

NHS Orkney

2016/17 Annual Audit Report



 AUDIT SCOTLAND

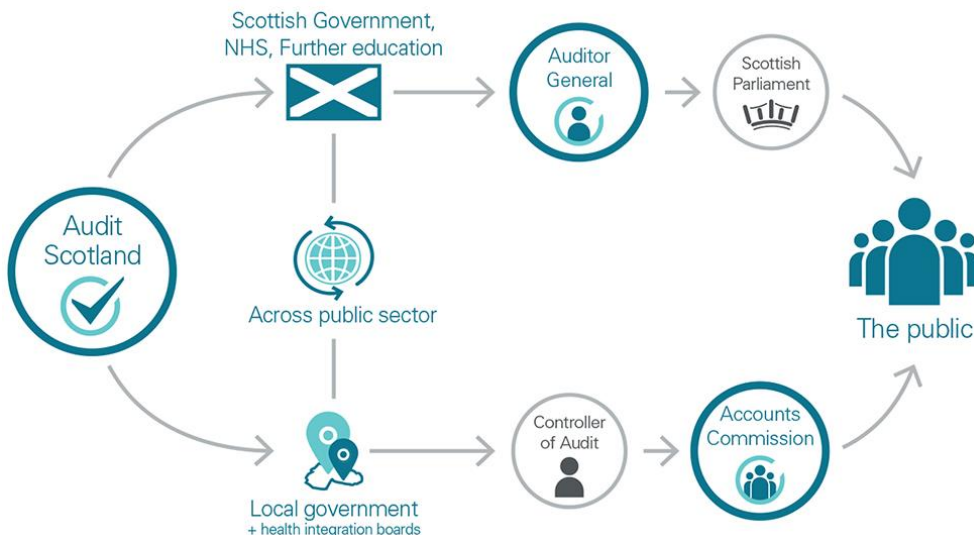
Prepared for the Board of NHS Orkney and the Auditor General for Scotland

26 June 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2016/17 annual report and accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, regularity of transactions, remuneration and staff report, performance report and governance statement.

Financial management

- 2 NHS Orkney has effective arrangements in place for managing its finances and the use of resources. NHS Orkney met all of its financial targets for 2016/17 and achieved an underspend of £0.089 million against its revenue resource limit.
- 3 NHS Orkney did well to achieve its savings target of £2.187 million during the year particularly given the unprecedented level of savings required in 2016/17. However greater reliance on non recurring savings was required than planned.

Financial sustainability

- 4 While the board achieved financial balance in 2016/17 it is facing a challenging position in future. For 2017/18 the financial plan is projecting a funding surplus of £0.086 million, and it will require stringent financial management to maintain this position.
- 5 NHS Orkney is finding it difficult to recruit medical staff and relies on locum staff to fill gaps. The rising costs of locum staff are adding to the financial pressures facing the board. The board has responded to these issues by putting new arrangements in place to allow for greater sustainability and continuity. In turn this is expected to reduce expenditure.

Governance and transparency

- 6 NHS Orkney has appropriate governance arrangements in place that support scrutiny of decisions made by the board. Transparency could be improved by holding committee meetings in public although recognising that sensitive or confidential items would be dealt with in private session.

Value for money

- 7 NHS Orkney has an effective performance management framework in place which supports continuous improvement.
- 8 NHS Orkney demonstrates a commitment to the transformation agenda and to the sharing of services, both clinical and support, with other NHS boards.

Introduction

1. This report summarises the findings from our 2016/17 audit of Orkney Health Board, commonly known as NHS Orkney.

2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Audit Committee. This report is a summary of our findings arising from the 2016/17 audit of NHS Orkney focussing on:

- the audit of the annual report and accounts
- consideration of the wider dimensions set out in the [Code of Audit Practice \(2016\)](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:

- an interim audit of the board's main financial systems and governance arrangements
- an audit of the board's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.

4. NHS Orkney is responsible for preparing the annual report and accounts. It must also put arrangements in place for governance, propriety and regularity to enable successful delivery of the board's objectives.

- 5.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice \(2016\)](#), and guided by the auditing profession's ethical guidance.
- 6.** As public sector auditors we give independent opinions on the annual report and accounts. We also review and report on the arrangements within NHS Orkney to manage its performance, regularity and use of resources such as money, staff and assets. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice \(2016\)](#).
- 8.** This report raises matters from the audit of the annual report and accounts, risks and control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- 9.** Our annual audit report contains an action plan at [Appendix 1 \(page 23\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** This report is addressed to both the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
- 12.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2016/17 annual report and accounts



Main judgements

Unqualified audit opinions on the annual report and accounts.

Good quality accounts supported by quality working papers.

NHS Orkney's group accounts incorporated the Orkney Islands Integration Joint Board results for the first time, as required.

Unqualified audit opinions

13. The annual report and accounts for the year ended 31 March 2017 were approved by the board on 26 June 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- unqualified opinions on the remuneration and staff report, performance report and governance statement.

14. Additionally, we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

Submission of annual report and accounts for audit

15. We received the unaudited annual report and accounts on 8 May 2017, in line with our agreed audit timetable. The working papers provided with the unaudited financial statements were of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

16. We liaised with finance staff early in 2017 to discuss and agree significant disclosures in relation to the construction project for the new hospital and healthcare facility. This helped facilitate a smooth audit of the financial statements once available.

17. Also, the accounts reflect good practice as set out in the Audit Scotland publication *'Improving the Quality of the NHS Annual Report and Accounts' (December 2014)*.

18. In 2016/17, for the first time, the board was required to prepare group accounts to include the financial results of Orkney Islands Integration Joint Board (IJB). The unaudited financial statements submitted on 8 May 2017 did not include income and expenditure figures for services commissioned by the IJB. The income and expenditure figures were not available until 19 June 2017, two weeks after the fieldwork was complete. The audit team worked closely with the IJB to obtain the

The board's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

correct figures and with finance officers to advise the correct presentation of the IJB disclosures in the board's group accounts. The introduction of such significant changes is always challenging for staff involved.

Risks of material misstatement

19. [Appendix 2 \(page 25\)](#) provides a description of those risks of material misstatement that were identified during the planning process which had the greatest influence on the overall audit strategy, the allocation of staff resources and directing the efforts of the audit team. Also, included within the appendix are wider dimension risks, how we addressed these and conclusions thereon.

Materiality

20. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

21. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit. Specifically with regard to the annual report and accounts, we assess the materiality of uncorrected misstatements, both individually and collectively.

22. On receipt of the annual report and accounts we reviewed our materiality calculations and these are shown in Exhibit 2.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – This is the figure we calculate in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£0.560 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.	£0.280 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the reporting threshold amount. This has been calculated at 2.5% of overall materiality.	£15 thousand

Source: Audit Scotland

How we evaluate misstatements

23. There were no material adjustments to the unaudited financial statements arising from our audit.

Significant findings

24. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to those charged with governance.

These are summarised in [Exhibit 3 \(page 9\)](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1 \(page 23\)](#) has been included.

Exhibit 3

Significant finding from the audit of the financial statements

Issue	Resolution
<p>1. Remuneration Report</p> <p>The basis used to calculate pension benefits in the Remuneration Report was revised by NHS Grampian between 2015/16 and 2016/17 who initially supplied figures to NHS Orkney. This resulted in the prior year figures being misstated for two executive members. The issue arose because of performance back-pay paid to two members of staff between 2015/16 and 2016/17.</p>	<p>We worked with NHS Grampian and NHS Orkney to agree the calculations and revised figures.</p>

Source: Audit Scotland

Other findings

25. Our audit identified a number of other presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and accounts.

Part 2

Financial management



Main judgements

NHS Orkney has effective financial management arrangements in place, including budgetary control that helps board members scrutinise the board's finances.

NHS Orkney had effective systems of internal control in place during 2016/17 and our testing of the key controls confirmed that they operated effectively.

NHS Orkney has demonstrated commitment to the National Fraud Initiative following up significantly more matches than required.

Financial performance in 2016/17

26. NHS Orkney, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorate (SGHSCD) annually. As illustrated in [Exhibit 4](#), the board operated within all limits during 2016/17.

Exhibit 4

Performance against resource limits in 2016/17

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	52.934	52.845	0.089
Non-core revenue resource limit	1.801	1.801	0.000
Core capital resource limit	3.037	3.037	0.000
Cash requirement	57.294	57.294	0.000

Source: NHS Orkney Annual Report and Accounts 2016/17

Underspend against Revenue Resource Limit (RRL)

27. NHS Orkney is in recurring financial balance and achieved an underspend of £0.089 million for the year ended 31 March 2017. This position has been achieved without any brokerage from Scottish Government and the remaining brokerage totalling £1.062m was repaid in 2016/17. This outturn compares well with the 2016/17 Local Delivery Plan (LDP) which forecast an underspend of £0.229 million. The underspend of £0.089million was achieved despite considerable cost efficiency savings.

28. NHS Orkney was required to make efficiency savings of 5.1% in 2016/17. This is equivalent to a savings target of £2.187 million. Savings of this magnitude are unprecedented. The board did well to achieve its target.

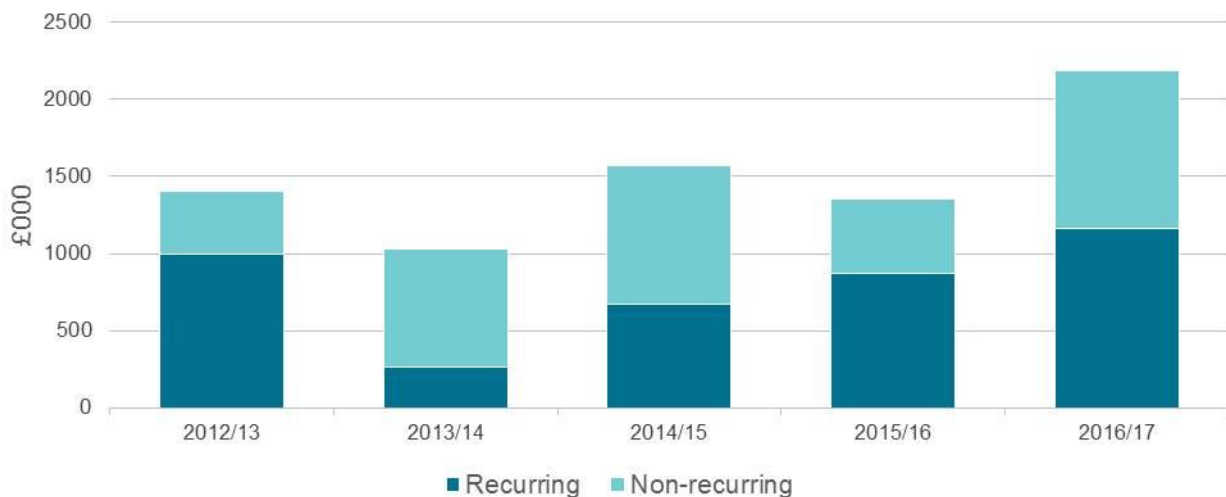
29. The plan was for 72% of savings to be achieved on a recurring basis with the remainder on a non-recurring basis (28%). In reality 53% of savings were achieved on a recurring basis with the remainder on a non-recurring basis (47%). This is considered a good achievement against an ambitious target. Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing (recurring) savings in future years. Future financial plans have been adjusted to take account of the recurring savings not achieved in 2016/17.

30. [Exhibit 5](#) illustrates the level of recurrent and non-recurrent savings achieved. Recurring savings targets are circa £1.3m for the next 3 years reducing to just under £1m for the following 2 years. (See Exhibit 7 on page 15)

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Exhibit 5

Savings – recurring and non-recurring



Source: Final Financial Performance Reports 2012/13 – 2016/17

Capital allocation

31. NHS Orkney received a total capital allocation of £3.037 million in 2016/17. The highest spend has been on the new Hospital and Healthcare Facility, but significant spend was incurred on other projects such as pharmacy, the recently completed Eday Health Centre and IT including Digital Medical Records and GP ordercomms.

32. The largest construction ever undertaken by NHS Orkney, the new Hospital and Healthcare Facility had financial close on 24 March 2017. A ceremony to mark the start of construction took place on 22 May 2017 and the £68 million purpose built facility is expected to open in Spring 2019. The new site will replace the existing Balfour Hospital in Kirkwall, two GP practices and the Public Dental Service based in Kirkwall. It will also accommodate management and administrative staff based in Garden House.

Budgetary processes

33. We reviewed NHS Orkney's budget setting and monitoring processes. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular, timely and up to date financial information on the board's financial position.

34. We concluded that NHS Orkney has sound budget monitoring and control arrangements that allow both members and officers to carry out scrutiny of the board's finances.

Internal controls

35. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that NHS Orkney has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

36. We concluded that the controls put in place by management are effective and are operating effectively. No significant internal control weaknesses were identified during the audit which could affect NHS Orkney'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.

Prevention and detection of fraud and irregularity

37. We have a responsibility for reviewing the board's arrangements for the prevention and detection of fraud. Our audit work in this area covered a number of areas such as whistleblowing and consideration of how NHS Orkney liaises with Counter Fraud Services.

38. We concluded that NHS Orkney is proactive in promoting fraud awareness and has adequate arrangements in place for fraud detection and prevention.

National Fraud Initiative

39. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

40. NFI activity is summarised in [Exhibit 6 page 13](#). The NFI process seeks to identify potential fraud through matching data provided on invoices/payments and also matches staff details to data held by other organisations as well as companies providing services to bodies.

Exhibit 6

Total number of matches



257

Number recommended for investigation



38

Completed/closed investigations



200

Source: National Fraud Initiative (NFI):

41. There have been 257 matches received with 38 recommended for review, of which 34 have now been reviewed. This identified one duplicate invoice, which had a value of £2,175. The supplier was contacted and the amount was repaid within 7 days.

42. Overall NHS Orkney has completed a total of 200 investigations which demonstrates their commitment to the NFI process.

43. The 57 cases that have not been reviewed relate to data matches involving members of staff, 4 of these have been recommended for investigation. The matches involving staff were not supplied to NHS Orkney until May 2017 but will be investigated.

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

44. The board has a range of activities in place designed to maintain standards of conduct including Codes of Conduct for members and officers. Also, there are established procedures for preventing and detecting bribery and corruption including the whistleblowing policy.

45. Based on our review of the evidence, we concluded that the board has adequate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

Part 3

Financial sustainability



Main judgements

NHS Orkney achieved its overall savings target however this was with greater reliance on non recurring expenditure than planned.

NHS Orkney has financial planning arrangements in place based on the Local Delivery Plan. However the board has still to determine how it will achieve all of the recurring savings.

NHS Orkney has relied on locum staff in recent years to cover rota gaps and vacancies, which is adding to financial pressures.

Financial planning

46. NHS Orkney's Local Delivery Plan (LDP) for 2017/18 to 2021/22 sets out how the board's financial, workforce and services plans implement its strategic priorities. The LDP was submitted to the Scottish Government in line with the required timescales. It was approved by the board on 27 April 2017. The five-year financial plan is a key component of the LDP. It sets out how the board plans to achieve financial balance over the five-year period.

47. The five-year financial plan forecasts a recurring surplus position in each of its five years. The plan also recognises the significant cost pressures facing the board. These include staff pay costs; service level agreements; out of area treatments; and the cost of using medical locums.

48. At the same time there are significant funding pressures over the period of the plan. The basic funding uplift for 2017/18 is 2.6% while in each subsequent year the funding uplift is assumed to be a flat rate of 1.5%.

49. In future, the board is facing a challenging position. Rising costs and small increases in funding will make it difficult to achieve financial balance. The financial plan projects a potential funding surplus of £0.086 million between out-turn and funding for the coming year. Efficiency savings will play a crucial role in achieving breakeven next year and in future years.

Medium to long term efficiency savings

50. NHS Orkney is required to achieve efficiency savings of 2% of baseline RRL in 2017/18. This is equivalent to a saving of £1.25 million and currently all of it is planned to be on a recurring basis. Efforts have been made to contain this to the lowest possible level.

51. In each subsequent year of the plan NHS Orkney is required to achieve efficiency savings of 1.12% - 2.77% as illustrated in [Exhibit 7](#). In recent years the board has had a good track record of achieving its savings targets overall. However as identified at paragraph 29 the planned recurring savings were not achieved in 2016/17, and as a result the board has adjusted future plans to take

Financial sustainability looks forward to the medium and long term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

account of the recurring savings realised. The board has plans in place to achieve savings targets in the short term but has still to determine how it will achieve all of the recurring savings from 2018/19 onwards. The board has also created a five year cost reductions framework which sets out the challenge and ambition for future years.

Exhibit 7

Savings forecast 2017/18 to 2021/22

	2017/18	2018/19	2019/20	2020/21	2021/22
Recurring	1,250	1,300	1,250	900	900
Non-recurring	0	250	0	0	0
Total	1,250	1,550	1,250	900	900
% of RRL	2.26%	2.77%	2.21%	1.57%	1.12%

Source: NHS Orkney Local Delivery Plan 2017/18 – 2021/22

Recommendation 1

Recurring Savings

It is essential that the board has robust medium and long term plans in place to achieve its savings targets.

Asset management

52. NHS Orkney is required to manage its hospital, community buildings and other assets, such as medical equipment, in an effective way to ensure patients receive high quality care.

53. NHS Orkney's bi-annual Property and Asset Management Strategy (PAMS) provides information on the functionality, suitability and physical condition of the board's estate (i.e. buildings). There is a strategy of direct investment in backlog maintenance and statutory compliance matters. This is based on a risk prioritisation approach covering all of the board's properties (including those properties due for investment if the risk suggests earlier intervention is required for safety reasons). The majority of the backlog maintenance relates to Balfour Hospital, with the annual budget for the work remaining constant over the next three years.

54. The budget set out in the PAMS for the direct investment strategy totals £0.5m, split over the next three years to 2020. The main priorities focus on the short and medium term investments in Balfour Hospital, with funds also available to cover statutory compliance work and rectification of prioritised backlog maintenance, but it also includes other minor capital works. Based on the information available the resources are adequate to maintain the board's estate.

55. The new hospital and healthcare facility project is underway and the target for completion is Spring 2019. The construction project avoids the need to invest significantly in the backlog maintenance of the Balfour Hospital.

Workforce planning

56. In February 2017, the Auditor General for Scotland published a data briefing on Scotland's NHS Workforce. It highlighted that NHS staff numbers are at their highest ever level, but there are key issues relating to the workforce. These include an ageing workforce, vacancy rates, increased spending on locum staff and sickness absence levels.

57. To meet strategic objectives, bodies need to plan and manage their workforces effectively. The board's most recent workforce strategy document covers the period to March 2015. Since March 2015 NHS Orkney has completed an annual workforce projections exercise that affirms its implementation of the agreed Workforce Strategy.

58. Currently 41.6% of the workforce is aged 50 or over and this is set to rise. There will be a loss of experience as the older workforce retires and the board could experience difficulties in attracting experienced new staff. Any knowledge gap will have to be managed to minimise impact on service delivery. Work is underway supported by the Area Partnership Forum to inform succession planning. A Training Needs Analysis by professional groups has been completed for nursing and is being implemented.

59. NHS Orkney is also facing significant challenges in recruiting and retaining staff with turnover rates at 9% (relates in main to junior doctors in training). The board has struggled to recruit permanent medical consultant staff, with an increasing reliance on locum staff due to the reduction in training grades. Issues have been identified across Scotland with the recruitment and training of junior doctors, with 12.5% of core and specialty training posts left unfilled at August 2016. *Source: The NHS in Scotland 2016 report*

60. As a result of recruitment and retention problems, and pressures to meet waiting time targets, the amount spent on locum staff has increased over the last five years as illustrated in [Exhibit 8, page 17](#). Locum staff provide flexibility in the short term by providing cover for sickness absence and vacancies but that comes at a cost. Spending on locum staff has increased from 5.9% of total expenditure in 2013/14 to 8.5% in 2016/17.

Good practice

61. The board has responded to recruitment and retention issues by putting new arrangements in place to allow for greater sustainability and continuity:

- a new contract has been introduced, notably a 2 weeks on and 2 weeks off arrangement and this has addressed recruitment issues on the Isles and in the Hospital notably within anaesthetics, medicine and obstetrics and gynaecology clinical specialties
- the Director of Medical Education (DME) (employed by NHS Highland provides DME support to both NHS Orkney and NHS Shetland) has been working closely with NHS Orkney to establish new posts namely Clinical Development Fellows. These new arrangements have resulted in doctors in training posts being recruited within the Hospital
- Orkney works horizontally with the other Island boards and has procured services to support specialist areas, for example medical physics from NHS Highland and Director of Medical Education support from NHS Highland. In addition, NHS Grampian provide HR services through a shared service model arrangement
- NHS Orkney is investing in modern apprenticeships

- NHS Orkney has begun to redesign services in preparation for transfer to the new hospital and healthcare facility and is preparing to address workforce gaps through succession planning.

62. The board is ambitious and creative and arrangements are in place to address workforce risks. The board should consider preparing an up to date workforce strategy document to provide clarity of direction and align workforce planning arrangements to service and improvement plans.

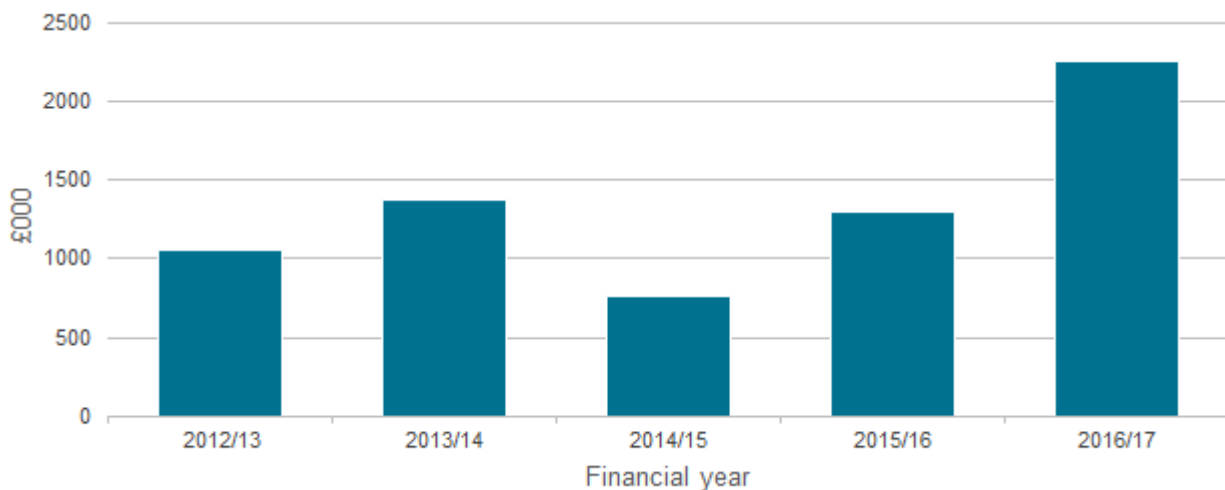
Recommendation 2

Workforce planning

NHS Orkney should prepare a revised workforce strategy document for addressing the challenges the board is facing now and in the medium term.

Exhibit 8

Locum staff costs



Source: NHS Orkney Annual Report and Accounts 2012/13 – 2016/17

63. NHS Orkney, like most NHS boards, is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence despite measures to maximise attendance at work. At March 2017 the sickness absence rate was 5% compared to 5% for the comparable period last year. While the absence rate has remained constant over the last year it is better than the Scotland wide position.

Part 4

Governance and transparency



Main judgements

NHS Orkney has appropriate governance arrangements in place that support scrutiny of decisions made by the board.

NHS Orkney is open and transparent in the way it conducts its business but with some scope for improvement.

Governance arrangements

64. 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. The standing committees meet on a regular basis throughout the year to consider relevant matters. We are of the view that the board has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Internal audit

65. Internal audit provides the board and Accountable Officer with independent assurance on NHS Orkney's overall risk management, internal control and corporate governance processes such as the roles and responsibilities of committees.

66. The internal audit function is carried out by Scott Moncrieff. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

67. The internal audit plan for 2016/17 has been completed. We did not place formal reliance on internal audit work this year for the purpose of obtaining direct assurance for our financial statement audit, but we did consider the findings from their 2016/17 reports as part of our wider governance work.

ICT risks

68. In June 2016 the former external audit team reported that the board was facing some significant ICT issues which were proving challenging to resolve. We are pleased to note that during 2016/17 the board has used risk assessment techniques to help prioritise its workload and has significantly increased staff capacity and capital investment in eHealth/IT to mitigate six significant risks. The board is actively using risk assessment techniques including strategy deployment quality improvement to address the remaining risks. The board aims to have mitigated the remaining very high risks by the end of 2017.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

Risk management

69. The current risk register policy has been reviewed and significantly updated to reflect current and best practice. Internal Audit carried out a review of Risk Management and this was discussed by the Audit Committee at their meeting on 6th December 2016. The report concluded that there were no significant control exposures within the risk management framework.

70. Corporate and high operational risks are scrutinised by relevant governance committees and the audit committee is responsible for scrutinising the risk management processes in place.

71. We reviewed the risk register during our planning work and found it to be robust. The risk management arrangements overall continue to evolve and improve with support from the Audit Committee through effective challenge and scrutiny.

Transparency

72. Transparency means that the public, in particular, local residents have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

73. There is evidence from a number of sources which demonstrate the board's commitment to transparency including the annual accountability review (where members of the public can attend). Board meetings are open to the public and there is an open forum to allow members of the public to ask questions.

74. We noted that committee meetings are held in private, with the minutes of these meetings posted and available to the public on the board's website. We would recommend that consideration be given to committee meetings being held in public.

75. Overall, we concluded that the board conducts its business in an open and transparent manner but in light of increasing expectations consideration should be given to holding committee meetings in public with sensitive or confidential items held in private session.

Recommendation 3

Transparency

Consideration should be given to holding committee meetings in public with sensitive or confidential items held in private session.

Health and social care

76. Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on April 1, 2016. This brings together NHS and local council care services under one partnership arrangement for each area.

77. Integration will mean a greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends, doing the things that give life meaning and value.

78. There is a single IJB within Orkney whose responsibility includes planning, commissioning and overseeing service delivery performance for those functions delegated. The IJB became fully operational on 1 April 2016. However working in a co-operative fashion between the health board and Orkney Islands Council has been in place since 2011 through Orkney Health and Care (OHAC) Partnership.

The Chief Executive of NHS Orkney also worked as the Executive Director for Social Work over this period and this aided the establishment of the IJB and joint working in general.

79. Regular discussion forums are held between the Chair and Vice Chair of the IJB, Chair of NHS Orkney, Leader of Orkney Island Council, the two Chief Executives and senior officials, including the Chief Operating Officer of the IJB. Overall the process of integration has gone smoothly with no significant issues having been identified in respect of the governance of the IJB and the budgeting process.

80. This is the first full year of the IJB and it is therefore still early days for commissioning changes to lead to service change. Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. This will be available in spring 2018 and as such, we will be in a better position to assess IJB progress in Orkney once the work on this national report has been completed.

2020 Vision

81. In 2011 the Scottish Government set out an ambitious vision for health and social care that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. In August 2015 the Cabinet Secretary for Health, Well-being and Sport opened a national conversation on creating a healthier Scotland which aimed to increase the pace of progress towards the 2020 Vision.

82. NHS Orkney has an implementation plan focussing on the national priority areas. The Local Delivery Plan contributes to a commissioning approach to support the implementation of the 2020 Vision.

Equalities

83. The Equality Act 2010 introduced a new public sector 'general duty' that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the equality outcomes it has set.

84. We reviewed the previous Equalities Outcomes 2013-2017 update report at April 2015 and the current Equalities Outcomes Report 2017-2021 at April 2017 and concluded the board has met its statutory duty to:

- publish information on progress made in mainstreaming equality within the board
- report on progress made towards achieving equality outcomes published in 2013
- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay-gap information.

85. We concluded, on the basis of evidence reviewed, that the board is proactive in ensuring that equality is mainstreamed.

Part 5

Value for money



Main judgements

NHS Orkney has an effective performance management framework in place. This helps support the board in its drive to achieve value for money and continually improve how it delivers services.

Overall NHS Orkney performs well but problems in recruiting medical staff in other boards is having an impact on performance in relation to waiting times for visiting outpatients and day case services.

NHS Orkney demonstrates a commitment to the transformation agenda and to the sharing of services, both clinical and support, with other NHS boards.

Performance management

86. The Scottish Government monitors how NHS Orkney performs against targets and standards. Examples include waiting times for accessing treatment such as the proportion of patients that were seen within 12 weeks otherwise known as the Treatment Time Guarantee.

87. The board is kept well informed of performance across all areas. The detailed review and scrutiny of performance has been delegated to the Finance and Performance Committee which meets bi-monthly. There is a regular review of papers by board members to find out how well the committee is scrutinising performance.

88. At each meeting the Finance and Performance Committee receives detailed information on performance against the Local Delivery Plan, as well as national and local targets. Reports to the committee provide current and trend analysis and the status of performance on targets is assessed on a risk basis rather than strictly by variance from standard / target.

89. Committee members receive supplementary reports on specific aspects of performance, and the financial position.

90. We concluded that NHS Orkney has an effective performance management framework in place. This helps the board achieve value for money and continually improve how it delivers services.

Overview of service performance

91. The board's performance against its 21 LDP Standards was reported in the Performance Management Report on 23 May 2017 to the Finance and Performance Committee, and is based on the most up-to-date position at the end of March 2017.

Value for money is concerned with using resources effectively and continually improving services.

92. Overall, NHS Orkney performs well with a high number (25) of standards categorised as green or amber, where:

- green means likely achievement or low to medium risk of breach
- amber means high risk material breach or breach due to small numbers
- red means very high risk of material breach.

93. In March 2017 NHSO performance was 81.1% against a target of 95 per cent of patients to wait no longer than 12 weeks from referral to a first outpatient appointment. The board has reported that balancing demand and supply remains challenging in orthopaedics and ophthalmology although new arrangements for 2017/18 are coming into place for ophthalmology supported by NHS Highland which will result in improvements to access. NHS Grampian has a number of vacancies and this is impacting on performance for those services commissioned through the board's visiting services SLA. Work to review the SLA is underway.

Shared services

94. The financial challenges facing the health service in Scotland are well documented. The speed at which substantial changes are needed within the NHS means that greater sharing of services between boards is vital if the Scottish Government is to achieve the overall ambitions of the 2020 Vision and beyond. In 2015, the Scottish Government established a transformational programme board including senior representatives from NHS boards to provide greater coordination across boards and various healthcare programmes and initiatives.

95. NHS Orkney demonstrates a commitment to the transformation agenda and to the sharing of services, both clinical and support, with other NHS boards.

National performance audit reports

96. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which are of direct interest to the board. These are outlined in [Appendix 3](#) accompanying this report.

97. National performance audit reports are considered by the board and any actions for the board are included in the paper detailing internal and external audit recommendations which are presented to each audit committee outlining progress against each identified action.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
15	<p>1. Efficiency Savings</p> <p>NHS Orkney is required to achieve efficiency savings of 2% of baseline RRL in 2017/18. This is equivalent to a saving of £1.25 million and currently all of it is planned to be on a recurring basis.</p> <p>In each of the four years from 2018/19 – 2021/22 NHS Orkney is required to achieve efficiency savings of 1.12%-2.77%. NHS Orkney has financial planning arrangements in place based on the Local Delivery Plan for the period 2017/18 to 2021/22. Savings targets comprise of recurring and non-recurring savings, however the board has still to determine how it will achieve all of the recurring savings from 2018/19 onwards.</p>	<p>It is essential that the board has robust medium and long term plans in place to achieve its savings targets.</p>	<p>The level of recurring savings required in 2016/17 was very ambitious due to the need to create a £1m contingency for anticipated high risk financial areas. Whilst the full recurring value was not achieved, we were able to meet the full target and have accommodated slippage in the achievement of recurring savings into our financial plan for 2017/18 onwards.</p> <p>We have developed a five year cost reduction framework which sets out the challenge and ambition for future. The first year plan has been developed and the remainder of the programme sets out the strategic direction for the following four years. Progress on the framework will be reported regularly to Finance and Performance Committee and to the board.</p> <p>Director of Finance Ongoing.</p>
17	<p>2. Workforce planning</p> <p>Work is ongoing to review staffing models to support new ways of working and a number of innovative recruitment projects are in place.</p> <p>The board should consider preparing an up to date workforce strategy document to provide clarity of direction and align workforce planning arrangements to service and</p>	<p>NHS Orkney should prepare a revised workforce strategy document for addressing the challenges the board is facing now and in the medium term.</p>	<p>Agreed</p> <p>NHS Orkney has completed an annual workforce projections exercise that affirms its implementation of the Workforce Strategy.</p> <p>Annual national workforce tools (nursing) were late last year and the exercise is due to be completed in June this year. We have also just completed and implemented a</p>



**Page
no.**

Issue/risk

Recommendation

**Agreed management
action/timing**

improvement plans.

whole review of nursing in readiness of transition to new hospital. This has reduced the number of Charge Nurses in line with our strategy.

Head of OD&L

End September 2017

19

3. Transparency

There is evidence from a number of sources which demonstrate the board's commitment to transparency including the annual accountability review (where members of the public can attend). Board meetings are open to the public and there is an open forum to allow members of the public to ask questions.

However, we noted that committee meetings are held in private, with the minutes of these meetings posted and available to the public on the board's website.

Consideration should be given to holding committee meetings in public with sensitive or confidential items held in private session.

The board of NHS Orkney welcomes the opportunity to increase transparency and will discuss with members at the meeting scheduled for early Autumn 2017.

Board of NHS Orkney

End August 2017

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable</p>	<ul style="list-style-type: none"> • journals – a sample of journal entries were tested • estimates – based on testing of debtors, creditors and provisions/contingencies, we found no evidence of bias in accounting estimates • significant transactions – based on our work on the annual accounts, we did not find any evidence of bias in accounting estimates. <p>Overall, we found no evidence to suggest that management were overriding controls.</p>
<p>2 Risk of fraud over income</p> <p>NHS Orkney receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>Effective budget monitoring by management.</p> <p>Regular monitoring of national fraud reports.</p> <p>Counter Fraud Policy and Whistleblowing Policy in place.</p>	<ul style="list-style-type: none"> • income transactions – a sample of high value invoices for 2016/17 were selected and verified with supporting evidence • year-end income – cut-off testing of a sample of income items received at year-end were selected and verified as being allocated to the correct financial year, as well as being recognised as income • credit notes – cut-off testing of credit notes verified that a high value item was issued incorrectly. The subsequent invoice was reissued and paid fully post year-end • key controls – testing of the key controls in place did not identify any significant weaknesses in the financial controls systems.

Audit risk	Assurance procedure	Results and conclusions
		No fraud concerns were identified in respect of income.
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Effective budget monitoring by management.</p> <p>Regular reporting to the board</p>	<p>We reviewed estimates and judgements, including impairments, provisions, asset life assumptions and their impact on depreciation and post employment benefits as part of the audit.</p> <p>No misstatements were identified.</p>
<p>4 Integrated Joint Board financial assurance</p> <p>NHS Orkney and Orkney IJB are required to submit their audited accounts by 30 June and 30 September respectively. In future years, Orkney IJB will need to provide both financial and non-financial information by a mutually agreed date to allow the board to meet its earlier statutory reporting obligations. In addition, the board will need to consider what assurances are required from the IJB for its Governance Statement.</p> <p>There is a risk that the board may fail to meet its statutory reporting requirements if appropriate information and assurances are not received from the IJB in time.</p>	<p>Liaison by Finance officers with their IJB colleagues regarding the timetable for draft accounts.</p>	<p>There was a delay in receiving the figures for the IJB but we worked with Finance officers to ensure figures were received in time to complete the audit in accordance with our agreed timescale.</p>
Wider dimension risks		
<p>5 Financial position</p> <p>The board's latest financial position to December 2016 shows that the board is currently in a deficit position of £0.428 million, however the outturn position is forecast to be a surplus of £0.220 million by the year end. The 2016/17 budget was set including £2.2 million of savings, £0.6 million non recurring.</p> <p>The board is budgeting for £4.280 million of savings between 2017/18 and 2020/21, with all but £0.5 million being on recurring savings. Each year, finding new savings becomes</p>	<p>Regular financial reporting to the Finance and Performance Committee and the board.</p> <p>The board now has a stable portfolio of locums. The board considers that the locums currently working for NHS Orkney are dependable and settled enough to run clinics, e.g. two weeks on, two weeks off.</p> <p>Progress on the delivery of the savings programme is regularly monitored and reported to the board.</p>	<p>NHS Orkney met all of its financial targets for 2016/17 and achieved an underspend of £0.089 million against its revenue resource limit.</p> <p>Savings target of £2.2 million were achieved although the split between recurring and non recurring savings was not achieved, with a greater reliance on non recurring savings.</p>





















Audit risk	Assurance procedure	Results and conclusions
<p>increasingly more difficult to ensure budgets are balanced.</p> <p>Due to the rural nature of NHS Orkney and the lack of options, challenges remain in controlling locum spend and delivering the required savings. In the event that the board is unable to meet its financial targets, an explanatory paragraph would be included in the independent auditors' report.</p>		
<p>6 Workforce strategy</p> <p>To meet strategic objectives, bodies need to plan and manage their workforces effectively. The board's most recent workforce strategy only covers the period to March 2015.</p> <p>Without an up-to-date workforce strategy and plan, there is a risk that the board may not understand its future workforce requirements which may result in skills shortages, duplication and ineffective deployment of staff, and unnecessary use of expensive locum staff. NHS Orkney had agreed to ensure workforce plans were aligned with service and improvement plans by December 2016.</p>	<p>We are currently reviewing staffing models to support new ways of working. Reviews of inpatient nursing podiatry, speech and language, clinical admin, IT and ehealth have already been carried out.</p>	<p>A workforce strategy is still to be formalised. See Appendix 1, recommendation 2.</p>
<p>7 New hospital and healthcare facility</p> <p>This is the largest construction project ever undertaken by NHS Orkney. It is therefore crucial that project management arrangements evolve during the course of the project, and are robust throughout, to ensure it is successfully delivered on time, within budget and to the quality expected</p> <p>The size and scale of the project means it has significant financial, clinical and reputation risks.</p>	<p>Agreed, and this review mechanism is in place. The internal audit on project management identified the scheme project management as good practice. Robust risk management is in place.</p>	<p>Financial close was achieved on 24 March 2017 and a ceremony to mark the start of construction took place on 22 May 2017. We will continue to monitor the project through to its completion, which is expected to be Spring 2019.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>8 ICT</p> <p>ICT continues to play a significant role in the day-to-day running of the board, both in relation to patient care and administration. The board is facing some significant ICT challenges.</p>	<p>Work is currently ongoing to progress</p> <ul style="list-style-type: none"> • investment in ICT to increase the operational resources available on both desktop and infrastructure issues and to support the move to the new hospital and healthcare facility. • the implementation of a Digital Medical Records solution in advance of the move to the new build • the development of a strategic deployment matrix approach • an agreed programme to work through the infrastructure issues, with a particular focus on primary care • investment in formal on call arrangements for IT staff • completion of an internal audit on IT business continuity and disaster recovery. 	<ul style="list-style-type: none"> • the board's corporate risk register still includes a number of very high ICT related risks, all of which could threaten business continuity arrangements. • the board continues to progress actions to mitigate the risks including agreement of timescales to implement recommendations made by internal audit in relation to IT disaster recovery. • see Appendix 1, recommendation 3.

Appendix 3

Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

NHS relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[NHS in Scotland 2016](#) – October 2016

[Social work in Scotland](#) – September 2016

[Scotland's NHS workforce](#) – February 2017

NHS Orkney

2016/17 Annual Audit Report

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