

NHS Orkney

2018/19 Annual Audit Report



 AUDIT SCOTLAND

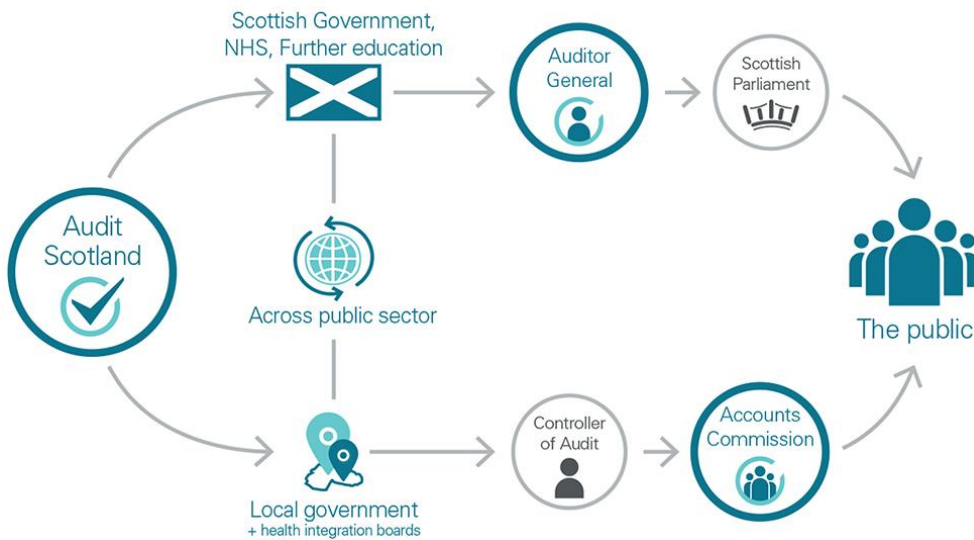
Prepared for the Board of NHS Orkney and the Auditor General for Scotland

26 June 2019

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

2018/19 annual report and accounts

- 1 NHS Orkney's financial statements give a true and fair view and were properly prepared.
- 2 Expenditure and income were in accordance with applicable enactments and guidance.

Financial management

- 3 NHS Orkney has appropriate and effective financial management arrangements in place. NHS Orkney met all its financial targets for 2018/19 and achieved an underspend of £0.03 million against its revenue resource limit.
- 4 Systems of internal control operated appropriately and effectively in 2018/19.
- 5 It is critical that the NHS board has up to date robust workforce plans to ensure a sustainable workforce with the right skills and capacity over the medium to longer term.
- 6 Construction of the Balfour is complete and the cost of construction totals £62.3 million, with an estimated value of £60 million which will be impaired on operation.

Financial sustainability

- 7 NHS Orkney has appropriate and effective financial planning arrangements in place to identify and address risks to financial sustainability across the short to medium term.
- 8 To breakeven over the period 2019/20 to 2021/22 NHS Orkney estimates that £5.95 million of recurring efficiency savings are required; £2.2 million of which have still to be identified.

Governance and transparency

- 9 NHS Orkney has satisfactory governance arrangements in place that support scrutiny of decisions made by the NHS board.
- 10 Financial planning and joint working with health and social care partners has proved challenging.

Value for money

- 11 NHS Orkney has an adequate performance management framework in place. However, the NHS board has reported variable performance levels against national performance targets in 2018/19.

Introduction

1. This report summarises the findings from our 2018/19 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 December 2018 meeting of the Audit Committee. This report comprises the findings from:

- an audit of the NHS board's annual report and accounts
- consideration of the wider dimensions that frame the wider scope of public audit 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 2018/19 have been:

- a review of the NHS board's main financial systems
- an audit of the NHS board's 2018/19 annual report and accounts including the issue of an independent auditor's report setting out my opinions
- consideration of the four audit dimensions.

Adding value through the audit

4. We add value to the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvement that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of financial management, financial sustainability, governance and transparency and value for money arrangements
- meeting key members of the NHS board during the year.

5. In so doing, we aim to help NHS Orkney promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. NHS Orkney has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. The NHS Orkney annual report and accounts includes the following:

- Performance Report
- Accountability Report (which includes the Corporate Governance Report, Remuneration and Staff Report, and Parliamentary and Accountability Report)
- Financial statements and supporting notes.

7. The NHS board is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK.

9. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on:

- financial management and arrangements for securing financial sustainability
- the suitability and effectiveness of corporate governance arrangements
- the appropriateness and effectiveness of the performance management arrangements.

10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

11. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

12. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £70,700, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to the NHS board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

15. We would like to thank staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual report and accounts



Main judgements

NHS Orkney's financial statements give a true and fair view and were properly prepared.

Expenditure and income were in accordance with applicable enactments and guidance.

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

Audit opinions on the annual report and accounts

16. The annual report and accounts for the year ended 31 March 2019 were approved by the NHS board on 26 June 2019. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

17. Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of annual report and accounts for audit

18. We received the unaudited annual report and accounts on 9 May 2019, in line with our agreed timetable. The NHS board's group accounts include the financial results of the Endowment Fund and Orkney Integration Joint Board (IJB) as required. However, the performance report in the first draft of the accounts contained several presentational errors and did not fully comply with the Government Financial Reporting Manual (the FReM) Following discussion with management, the report was revised to an acceptable standard. There is however, scope for further improvement to ensure the annual report and notes provide users with a clear, concise, and balanced assessment of the performance of the NHS board.

19. We recommend a full management review of the draft accounts be completed prior to submission for audit next year.

20. The working papers provided 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.

Risks of material misstatement

21. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts, and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

22. We reported five risks of material misstatement in our 2018/19 Annual Audit Plan and three risks in relation to our work on wider dimensions. We have gained sufficient assurance to address the five risks of material misstatement. The two wider dimension risks in relation to financial sustainability and workforce planning remain ongoing issues for the NHS board and are therefore included in our action plan in [Appendix 1](#).

Materiality

23. Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

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

25. On receipt of the unaudited annual report and accounts we reviewed and revised our planning materiality calculations and these are shown in [Exhibit 2](#).

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£0.63 million
Performance materiality	£0.31 million
Reporting threshold	£15 thousand

Source: Audit Scotland

Significant findings from the audit in accordance with ISA 260

26. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

27. The significant findings are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

Qualitative aspects of the audit

28. We recommended some disclosure amendments for areas such as the performance report and governance statement to ensure all risks and estimations were fully explained. These were subsequently included in the final version of the accounts and we therefore have no significant issues to report in this area.

Exhibit 3

Significant findings arising from the audit of the financial statements

Issue	Resolution
<p>1. Classification adjustments - statement of financial position</p> <p>The unaudited accounts include long term trade receivables of £61,994 million representing sums prepaid by NHS Orkney. Audit testing found that £1.19 million related to prepayments for the following year and this figure was therefore wrongly included in long term trade receivables.</p>	<p>Management agreed to review their workings and a subsequent amendment was made to reduce long term trade receivables and increase short term trade receivables by £1.19 million. A similar adjustment has been made to trade payables. The adjustment has no effect on the overall financial position of NHS Orkney at 31 March 2019.</p>
<p>2. Accrual adjustment</p> <p>The NHS board's payroll services are provided by NHS Grampian. Management of NHS Orkney requested and obtained details of payroll accruals at the time of preparing the draft accounts. During the final stages of our audit, we were advised by NHS Grampian of a late payroll accrual of £40k which should have been included in the accounts. NHS Grampian had not provided details of the accrual to management in NHS Orkney.</p>	<p>As the adjustment is below the level of materiality, management decided not to process the adjustment but to leave the accrual as an unadjusted error in the accounts.</p> <p>Management require to implement procedures to ensure the accounts include all relevant accruals.</p>

Source: Audit Scotland

Other findings

29. The remuneration report submitted for audit contained a significant number of errors. We worked closely with management to correct the errors and have confirmed the figures and content of the revised remuneration report.

Follow up of prior year recommendations

30. The NHS board is continuing to work to implementing our prior year audit recommendations:

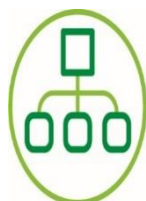
- there has been an Interim Director of Finance in place at NHS Orkney, seconded from NHS Fife on a part-time basis. His secondment commenced in February 2019. In the gap between this appointment and the resignation of the previous Director of Finance, interim arrangements had been put in place, with responsibilities having been allocated between the Chief Executive and Head of Finance respectively. The NHS board is currently exploring options for filling the Director of Finance role in future. ([Appendix 2, risk 3](#))
- efficiency targets have been achieved in 2018/19 largely through unfilled vacancies. The NHS board recognises this position is unsustainable in the

medium to longer term and is continuing to work to identify savings over the next 3-5 years

- some progress has been made in relation to implementing succession planning but there is still a significant amount of work to do to ensure the NHS board has the right number of people with the right skills in the medium to longer term to deliver healthcare for the people of Orkney.

Part 2

Financial management



Main judgements

NHS Orkney met all its financial targets for 2018/19 and achieved an underspend of £0.03 million against its revenue resource limit. This was achieved with the help of additional financial support of £1.80 million from Scottish Government to fund essential cover by locums.

NHS Orkney exceeded its savings target for 2018/19 and savings of £2.92 million were achieved. However only £0.05 million were recurring.

Systems of internal control operated appropriately and effectively in 2018/19.

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

Financial performance in 2018/19

31. 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 Directorates (SGHSCD) annually. As illustrated in [Exhibit 4](#), after receiving additional £1.80 million funding from Scottish Government on 30 April 2019, the NHS board operated within all limits during 2018/19.

Exhibit 4

Performance against resource limits in 2018/19

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	58.74	58.71	0.03
Non-core revenue resource limit	0.96	0.96	0.00
Total revenue resource limit	59.70	59.67	0.03
Core capital resource limit	29.95	29.95	0.00
Cash requirement	94.85	94.85	0.00

Source: NHS Orkney Annual Report and Accounts 2018/19

Efficiency savings

32. NHS Orkney was required to make efficiency savings of 5.67% in 2018/19. This is equivalent to a savings target of £2.75 million. The NHS board planned to

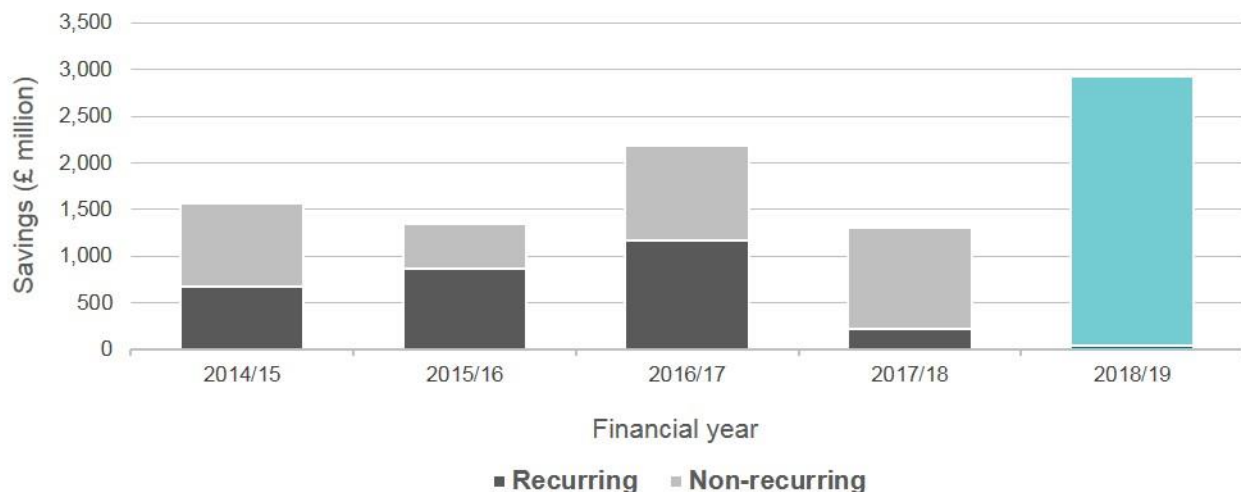
achieve this through recurring savings of £1.05 million and £1.70 million non-recurring savings. NHS Orkney exceeded its savings target for 2018/19 and savings of £2.92 million were achieved. However only £0.05 million were recurring.

33. 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 savings in future years.

34. As illustrated in Exhibit 5, the NHS board has been increasingly reliant on non-recurrent savings in recent years. In our opinion, this situation is not sustainable in the longer term. Financial balance in 2019/20 is predicated on the delivery of a recurring cost efficiency program of £0.75 million, and funding for additional hospital medical staffing of £2.0 million, neither of which are guaranteed. Plans have been put in place to deliver against this target.

Exhibit 5

Savings – recurring and non-recurring



Source: Final Financial Performance Reports 2014/15 – 2018/19

Budgetary processes

35. From our review of budget monitoring reports, review of committee papers and attendance at audit committees we observed that senior management and members receive regular, timely and up to date financial information on the NHS board's financial position.

36. We concluded that NHS Orkney has appropriate budgetary monitoring and control arrangements for now. However, going forward management must ensure their budgetary processes and budget monitoring arrangements are well-designed, to meet the needs of future financial plans and to deliver savings.

Systems of internal control

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

38. We concluded that the controls put in place by management are satisfactory 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 that would result in a material misstatement in the financial statements.

Internal audit

39. 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.

40. The internal audit plan for 2018/19 has been completed. We have considered findings from their 2018/19 reports which include positive assurance over the project management of the new hospital and healthcare facility.

41. The overall conclusion of internal audit is that NHS Orkney has a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework, and management of key risks.

Standards of conduct for prevention and detection of fraud and error

42. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

43. The NHS board has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, an anti-fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

44. We concluded that the NHS board has appropriate 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.

National Fraud Initiative

45. 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 irregularity.

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

Exhibit 6 NFI activity



321

Matches



32

Identified as potential Fraud
Risk (Recommended for
investigation)



73

Completed/closed
investigations

Source: NFI secure website: www.nfi.gov.uk

47. There were a total of 321 matches, and 32 were identified as having a potential fraud risk. All of those that were identified as potentially being a fraud risk have been reviewed by NHS Orkney and it was concluded that there were no frauds in relation to these matches. In addition to these, the NHS board has investigated the majority of the remaining matches, but as yet has not documented all of these on the NFI website.

48. It is evident from our NFI review that NHS Orkney are committed to the NFI process.

Shared systems

49. The NHS in Scotland procures a number of service audits each year for shared systems: NHS National Services Scotland (NSS) procures service audits covering primary care payments and the national IT contract; and NHS Ayrshire & Arran procure a service audit of the National Single Instance eFinancials service. We have considered the content of service auditor assurance reports and there are no significant findings to draw to your attention.

Dependency on key suppliers

50. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.

51. Management have advised that one of the key risks faced by NHS Orkney in respect of dependency on key suppliers relates to the number of locums employed. To help mitigate the risk locums are recruited from several agencies. In respect of supplies, the majority are provided by central stores so NHS Orkney have no control over supplier failure in this regard. Consequently, overall, the NHS Board does not consider itself to be overly exposed to one key supplier.

Part 3

Financial sustainability



Main judgements

NHS Orkney has appropriate and effective financial planning arrangements in place to identify and address risks to financial sustainability across the short to medium term.

To breakeven over the period 2019/20 to 2021/22 NHS Orkney estimates that it will have to secure £5.95 million of recurring efficiency savings; £2.2 million of which have still to be identified.

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

Financial planning

52. NHS Orkney's Operational Plan for 2018/19 sets out how the NHS board's financial, workforce and services plans implement its strategic priorities. The Operational Plan was submitted to the Scottish Government in line with the required timescales. It was approved on 25 April 2019.

53. NHS Orkney's three-year financial plan is a key component of the Local Delivery Plan (LDP) and sets out how the NHS board plans to achieve financial balance over the period. The plan presents a breakeven position in all three years of the planning cycle 2019/20 - 2021/22 predicated on the delivery of recurring efficiency savings of £5.95m; £2.2 million of which have still to be identified.

54. There are significant funding pressures over the duration of the plan. The basic funding uplift for 2018/19 is 3.6% while in each subsequent year the funding uplift is assumed to reduce. By 2021/22 the funding uplift is only assumed to be 1.3%.



Recommendation 1

The NHS board should prioritise its savings plans to identify how the target savings of £5.95 million in the three year period 2019/20 to 2021/22 will be achieved. Management have advised that a number of working groups are being established to address this position on a recurring basis.

Changing landscape for public financial management and medium to long term financial planning

55. Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity.

56. A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

57. We reviewed the financial planning arrangements of NHS Orkney and assessed the extent to which they identify and address the risks to financial sustainability across the medium and long term.

58. The NHS board has a three year summary plan as required by Scottish Government. The plan has been prepared following consideration of different assumptions and risks, and is considered to reflect the most likely projected financial position for the period 2019/20 to 2021/22.

Medium to long term efficiency savings

59. NHS Orkney is required to achieve efficiency savings of 1.3% of baseline RRL in 2019/20 (£0.750 million). All of this is on a recurring basis and has been identified.

60. In each subsequent year of the plan NHS Orkney is required to achieve efficiency savings of 6.3% in 2020/21 and 2.2% in 2021/22 as illustrated in [Exhibit 7](#). All the savings required are on a recurring basis, and most of the savings required in 2020/21 and beyond have yet to be identified although a range of savings options are being considered.

Exhibit 7 Savings forecast 2019/20 to 2021/22

	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Planned savings	0.750	0.750	0.750	2.250
Medical savings		1,000	0.500	1.500
Unidentified savings		2.100	0.100	2.200
Total	0.750	3.850	1.350	5.950
% of RRL	1.3%	6.3%	2.2%	3.3%

Source: NHS Orkney Annual Financial Plan 2019/20 – 2021/22

Asset management

61. 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.

62. In October 2018 NHS Orkney was reported as having the lowest proportion of buildings in good condition compared with all other Scottish Health Boards. As expected, this position has now changed with the recent completion of the new hospital and healthcare facility, the Balfour.

63. Construction work began in April 2017 and was completed in May 2019.

64. During the construction phase, in May 2018, the Balfour won silver in the best healthcare project category at the Partnership Awards in London.

65. NHS Orkney's commissioning of the building commenced in January 2019 with Beneficial Access to allow the installation and testing of Information and Communications Technology (ICT) equipment in advance of handover of the building to the NHS board, and installation of Radiology, Dental and Central Decontamination Unit (CDU) equipment by specialist installers. The building became operational in June 2019.

66. Ownership of the property remains with Robertson Capital Projects for 25 years when it transfers to NHS Orkney. The accounting treatment reflects the nature of the contract, which is a Non-Profit Distribution (NPD) scheme with a funding variant. As agreed in the business case this asset is on the public sector Balance Sheet as a Fixed Asset (Under Construction until in use). The prepayment of the Annual Service Payment (ASP) is recognised as a long term debtor, and the requirement to pay the ASP over the 25 year period of the contract is recognised as a long term liability. Both values will reduce in tandem over the 25 year period. The forecast final contract value (Contract sum + agreed changes) is assessed as £64.179m. This value counts against NHS Orkney's Capital Resource Limit as agreed with Scottish Government.

67. Fixed asset additions in 2018/19 include £23.12 million asset under construction costs bringing the total costs in relation to the Balfour to £61.99 million. The total construction cost is £62.3m with an estimated value of £60m on operation which will be impaired in 2019/20.

Workforce planning

68. NHS Orkney employs circa 600 members of staff. As such NHS Orkney is the smallest territorial Board in Scotland but the second biggest employer in Orkney, the first being Orkney Islands Council.

69. The NHS board is continuing to experience a number of issues relating to the workforce. These include an ageing workforce, high vacancy rates, increased spending on medical locum staff and high sickness absence levels.

70. To address some of these issues the NHS board:

- continues with its succession planning, focussing on developing leadership and management skills in the nursing workforce. As a result, there are now sufficient numbers of nursing staff with the skills required to progress to senior charge nurse level
- has recognised that workforce development plays a significant part in the retention of staff and the Practice Education Team has worked with teams across health and social care to create service development plans, which will inform the annual learning and development plan. Training has also been provided for doctors
- is continuing with its youth employment strategy. NHS Orkney has representation on the Developing the Young Workforce Board in Orkney. The organisation, as set out in its Workforce Strategy, has focused energy on the retention of younger members of the workforce, offering development opportunities across a variety of staff groups, but predominately in Business and Administration, Health and Social Care, and Catering. The NHS board is currently supporting 5 Graduate Apprentices
- is continuing to encourage innovation. Consultant recruitment to the Balfour Hospital has been problematic over a number of years, mainly driven by the countrywide shortage of consultants. NHS Orkney has had to rely on locums covering vacant posts, with high cost implications and continuity challenges as well the nonparticipation of the locums in non-clinical

activities. In 2018/19 a new approach to recruitment was adopted. The NHS board has reported that as a result of the revised approach, three consultants were recruited during the year. The NHS board also managed to recruit hard to fill posts in both Isles nursing and medical staff.

71. These successes are encouraging but the scale of workforce issues facing NHS Orkney is considerable. The NHS board continues to report concerns over lack of funding for the number of locums which will be required going forward in addition to capacity issues. The current workforce strategy covers the period 2017-19. We have been advised that work has started on a refreshed workforce strategy which will support the structure and medical models as set out in the refreshed clinical strategy.



Recommendation 3

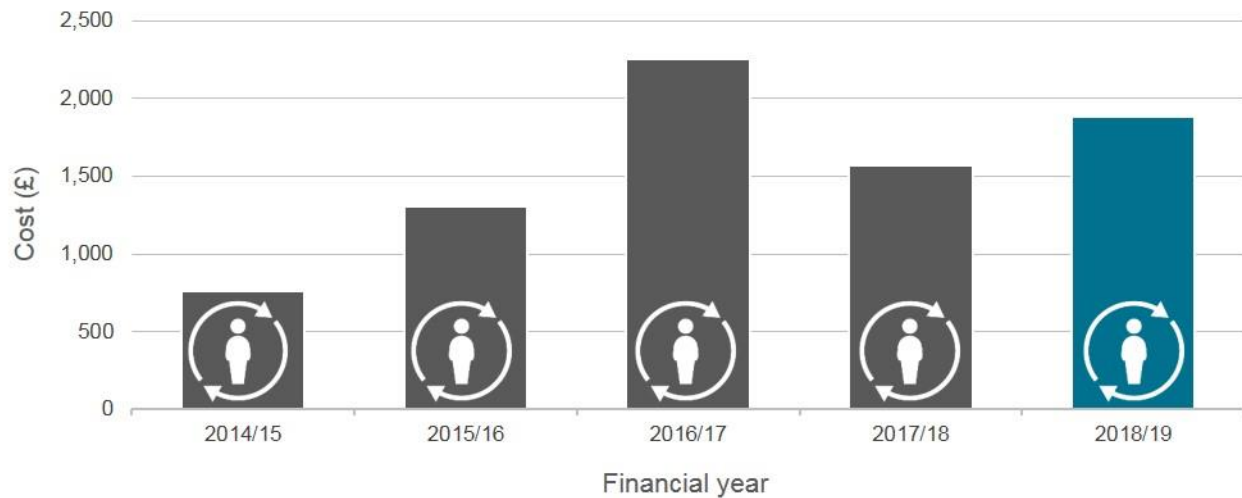
It is critical that the NHS board has up to date robust workforce plans to ensure a sustainable workforce with the right skills and capacity over the medium to longer term.

72. A health and wellbeing survey was carried out during the year but in February 2019 it was reported that capacity issues were preventing progress with the results. With sickness absence levels above the standard NHS Orkney should attend to the results of the health and wellbeing survey as a priority. The average sickness absence rate in 2018/19 was 4.63% compared to the national target of 4%.

73. As a result of recruitment retention problems and pressures to meet waiting time targets, expenditure on temporary staff has increased between 2014/15 and 2018/19 as illustrated in [Exhibit 8](#). Although temporary staff provide flexibility in the short term it comes at a cost with spending on temporary staff increasing from £0.76 million in 2014/15 to £1.89 million. Temporary staff costs rose most significantly in 2016/17 and after some decrease in 2017/18 are back on the rise in 2018/19.

Exhibit 8

Temporary staff costs



Source: NHS Orkney Annual Report and Accounts 2014/15 – 2018/19

74. The increasing use of temporary staff is putting pressure on the NHS board's budget. The NHS board received an additional funding of £1.8 million in 2018/19 to support the additional costs of employing locums. Extra funding is not guaranteed for next year and beyond.

EU Withdrawal

75. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

76. From our review of Board minutes, it is clear that NHS Orkney is working to understand, assess and prepare for the impact on business in key areas. A significant amount of contingency planning is underway, and a Brexit Risk Register has been established, which is being used to inform short, medium and long term plans as a result of pending exit from the EU.

Part 4

Governance and transparency



Main judgements

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

Financial planning processes and joint working with health and social care partners have proved a challenge. Partners need to work together to agree financial plans which are realistic and sustainable prior to the start of each financial year.

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.

Governance arrangements

77. The NHS 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.

78. NHS Orkney is managed by a Board of Executive and Non-Executive Directors. The NHS board's Chair and Non-Executive Directors are appointed by the Scottish Ministers. Mr Ian Kinniburgh is the Chair of NHS Orkney and of NHS Shetland. This provides a good opportunity for the Chair to compare services and performance at both boards, as well as to share good practice. Members provide scrutiny and challenge at regular bi-monthly meetings of the NHS board to ensure performance is effectively reviewed.

79. Four new Members were appointed to NHS Orkney Board between June and September 2018. NHS Orkney has a comprehensive induction programme in place designed to ensure new members are clear about their roles and responsibilities and are kept up to date on current issues to scrutinise effectively.

80. Review meetings are to be held at regular intervals to assess progress in the role and to identify further training and development needs.

In addition to the induction training, three new members have attended the Public Appointments Board induction workshop, run externally, and the new Chair of the audit committee completed external training on audit and risk.

81. The NHS board is supported by a number of standing committees as illustrated below.



82. We are of the view that the NHS board has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

83. The NHS board is responsible for the strategic leadership and governance of NHS Orkney. In 2018/19 the NHS board completed an online assessment tool to assess the NHS board's position in relation to the Blueprint for Good Governance. Two key deliverables have been identified as being fundamental to further improving governance arrangements for NHS Orkney:

- development and approval of a long term clinical strategy
- re-assessment of the NHS board's approach to risk management clearly identifying the NHS board's strategic risks and introducing a closer alignment between key risks and the NHS board's governance structure.

84. Following a development session which was held in March 2019 an action plan has been agreed to deliver these key actions.

85. We have attended meetings of the audit committee during 2018/19 and performed a detailed review of papers prepared for board, staff governance, and finance and performance committee meetings. In our opinion committee papers are well prepared and issued in sufficient time for review, sufficient time has been allowed at meetings to discuss issues arising from agenda papers, and committee members arrive well-prepared and ask appropriate questions.

86. Overall, we concluded that members are clear about their roles and responsibilities and are kept up to date on current issues. This enables them to discharge their role effectively. Governance arrangements are satisfactory and support good governance and accountability.

Openness and transparency

87. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the NHS board is taking decisions and how it is using resources such as money, people and assets.

88. There is evidence from a number of sources that demonstrate the NHS 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.

89. The NHS board has reviewed arrangements for committee meetings and has concluded not to hold them in public.

90. We have previously observed that committee meetings are held in private, with the minutes of these meetings posted and available to the public on the NHS board's website. We note that consideration has been given to holding such meetings in public but that the NHS board has decided to not make such a change.

Health and social care

91. There is a single Integration Joint Board (IJB) in Orkney, Orkney Health and Care, whose responsibility includes planning, commissioning and overseeing service delivery performance for those functions delegated to it. The IJB became fully operational on 1 April 2016.

92. NHS Orkney is required to consolidate the financial results of the IJB in its annual accounts. NHS Orkney delegated services and provided resources for those services during 2018/19 to the IJB. The NHS board's total contribution to the IJB in 2018/19 was £32.25 million (2017/18: £31.36 million).

93. The set aside is a notional budget for delegated hospital service functions and calculated on the basis that the use of underlying resources is within the remit of the IJB's commissioning decision, predominantly within the acute services. The areas to be delegated will be established in 2019/20 with a view to the IJB influencing expenditure within those areas. £7.87 million has been included in the 2018/19 accounts for set aside expenditure (2017/18: £7.36 million).

94. There remains a risk that in future years the sum set aside is recorded in the NHS Orkney annual report and accounts will not reflect actual hospital use and expenditure, as required by legislation.



Recommendation 2

The NHS board should consult on this matter with Scottish Government and other health boards to develop their accounting practices for set aside in 2019/20.

95. The IJB is preparing a medium term financial plan which will illustrate how they plan to close the forecast financial gap based on the current and future demand of services.

96. Differing timescales for the IJB and NHSO have meant that the financial planning processes and joint working with health and social care partners have proved a challenge. The budget for 2018/19 was accepted with partners, however, the IJB reported a level of uncertainty over efficiency savings proposed by NHS Orkney. NHS Orkney delivered a balanced budget at 31 March 2019.

97. Partners need to work together to agree financial plans which are realistic and sustainable prior to the start of each financial year. Partnership working has improved during 2018/19 and the finance and performance committee has been successful in bringing together key NHS staff, the Chief Finance Officers, and members of the IJB to various meetings.

98. Successful partnership working is crucial for health and social care integration to work effectively.

2020 Vision

99. In 2011 the Scottish Government set out an ambitious vision for health and social care that by 2020 everyone would 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.

100. NHS Orkney has a Local Delivery Plan which contributes to the commissioning approach adopted to support the implementation of the 2020 Vision. All reports published by NHS Orkney include references to the way in which the NHS board is supporting the delivery of the 2020 vision for health and social care.

Part 5

Value for money



Main judgements

NHS Orkney has an adequate performance management framework in place. However, the NHS board has reported variable performance levels against the national performance targets in 2018/19.

NHS Orkney has demonstrated commitment to securing best value through investing in construction of the new hospital and healthcare facility, which is planned to create efficiencies in delivering services. The NHS board also has ambitious IT programmes underway designed to support its commitment to deliver services closer to home.

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

Best value

101. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. NHS Orkney intends to demonstrate its commitment to best value by securing efficiencies in service delivery at the new hospital and healthcare facility. The NHS board has also reported the following improvements in 2018/19:

- NHS Orkney invested significantly in IT systems and infrastructure to support its commitment to deliver services closer to home. This investment is part of a system wide improvement agenda including an ambition to implement an electronic patient record system. In the last 12 months NHS Orkney has reported significant progress towards its vision of an Electronic Patient Record. A new Enabling Technology Board is to be established in late Spring 2019. This Board will oversee the delivery of key eHealth, ICT work streams and wider digital transformation projects designed to build capacity and capability across NHS Orkney to support the transformation and delivery of clinical services.
- NHS Orkney has continued with its sustainability programme, continuing to invest in efficiency measures across the estate, including oil to kerosene fuel conversion and lighting projects. Emissions have reduced from 561 tonnes of CO₂ in 2017/18 to 548 tonnes in 2018/19.

Performance management

102. The Scottish Government identified key performance targets for 2018/19. These targets 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. NHS Orkney implemented a programme of work to support progress in meeting these agreed targets.

103. The NHS board is kept informed of performance across all areas. Every year the SGHSCD asks each health board to report to them on their performance and delivery plans for the next financial year.

104. From 2018/19, boards are no longer required to produce a Local Delivery Plan (LDP), as these have been replaced by Annual Operational Plans (AOP) that have AOP measures associated with them. Boards are still required to monitor LDP standards. Therefore Exhibit 9 below does not show a like for like comparison to last year but provides a sense of direction.

105. The NHS board is kept informed of performance across all areas. The detailed review and scrutiny of performance has been delegated to the Finance and Performance Committee, which meets bimonthly. Board members regularly review papers to monitor how well the committee is scrutinising performance.

106. At each meeting of the Finance and Performance Committee, members are provided with a performance report detailing current performance in relation to LDP standards. We have observed improvements in performance reporting in 2018/19 with performance reports containing detailed information for selected performance targets including trend analysis and specific performance issues. Performance has been reported using 20 LDP standards for 2018/19, although not all LDP standards reflect the most up-to-date position. The nature and timing of data is dependent on information provided by National Services Scotland.

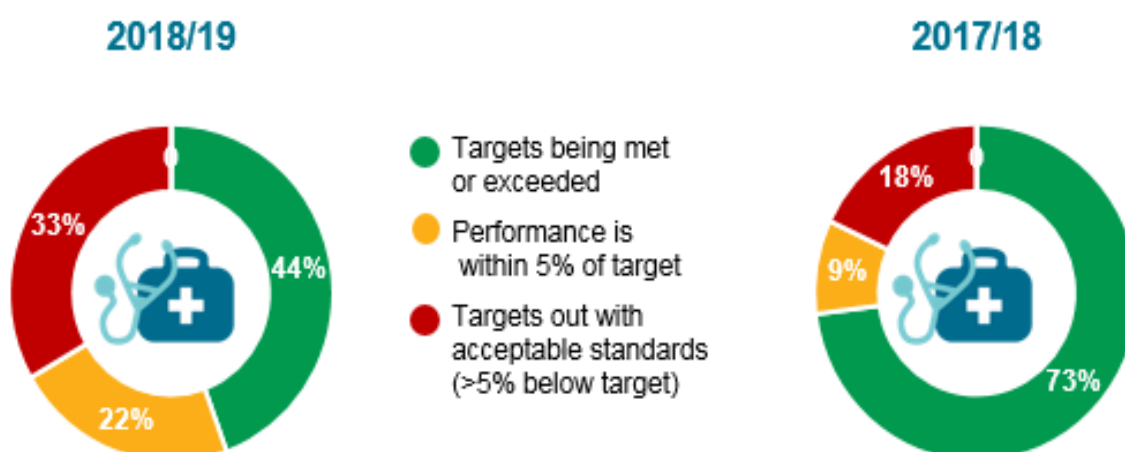
107. Committee members receive supplementary reports on specific aspects of performance, namely waiting times and the financial position. These enable members to focus on key risks relating to access to treatments and financial sustainability.

108. We have concluded that NHS Orkney has an adequate performance management framework in place helping the NHS board achieve value for money and continually improve how it delivers services.

Overview of service performance

109. Overall performance against key standards as at 31 March 2019 is summarised in [Exhibit 9](#).

Exhibit 9 Overall performance against key LDP standards










Source: NHS Orkney Publications

110. The NHS board has had a mixed performance against LDP standards in 2018/19. Of the 9 LDP standards available at 31 March 2019, the majority were categorised as green or amber (6 in total). However, there were three targets that are outwith acceptable standards. The Treatment Time Guarantee (TTG) standard

fell below both the National Target and 2017/18 level of 100%. Further detail is provided in [Exhibit 10](#).

Exhibit 10

Performance against key LDP standards¹

Standard/target		Performance at March 2019	Action being taken by Board
Treatment Time Guarantee (TTG) Proportion of patients that were seen within 12 weeks TTG	100%	 67.7% (35 patients breaching the TTG at the end of March 2019)	Service pressures have been reported in Ophthalmology and Orthopaedics. The TTG has been impacted by a reliance on other Board areas to provide in-patient capacity.
Outpatients < 12 weeks from referral to first appointment Patients wait time from referral to first outpatient appointment within 12 weeks	95%	 72.3% (195 breaches at the end of March 2019)	There has been insufficient capacity for some specialties to meet demand over a sustained period. Additional funding from the Scottish Government has enabled additional focussed activity in Dermatology and Cardiology to reduce the backlog of long waits.
Elective to commence < 18 weeks from referral Proportion of patients that commence treatment within 18 weeks of referral	90%	 93.5%	This is an area of good performance. The NHS board plans to maintain as a minimum existing performance against the standard in 2019/20
Urgent referrals cancer to treatment < 62 days	95%	 100%	This is an area of strong performance. The NHS board plans to maintain as a minimum existing performance against the 62 day standard.
Decision to start cancer treatment < 31 days	95%	 100%	This is an area of strong performance. The NHS board plans to maintain as a minimum existing performance against the 31 day standard.
Alcohol Brief Interventions (ABI) Deliver at least 80% of ABIs in the three priority settings of primary care, A&E and antenatal care	80%	 54.2% (177 ABIs delivered in Q4 with 96 in priority settings)	NHS Orkney has struggled to meet the national target in this area in recent years. The service is interacting with stakeholders to address issues with the delivery model of ABIs.
Drug and Alcohol Referral Proportion of patients waiting no longer than 3 weeks from referral received to appropriate drug or	90%	 100%	This is an area of strong performance. The NHS board plans to maintain as a minimum existing performance against the standard in 2019/20.

Standard/target	Performance at March 2019	Action being taken by Board
alcohol treatment that supports their recovery		

Note: 1. Figures still to be validated by NHS Information Services Division.

Source: NHS Orkney Publications

111. Based on the above actions we conclude that the NHS board's arrangements for monitoring key performance targets are satisfactory. The underlying causes of variable service performance in key target areas, such as treatment time and waiting time, are being linked to resourcing pressures and a reliance on other board areas to provide in-patient capacity. The 2019/20 Annual Operational Plan is focussed on improving performance levels across all areas. The NHS board is aiming to maximise the improvement opportunities available to it with the opening of the new Hospital and Healthcare Facility in June 2019.

National performance audit reports

112. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 a number of reports were published which are of direct interest to the NHS board and are highlighted in [Appendix 3](#).

113. The NHS board has effective arrangements in place for considering these reports. The audit committee and the NHS board consider findings from all Audit Scotland reports and take action as appropriate to ensure the NHS board complies with good practice.

Appendix 1

Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Financial sustainability</p> <p>NHS Orkney's three-year financial plan is a key component of the Local Delivery Plan (LDP) and sets out how the NHS board plans to achieve financial balance over the period. The plan presents a breakeven position in all three years of the planning cycle 2019/20 - 2021/22. The outturn for the 3 years is predicated on the delivery of recurring savings of £5.95m; £2.2 million of which have still to be identified.</p> <p>Risk: the NHS board may not be able to deliver a break-even outturn in 2019/20 and beyond.</p>	<p>The NHS board should prioritise its savings plans to identify how the target savings of £5.95 million in the three-year period 2019/20 to 2021/22 will be achieved. (refer Paragraph 54)</p>	<p>This is a priority area for financial monitoring systems and processes. Various groups have been established to drive forward recurring savings. Separate reports will be provided to each Finance and Performance Committee. The savings report will identify progress to date and risks.</p> <p>Director of Finance From July 2019 F&P</p>
2	<p>Accounting for IJB set aside</p> <p>The set aside is a notional budget for delegated hospital service functions and calculated on the basis that the use of underlying resources is within the remit of the IJB's commissioning decision, predominantly within the acute services. The delegated areas will be established in 2019/20 with a view to the IJB influencing expenditure within those areas. £7.87million has been included in the 2018/19 accounts for set aside expenditure (2017/18. £7.36 million).</p> <p>Risk: There remains a risk that in future years the sum set aside recorded in the NHS Orkney annual report and accounts will not reflect actual</p>	<p>The NHS board should consult on this matter with Scottish Government and other health boards to develop their accounting practices for the IJB sum set aside in 2019/20 (refer Paragraph 94).</p>	<p>The IJB and NHS Orkney will work together to identify those areas that can be influenced.</p> <p>Head of Finance 31 March 2020</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	hospital use and expenditure, as required by legislation.		
Follow up of prior year recommendations			
3	<p>Workforce planning</p> <p>NHS Orkney is facing a number of workforce challenges. Currently around 20% of the workforce is aged 55 or over and are all eligible for retirement.</p> <p>There will be a loss of experience as the older workforce retires and the NHS board could experience difficulties in attracting experienced new staff.</p> <p>Any knowledge gap will have to be managed to minimise impact on service delivery. In December 2017 the NHS board approved a workforce strategy covering the period 2017-19. The workforce strategy sets out the challenges NHS Orkney faces over the medium term.</p>	<p>The workforce strategy highlights the need to further develop approaches to succession planning to ensure a sustainable workforce with the right skills and capacity. This should be a priority for the NHS board in the months ahead</p> <p>Update:</p> <p>The current workforce strategy covers the period 2017-19. We have been advised that work has started on a refreshed workforce strategy which will support the structure and medical models as set out in the refreshed clinical strategy.</p> <p>(refer Paragraph 71).</p>	<p>Agreed, this will be a priority for the Staff Governance Committee to monitor progress and report to the Board.</p> <p>Head of Corporate Services</p> <p>From August 2019 Staff Governance Committee</p>
4	<p>Efficiency savings</p> <p>NHS Orkney is required to achieve efficiency savings of circa 6% of baseline RRL in 2018/19. This is equivalent to a saving of £2.75 million with 38% on a recurring basis. This is a significant challenge for the NHS board given that around £2 million of savings have yet to be identified for 2018/19.</p> <p>There is a risk that the NHS board may not be able to deliver the targeted savings in 2018/19.</p>	<p>The NHS board should ensure that saving plans are developed identifying how the £2.75 million of savings in 2018/19 will be made. Plans are being developed and various groups established.</p>	<p>This is a priority area for financial monitoring systems and processes. Separate reports will be provided to each Finance and Performance Committee. The savings report will identify progress to date and risks.</p> <p>Director of Finance</p> <p>From July 2019 F&P</p>
5	<p>EU withdrawal</p> <p>There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on</p>	<p>NHS Orkney needs to consider and plan for the impact of Brexit on delivering the business. This should be a priority in the months ahead.</p>	<p>NHSO has regular Brexit meetings. There is a well developed risk register and regular updates are provided to the board.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>their business in three key areas:</p> <ul style="list-style-type: none"> • workforce • funding • regulation. <p>No detailed assessments have been carried out and we have therefore concluded that the NHS board is currently unprepared for Brexit.</p>		
6	<p>Health and Social care financial challenges</p> <p>The Integration Scheme requires partners to work together to agree a recovery plan in the event of any over or underspend against the annual budget. NHS Orkney agreed to provide additional funding of £478k towards the end of 2017/18 to ensure the IJB finished the year in a break-even position. This is the second consecutive year that NHS Orkney has overspent against the original budget allocation.</p> <p>Efficiency savings of 5% have been agreed for NHS Orkney in 2018/19 and this level of efficiencies will put further pressure on delivering services within budget.</p>	<p>The Integration Joint Board partners will need to work together to find a means of delivering a balanced budget in 2018/19 and beyond.</p>	<p>A balanced budget was delivered in 2018/19 and NHS Orkney reported throughout the year their projected overspend by end of year in 2017/18.</p>

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 our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<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 to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Overall, there was no evidence to suggest that management were overriding controls.</p>
<p>2 Risk of fraud over income and expenditure</p> <p>NHS Orkney receives income from several sources, in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud. The Code of Audit Practice expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure, for public sector bodies which have an overall net expenditure position.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Liaise with the External Auditor of the Endowment Fund.</p> <p>Audit work on the National Fraud Initiative matches.</p> <p>Assessing the high level key controls in areas of significant expenditure.</p> <p>Focused substantive testing of expenditure.</p>	<p>There were no fraud concerns to report over income and expenditure.</p>
<p>3 Senior Finance Capacity</p> <p>As the Director of Finance left on 19 October and has not been replaced, there is a risk that there is insufficient finance capacity at a senior level.</p>	<p>Monitor arrangements for filling the Director of Finance role.</p>	<p>There has been an Interim Director of Finance in place at NHS Orkney, seconded from NHS Fife on a part-time basis. His secondment commenced in February 2019.</p> <p>In the gap between this appointment and the resignation of the previous Director of Finance, interim arrangements had been put in place, with</p>

Audit risk	Assurance procedure	Results and conclusions
		<p>responsibilities having been allocated between the Chief Executive and Head of Finance respectively.</p> <p>The NHS board is currently exploring options for filling the Director of Finance role in future.</p>
<p>4 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>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Focused substantive testing of key areas.</p>	<p>We reviewed estimates and judgements, including impairments, provisions, asset life assumptions and their impact on depreciation as part of the audit.</p> <p>No misstatements were identified.</p>
<p>5 Revenue Resource Limit Notification</p> <p>Due to the likelihood of brokerage being provided to NHS Orkney for 2018/19, there is a risk of a delay in receiving confirmation of the Revenue Resource Limit (RRL).</p>	<p>Monitor receipt of final communication from the Scottish Government.</p>	<p>The RRL letter was received 30 April 2019 and there was no delay in the submission of the draft accounts.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>6 Financial sustainability</p> <p>Efficiency savings</p> <p>NHS Orkney is required to achieve efficiency savings of circa 6% of baseline RRL in 2018/19. This is equivalent to a saving of £2.75 million with 38% on a recurring basis. Current budgetary reports show that the required savings are not going to be met in 2018/19, which will also have an impact on future years as the levels of non-recurring savings required will increase.</p> <p>There is a risk that the NHS board may not be able to deliver the targeted savings in 2018/19.</p>	<p>We will monitor the NHS board's financial position through continuing discussion with officers; reviewing finance reports to the Finance and Performance Committee and the NHS board; and reviewing the minutes of these meetings and include comment as appropriate in our Annual Audit Report.</p>	<p>Overall, the NHS board has exceeded its savings target for 2018/19 and savings of £2.92 million were achieved. However, only £0.05 million were achieved through recurring savings.</p> <p>The NHS board's increasing reliance on non-recurring savings in recent years is, in our opinion, not sustainable in the longer term.</p> <p>Financial balance in 2019/20 is predicated on the delivery of a recurring cost efficiency program of £0.75 million, and funding for additional hospital medical staffing of £2.0 million, neither of which are guaranteed savings.</p>
<p>7 Financial management</p> <p>Governance and transparency</p> <p>New hospital and healthcare facility</p>	<p>Review of project updates reported to the NHS board.</p> <p>Focussed testing of accounting transactions.</p> <p>Ongoing review of service delivery and IT risks.</p>	<p>Audit testing of accounting transactions was satisfactory.</p> <p>The Balfour became operational in June 2019.</p> <p>NHS Orkney's commissioning of the building commenced in January 2019 with beneficial access to allow the installation</p>

Audit risk	Assurance procedure	Results and conclusions
<p>This is the largest construction project ever undertaken by NHS Orkney.</p> <p>The size and scale of the project means it has significant financial, accounting, service delivery, IT and reputational risks, including maintaining service levels in existing premises.</p>	<p>Monitor routine performance reporting.</p>	<p>and testing of Information and Communications Technology (ICT) equipment in advance of handover of the building to the NHS board.</p>
<p>8 Governance and transparency</p> <p>Workforce Management</p> <p>NHS Orkney continues to face several workforce challenges. Currently around 20% of the workforce is aged 55 or over and are all eligible for retirement.</p> <p>There will be a loss of experience as the older workforce retires and the NHS board could experience difficulties in attracting experienced new staff.</p> <p>There also remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit) for which the most significant concern for NHS Orkney is in relation to workforce. However, no detailed assessment has been carried out.</p>	<p>Review minutes of Staff Governance Committee meetings and report any issues in our interim management report.</p>	<p>The NHS board is continuing to experience issues relating to the workforce. However, a detailed assessment has been carried out of NHS Orkney staff and visiting services staff from other boards and the risk in relation to Brexit has been assessed as significantly reduced.</p> <p>See Appendix 1, recommendation 4.</p>
<p>9 Information Security</p> <p>The Health Board should update its IT disaster Recovery plan along with the testing strategy for the new hospital.</p>	<p>Review ICT arrangements for new facility as specified in the Authority Construction Requirements.</p> <p>Review ICT Capacity Plan.</p> <p>Review Requirements Specification Documents.</p> <p>Review Low Level Design Documents.</p> <p>Review Test Plans.</p>	<p>The installation and testing of Information and Communications Technology (ICT) equipment was carried out in advance of handover of the building to the NHS board.</p>

Appendix 3

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

NHS relevant reports

[Children and young people's mental health](#) – September 2018

[NHS in Scotland 2018](#) – October 2018

[Health and social care integration: update on progress](#) – November 2018

NHS Orkney

2018/19 Annual Audit Report

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