.</p>	This will be discussed with Scott-Moncrieff and a timescale and scope of audit agreed.	Chief Executive	31st July 2015

No. Page/p ar	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
6 29/132	<p>Frequency of HEAT performance reporting to committee</p> <p>During 2014/15 only one update was provided to the Finance and Performance Committee in relation to the Board's performance against its HEAT targets: results up to September 2014, which were reported to the December 2014 committee meeting.</p> <p>Risk:</p> <p>The Finance and Performance Committee may not receive sufficient information to support effective scrutiny and challenge of performance.</p> <p>Recommendation:</p> <p>NHS Orkney should increase the frequency of its reporting of performance against HEAT targets to the Finance and Performance Committee.</p>	<p>NHS Orkney has work underway to improve its performance management arrangements and reporting. A new reporting format will be presented to the Board and views incorporated in future reporting. Reports to the Board will ensure the performance of NHS Orkney is discussed in public and so increase transparency.</p>	Chief Executive	31st Aug 2015