

NHS Orkney

2019/20 Annual Audit Report



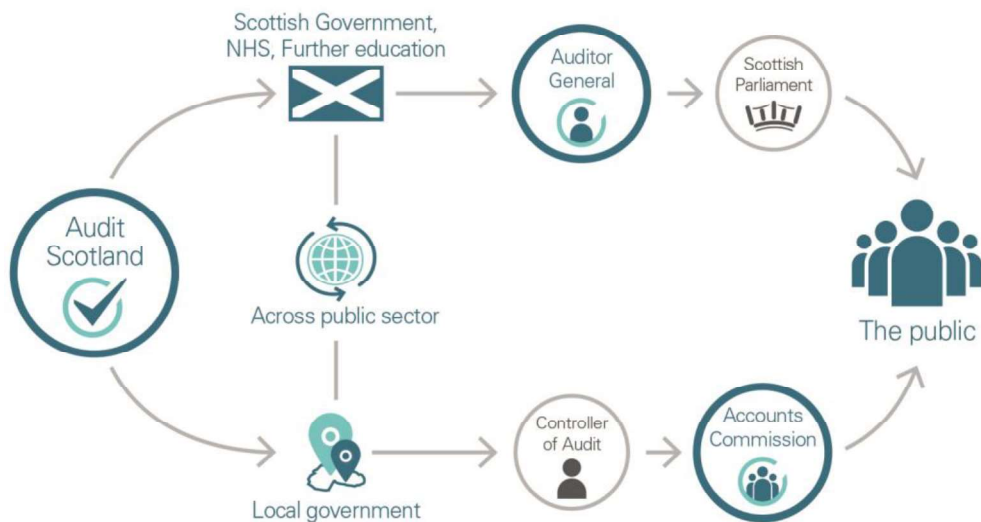
Prepared for the Board of NHS Orkney and the Auditor General for Scotland

July 2020

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.

Contents

Key messages	4
Introduction	6
Part 1 Audit of 2019/20 annual report and accounts	9
Part 2 Financial management	13
Part 3 Financial sustainability	18
Part 4 Governance and transparency	22
Part 5 Value for money	26
Appendix 1 Action plan 2019/20	30
Appendix 2 Significant audit risks identified during planning	35
Appendix 3 Summary of uncorrected misstatements	37
Appendix 4 Summary of national performance reports 2019/20	38

Key messages

2019/20 annual report and accounts

- 1 The financial statements of NHS Orkney give a true and fair view of the state of affairs of NHS Orkney as at 31 March 2020 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework
- 2 Despite additional pressures on officers due to Covid-19, there was only a minor delay in receiving the draft annual report and accounts. Auditors worked closely with the finance team to allow the audited accounts to be signed in line with planned dates.

Financial management

- 3 NHS Orkney operated within its revised Revenue Resource Limit, reporting an underspend of £0.059 million.
- 4 Budget processes were appropriate, but NHS Orkney continues to rely on non-recurrent savings and additional in-year funding from the Scottish Government to meet its targets.

Financial sustainability

- 5 NHS Orkney has a three-year, medium-term financial plan which identifies a significant financial funding gap of £2.993 million in 2020/21.
- 6 The impact of Covid-19 has yet to be incorporated into the financial plan, and it is anticipated there will be a significant increase in costs and a reduction in the level of savings which can be achieved.

Governance and transparency

- 7 NHS Orkney has appropriate and effective governance arrangements. These were reviewed and revised in light of the Covid-19 outbreak in March 2020.
- 8 NHS Orkney reported a small number of information governance failures subsequent to the year end and it will be critical to identify the underlying cause and take corrective action.
- 9 NHS Orkney saw significant leadership changes over the latter part of 2019/20 with a new Chair of the Board and the retirement of the Chief Executive. It is crucial that appropriate steps are taken to preserve knowledge and support the new leadership team.
- 10 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.

Value for money

- 11** NHS Orkney has an appropriate performance management framework in place.
- 12** Service performance levels in 2019/20 were broadly in line with prior years with performance targets not attained in four out of ten key areas.

Introduction

1. This report summarises the findings from our 2019/20 audit of the annual report and accounts of Orkney Health Board, commonly known as NHS Orkney. The scope of our audit was set out in our Annual Audit Plan presented to the December 2019 meeting of the Audit and Risk Committee. This report comprises the findings from

- an audit of the body's annual report and accounts
- consideration of the wider dimensions that frame the 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

2. The main elements of our audit work in 2019/20 have been:

- an audit of NHS Orkney's 2019/20 annual report and accounts including the issue of an independent auditor's report setting out my opinions
- a review of NHS Orkney's key financial systems
- consideration of the four audit dimensions.

3. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, NHS Orkney has had to respond to the global coronavirus pandemic. This impacted on the final month of the year and will have significant impact in financial year 2020/21. This has had significant implications not least for the services it delivers and the costs of healthcare provision. Our planned audit

work has had to adapt to new emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit.

Adding value through the audit

4. We add value to NHS Orkney through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides.

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.

7. NHS Orkney 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. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. This report raises matters from our audit. 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.

10. 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.

Auditor Independence

11. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

12. 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 2019/20 audit fee of £71,000, as set out in our Annual

Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. This report is addressed to the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2019/20 annual report and accounts



Main judgements

The financial statements give a true and fair view of the state of affairs of the body as at 31 March 2020 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.

Covid-19 resulted in minor delays to the provision of the draft annual report and accounts. Supporting working papers and extracts from the accounts were provided to the audit team in advance of the full accounts to minimise delays.

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

Our audit opinions on the annual report and accounts are unmodified

14. NHS Orkney approved the annual report and accounts for the year ended 31 March 2020 on 25 June 2020. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- 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.

Although the draft annual report and accounts were delayed, original deadlines for signing the accounts were met

15. The unaudited annual report and accounts were not received in line with our agreed audit timetable on 4 May 2020. We acknowledge the impact Covid-19 has had on NHS Orkney and we note there was increased pressure on the finance team due to adapting to remote working and focusing on other priorities.

16. We did however receive information on notes to the accounts and working papers in early May which allowed us to progress with elements of the audit work.

Setting audit materiality levels

17. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

18. On receipt of the unaudited annual report and accounts we reviewed our materiality and revised our materiality levels as outlined in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£0.78 million
Performance materiality	£0.58 million
Reporting threshold	£20 thousand

Source: Audit Scotland

Risks identified at the planning stage and our audit work to address these

19. [Appendix 2](#) provides our assessment, at the planning stage, of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

20. We identified four significant risks of material misstatement in relation to the financial statements in 2019/20 at the planning stage. At the conclusion of the audit we have no issues to report with regards to our work on significant risks and we have gained sufficient assurance to support our audit opinion.




Significant findings to report on the annual report and accounts

21. 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.

22. 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.

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Performance and Accountability Reports</p> <p>The Performance and Accountability Reports presented in the first draft of the accounts contained additional information and a number of presentational issues. In addition, the disclosures did not meet the minimum reporting requirements of the FReM and the Scottish Public Finance Manual (SPFM). We reported this weakness last year.</p>	<p>Following discussion with management, significant changes were made to the Performance and Accountability Reports, and the revised report was deemed to be acceptable. However, the Performance and Accountability Reports are still not fully compliant with the reporting framework.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>
<p>2. Inadequate service level agreements were in place</p> <p>Our sample testing of income identified that there were services being delivered for speech and language therapy based on an out of date Service Level Agreement (SLA) with Orkney Islands Council. In addition, when testing outstanding balances with NHS Grampian we noted that there was a disputed creditor linked to an SLA for the provision of mental health services which had not been finalised.</p>	<p>While we were able to obtain sufficient assurance that there was no material misstatement of income or expenditure, this represents a weakness as NHS Orkney is operating without appropriate agreements in place.</p> <p> Recommendation 2 (refer appendix 1, action plan)</p>
<p>3. Accounting estimates disclosures</p> <p>The disclosures around accounting estimates in the financial statements are brief and do not provide the user with key information such as the estimation methodology and underlying assumptions.</p>	<p>We accepted the current disclosures as meeting minimum requirements.</p> <p> Recommendation 3 (refer appendix 1, action plan)</p>
<p>4. Disclosures surrounding the Balfour Hospital completion</p> <p>In June 2019 the new Balfour hospital became operational and moved from assets under construction into land and buildings. The Balfour hospital was financed using a Non-Profit Distributing (NPD) model. This is a complex arrangement involving the Scottish Government where the capital element of the service costs was prepaid, and the ongoing costs are split between NHS Orkney and the Scottish Government.</p> <p>In the first draft of the accounts there was very little disclosure over the NPD arrangement, and therefore the nature of the financing was not clear.</p>	<p>Management reviewed the disclosures around the NPD financing arrangement and have increased the level of disclosure in the performance report, accounting policies and notes to the accounts.</p> <p>We are satisfied that the revised accounts provide adequate information.</p>

Source: Audit Scotland

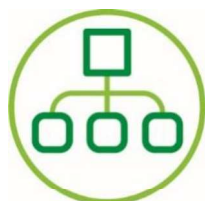
Identified misstatements of £21 thousand were not adjusted in the accounts. These were less than our performance materiality and we did not need to further revise our audit approach

13 Total misstatements identified were £21 thousand, which would have increased net expenditure by £21 thousand ([Appendix 3](#)). We have concluded that the misstatements identified arose from issues that have been isolated and

identified in their entirety and do not indicate further systemic error. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have not adjusted for the items in [\(Appendix 3\)](#), as they consider the adjustment to be immaterial.

Part 2

Financial management



Main judgements

NHS Orkney operated within its revised Revenue Resource Limit, reporting an underspend of £0.059 million.

Budget processes were appropriate, but NHS Orkney continues to rely on non-recurrent savings and additional in-year funding from the Scottish Government to meet its targets.

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

NHS Orkney operated within its revised Revenue Resource Limit (RRL)

23. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within. As illustrated in [Exhibit 4](#), the board operated within all limits during 2019/20.

Exhibit 4 Performance against resource limits in 2019/20

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	64.272	64.213	0.059
Non-core revenue resource limit	11.497	11.497	0.00
Total revenue resource limit	75.769	75.710	0.059
Core capital resource limit	3.206	3.205	0.01
Cash requirement	69.993	69.993	0.00

Source: NHS Orkney Annual Report and Accounts 2019/20

24. The financial year 2019/20 provided the first opportunity for NHS boards to exercise annual flexibility within one per cent of their budget. This removes the requirement for boards to achieve financial balance annually and instead boards are required to achieve a break-even position over a rolling three-year period.

25. In 2019/20 the total revenue budget was £64.272 million, which included in-year allocations of £13.213 million, in addition to the baseline budget of £51.059

million. The in-year allocations included £4.129 million of non-recurring funding to cover costs including increased locum costs, costs of migration to the new facility and off-island mental health costs. NHS Orkney achieved an underspend against its revised resource limits.

Budget process were appropriate and there was limited financial impact due to Covid-19

26. We reviewed NHS Orkney's budgetary processes and budget monitoring arrangements and we confirmed that throughout 2019/20 senior management and members received regular and accurate financial information on the Board's financial position.

27. In January 2020 it was highlighted to the Finance and Performance Committee that at the end of December there was an overspend of £0.359m, the Committee were made aware of the risk of missing the breakeven target unless there was a significant acceleration of spend reduction.

28. Additional pressure was identified in March due to the Covid-19 pandemic and in 2019/20 additional costs as a result of Covid-19 of £0.290m were attributable to NHS Orkney.

29. We believe NHS Orkney reported the developing financial position appropriately throughout the year, however, it was noted that the year-end reports were more concise and did not provide the same level of detail. We consider the level of detail included throughout the year is in line with good practice and the year-end reports did not provide sufficient detail to allow for appropriate scrutiny and challenge.



Recommendation 4

We recommend NHS Orkney ensure that year-end financial reports contain sufficient detail to allow scrutiny of performance against budget and efficiency savings targets.

Efficiency savings were only achieved after relying on significant non-recurrent savings of £0.638 million

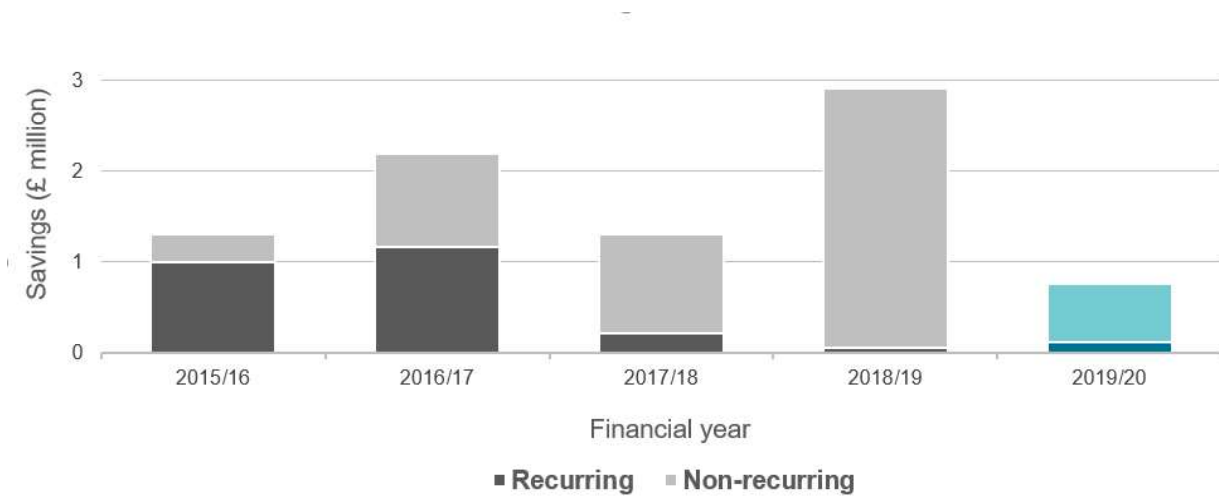
30. In 2019/20, NHS Orkney was required to make efficiency savings of £0.75 million or 1.2 per cent of its original budget of £59.694 million. This was only achieved through the use of significant non-recurrent savings of £0.638 million, representing nearly 84 per cent of total savings delivered.

31. 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.

32. As illustrated in [Exhibit 5](#), NHS Orkney has been increasingly reliant on non-recurrent savings in recent years. In our opinion, this situation is not sustainable in the longer term as there is an on-going need to make savings and opportunities to create short term non-recurring savings will be limited. It is therefore crucial that the Board can deliver recurring savings, in order to deliver a balanced budget.

Exhibit 5

Savings – recurring and non-recurring



Source: Final Financial Performance Reports 2015/16 – 2019/20

Capital Resource Limit (CRL) was reduced significantly in 2019/20 following the completion of the Balfour

34. Capital resource funding reduced significantly from £29.95 million in 2018/19 to £3.206 million in 2019/20 following the completion of the new hospital and healthcare facility, the Balfour, in June 2019. The hospital was financed through a Non-Profit Distribution (NPD) scheme and although the ownership of the asset remains with Robertson Capital Projects, in line with accounting standards, NHS Orkney recognise this as a non-current asset.

35. The full business case costs total £115.8 million and of this £62.3 million relates to the capital element which was prepaid in 2017/18 and 2018/19. The ongoing costs of the hospital are classified as revenue and are split between NHS Orkney and the Scottish Government. In 2019/20 annual service payments of £1.525 million were made to support the running of the Balfour hospital, £0.875 million of these costs were met by the Scottish Government through an earmarked funding allocation.

Financial systems of internal control are operating effectively

36. 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.

37. 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.

Shared systems operated effectively during the year

38. 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.

39. The 2019/20 service auditor reports covering primary care payments and the national IT contract include qualified opinions. The qualifications relate to the design or operating effectiveness of controls in order to meet the stated control objectives, rather than indicating that the underlying transactions are necessarily incorrectly processed. We have reviewed the qualifications contained within the service auditor reports and concluded that they did not have an adverse impact on our audit approach or audit opinion.

Internal audit

40. 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.

41. Scott-Moncrieff has concluded their 2019/20 audit work and presented their Annual Audit Report, which included the annual internal audit opinion, to the 25 June 2020 Audit and Risk Committee.

42. 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.

43. In 2019/20 there were some delays to the internal audit work programme with 56 per cent of the fieldwork conducted in quarter 4 and subsequently reported to the May or June Audit and Risk Committee meetings. In addition, one of the planned reports was deferred into 2020/21.

44. The delay is partially due to the impact of Covid-19, however, prior to the pandemic several of the reviews had been delayed at the request of management. While we understand that in some cases there was good reason for delaying the reviews, this increases the risk that insufficient assurance will be achieved at the year-end to allow the accounts to be signed.

45. The 2020/21 Internal Audit Plan was presented to the Audit and Risk Committee on 25 June 2020, the plan presented did not include any coverage of finance and financial management. We consider there is a risk that the coverage is insufficient to provide adequate assurance for the governance statement. We will liaise with NHS Orkney over the assurance framework in place in 2020/21.



Recommendation 5

We recommend NHS Orkney consider the assurance provided by Internal Audit and ensure they achieve sufficient assurance for the 2020/21 governance statement in a timely manner.

Standards of conduct for prevention and detection of fraud and error

46. NHS Orkney is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, the board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

47. We have concluded that appropriate arrangements are in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

National Fraud Initiative

48. 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.

49. 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

**Recommended for
investigation**



90

**Completed/closed
investigations**

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

50. There was 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. NHS Orkney has evidenced to us that it has investigated most of the remaining matches, however this was not documented on the NFI portal.



Recommendation 6

The NFI portal should be used to record the outcomes of the NFI review, and this can be done in bulk so should not result in significant additional work

Part 3

Financial sustainability



Main judgements

NHS Orkney has a three-year, medium-term financial plan which identifies a significant financial funding gap of £2.993 million in 2020/21.

The impact of Covid-19 has yet to be incorporated into the financial plan, and it is anticipated there will be a significant increase in costs and a reduction in the level of savings which can be achieved.

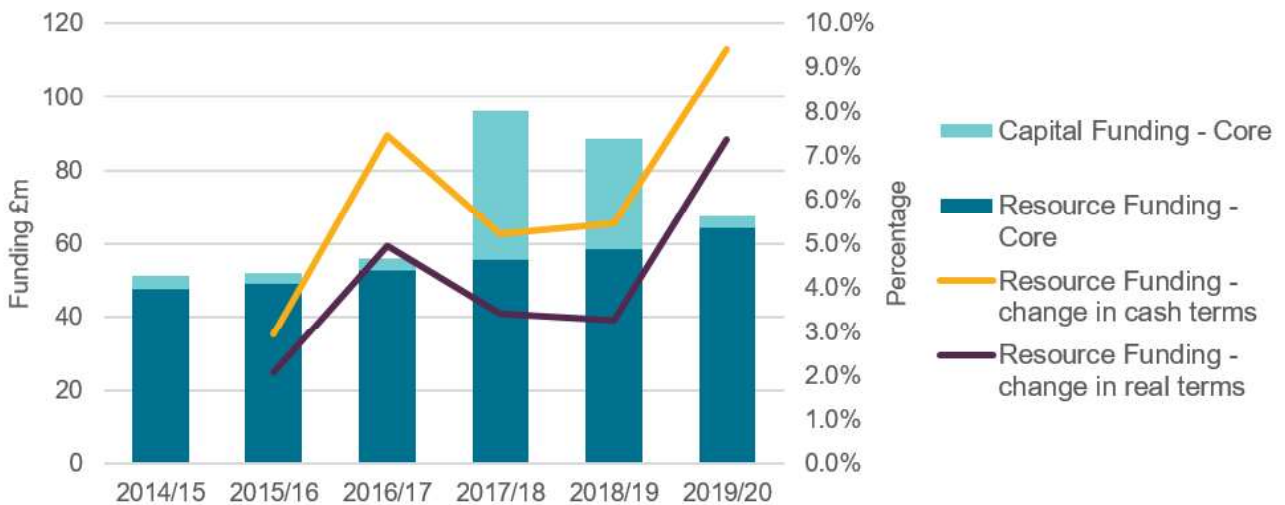
Financial sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Over the last year revenue funding has grown in real terms by 7.4 per cent

51. Revenue funding to NHS Orkney from the Scottish Government has grown by 9.4 per cent in cash terms and 7.4 per cent in real terms compared to 2018/19 ([Exhibit 7](#)). This includes additional funding to support use of locums (£2.144 million) and to cope with the Covid-19 outbreak (£0.290 million). NHS Orkney faces considerable workforce issues and the Board saw an increase in the need for locums in 2019/20 due to retireals.

Exhibit 7

Cash and real term core funding to NHS Orkney has risen



Source: NHS Orkney accounts/ Audit Scotland

NHS Orkney has a medium-term financial plan, but this is yet to be presented to the Board

52. NHS Orkney has prepared an Annual Operational Financial Plan, covering the period 2020/21 – 2022/23, in line with Scottish Government requirements. The initial draft was presented to the Finance and Performance Committee in November 2019 and submitted to the Scottish Government for comment in line with required timescales in December.

53. An update to the report was presented to the Finance and Performance Committee in early 2020 and was due to be presented to the Board in February 2020, however, this was put on hold due to the increasing implications of Covid-19.

54. An updated Annual Operational Financial Plan was presented to the Finance and Performance Committee on 6 May 2020. The plan has been developed on the basis that NHS Orkney will break even in each of the three years to 2022/23, however this relies on a range of cost reductions and savings targets being met. Forecasts in the financial plan are based on a number of assumptions including allocation uplifts, inflationary costs and pay growth.

55. The Board has not yet received the Annual Operational Financial Plan; it was to be presented in May 2020, but this did not occur.

The implications of Covid-19 have yet to be incorporated into the financial plan, and it is projected there will be a significant impact on the achievement of savings

56. The financial plan was prepared prior to the Covid-19 pandemic and does not include additional costs associated with the pandemic and the implication of delays to making savings.

57. A local mobilisation plan has been prepared in line with Scottish Government requirements. The projected impact of the pandemic is additional costs of £4.5 million and an underachievement of savings of £3.8 million in 2020/21.

58. A significant risk exists that the Board may not achieve its savings targets or be able to meet recurrent demand challenges. This is recognised in the Board's own assessment of the risks it faces.

A funding gap of £2.993 million is to be met by savings and £0.493 million of the target has not been identified yet

59. The draft Annual Operational Plan identified total a shortfall of £6.633 million in 2020/21. As part of the budgeting process NHS Orkney agreed to implement a number of cost control measures in order to reduce the non-recurring and recurring pressures. Planned cost reductions in 2020/21 totalled £3.640 million and reduced the savings requirement to £2.993 million, of which £1.732 million is to be achieved on a recurring basis.

60. The shortfall is to be covered through utilising capital to revenue funding, reducing expenditure on the Grampian SLA, reducing travel expenses, applying disposal proceeds, and setting a 1.5 per cent overall savings target. There remains a shortfall of £0.493 million for which savings have not yet been identified.

Exhibit 8

Savings forecast 2020/21 to 2022/23

	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Recurring	1.732	0.016	0.092	1.840
Non-recurring	1.261	1.101	1.030	3.392
Total savings requirement	2.993	1.117	1.122	5.232
% of RRL	4.8%	1.7%	1.7%	

Source: NHS Orkney Annual Operational Plan 2020/21 – 2022/23

61. NHS Orkney has identified a deficit of £2.403 million in 2021/22 and £1.722 million in 2022/23. There are planned cost control measures of £1.286 million and £0.6 million respectively to reduce the savings requirement in each year.

62. The indicative savings targets identified by NHS Orkney are £1.117 million in 2021/22 and £1.122 million in 2022/23. Saving schemes are in place to ensure delivery with only £0.036 million of the savings target not identified at the planning stage. The targets continue to include a significant proportion of non-recurrent savings.

Workforce management

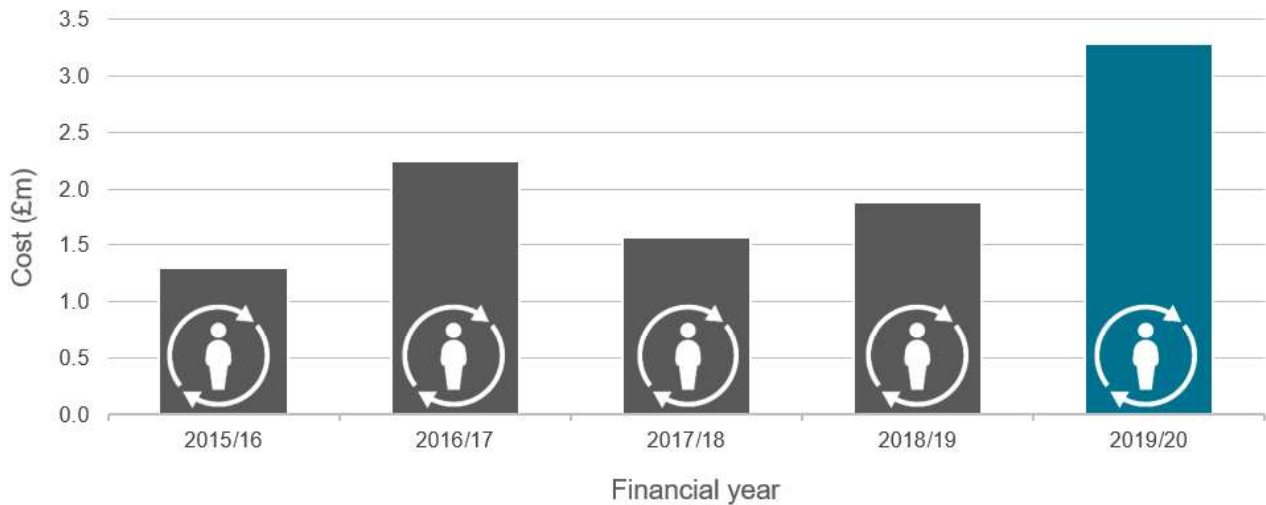
63. NHS Orkney has ongoing issues in relation to the recruitment and retention of staff. The Board has recognised that there is a significant risk to the delivery of services due to inadequate qualified resource.

64. Key issues contributing to the workforce issues include an aging workforce, 23.55 per cent of the current workforce are over 55 and eligible for retirement, high sickness absence and an increasing reliance on locums.

65. In 2019/20 a recruitment campaign was held and a number of locums were appointed prior to December 2019. However, despite the success of the recruitment campaign, expenditure on agency staff increased by 74 per cent due to the increased reliance on locums in 2019/20.

Exhibit 9

Agency staff costs



Source: NHS Orkney annual report and accounts/ Audit Scotland

66. 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.

67. The current workforce strategy covers the period 2017-19. The Staff Governance Committee monitor workforce throughout the year. The last workforce report was presented to the Committee in November 2019 and covered the period July - September 2019. This report focused on the issues around medical and dental staffing. While the ongoing reporting of workforce issues is seen as good practice, the workforce strategy is now out of date and no updates to the overall strategy were presented to the Staff Governance Committee or the Board in 2019/20.

68. NHS Orkney have faced challenges in quarter 4 of 2019/20 due to the Covid-19 pandemic. In March 2020, 83 additional people were recruited, and essential training was delivered to appropriate staff members. This is successful in providing a short-term solution, however, there are significant challenges in remobilising the NHS back to business as usual and this will depend on good workforce management.



Recommendation 7

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

Part 4

Governance and transparency



Main judgements

NHS Orkney has appropriate and effective governance arrangements. These were reviewed and revised in light of the Covid-19 outbreak in March 2020.

NHS Orkney reported a small number of information governance failures subsequent to the year end and it will be critical to identify the underlying cause and take corrective action.

NHS Orkney saw significant leadership changes over the latter part of 2019/20 with a new Chair of the Board and the retirement of the Chief Executive. It is crucial that appropriate steps are taken to preserve knowledge and support the new leadership team.

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.

Overall governance and transparency arrangements were appropriate

69. 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's term of office as the Chair of NHS Orkney came to an end in November 2019. Interim arrangements were in place until the appointment of Ms Meghan McEwan from 1 March 2020. An additional member of the Board was appointed in February 2020 so there was no reduction in the overall number of Board members.

70. The governance and transparency arrangements we consider include:

- board and committee structure and conduct
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption. This includes action in response to the National Fraud Initiative
- openness of board and committees
- public access to information via websites
- reporting of performance and whether this is fair, balanced and understandable.

71. We have concluded that NHS Orkney has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

72. In 2018/19 NHS Orkney completed a self-assessment against the Blueprint for Good Governance and identified two key areas for improvement: the development of a long-term clinical strategy and re-assessment of the Board's approach to risk management.

73. In 2019/20 the Board conducted a further review of the risk management arrangements and considered the contents of the Audit Committee handbook to inform their risk management improvement plan. Early changes include a Risk Management Forum which met in early 2020.

74. An update on the clinical strategy was presented to the Clinical and Care Governance Committee in January 2020, however this is yet to be finalised.

75. The development of the clinical strategy and the improvement of risk management has progressed at a slower pace than originally intended due to the Covid-19 pandemic.



Recommendation 8

NHS Orkney should work to progress development activities which were put on hold due to the Covid-19 pandemic

Governance arrangements were revised from March 2020 as a consequence of the Covid-19 pandemic

76. The Governance Statement in NHS Orkney's annual accounts notes that due to the Covid-19 pandemic changes were made to the governance arrangements in place. A special Board meeting was held on 9 April 2020 to approve revised governance arrangements. The following steps were taken to allow NHS staff to prioritise their response to the outbreak

- The suspension of Board meetings in public in accordance with the Board's legal duty to protect public health and comply with social distancing guidance
- All meetings were held in a way which does not require members to physically meet
- Board meetings were scheduled to take place fortnightly
- Governance committees were suspended, and all essential business was put through the Board. This arrangement was in place throughout April with standing committees operating again from May 2020.

77. We consider the measures taken by the Board to be proportionate and appropriate.

Changes in senior management

78. In November 2019 the Chief Executive of NHS Orkney announced his intention to retire in 2020. Any change within the leadership team represents a significant risk due to loss of knowledge and experience. This is more challenging for NHS Orkney given the workforce challenges they face.

79. The Board liaised with the Scottish Government to find a suitable replacement and appointment was made in early 2020. Appropriate handover arrangements were put in place to allow the incoming Chief Executive to take up post on 1 July 2020 following three months of induction.

80. In June 2020 it was announced that the incoming Chief Executive would not be taking up the position. The Chief Executive of NHS Shetland has been appointed on an interim basis and will split his time between NHS Orkney and NHS Shetland.

81. While this could bring benefits through cross Board learning, there is a risk that a part time leader is not sufficient and there will be additional disruption when a permanent Chief Executive is recruited. The reduction in leadership capacity and instability is a significant risk to the Board.



Recommendation 9

We would recommend NHS Orkney consider how they can create leadership capacity and ensure minimal disruption during the recruitment and appointment of a permanent Chief Executive

Information governance

82. NHS Orkney hold a significant amount of information about individuals and a high proportion of this is classified as sensitive. It is therefore essential that appropriate measures are in place to ensure that information is appropriately managed and secured.

83. Subsequent to the year-end NHS Orkney had three separate incidents relating to personal data. Investigative procedures are being undertaken by the Information Governance Group with regards to the data breaches and a report is due to be presented to the September 2020 Audit and Risk Committee. The report will include lessons learned from the incidents.

84. The Information Governance Group is responsible for overseeing all items pertaining to information governance and providing leadership in this area on behalf of the Audit and Risk Committee.

85. The annual report of the Information Governance Group was presented to the Audit and Risk Committee in July 2020. The annual report did not contain a review of effectiveness and it highlighted there had been poor attendance in 2019/20, with half of members attending less than 50 per cent of the meetings. There is a risk that the Group is not having the desired impact and is not effective in delivering its remit.



Recommendation 10

NHS Orkney should ensure sufficient consideration is given to the effectiveness of subgroups of committees to ensure they are functioning as intended and have sufficient impact.

86. Internal audit conducted a review of information governance in 2019/20 and noted that in three of four control areas there were inadequate or ineffective controls. The areas highlighted as higher risk are:

- there is an information Governance Policy and Strategy in Place to ensure effective management of information assets

- there is an effective process to monitor and manage compliance with legal and regulatory responsibilities related to Information Governance
- there is an adequate information governance training and awareness raising process for new and existing staff.

87. At the time of reporting although an initial response had been provided the actions were outstanding and overdue against the agreed date.



Recommendation 11

High risk internal audit recommendations should be addressed as a matter of priority to ensure there are no significant weaknesses in the Board's internal control systems.

Health and social care

88. NHS Orkney operate in partnership with an Integration Joint Board (IJB), Orkney Health and Care, which is responsible for planning, commissioning and overseeing delivery performance in line with the functions delegated by the Public Bodies (Joint Working) (Scotland) Act 2014.

89. Included in the responsibility of the IJB is a responsibility to provide unscheduled hospital care where appropriate. The budgeting process makes particular provision for the sum set aside in relation to large hospital functions.

90. When setting the budget, it is the responsibility of the IJB and NHS Orkney to agree how much the IJB expects to need for unscheduled acute hospital care. The set aside approach means that the agreed amount remains with NHS Orkney rather than being paid to the IJB, however, a critical part of this arrangement is that the set aside budget should remain under the control of the IJB.

91. In 2019/20 set aside provision increased to £8.617 million, an increase of 9.5 percent from £7.871 million in 2018/19. The long-term aim of the Scottish Government is that costs for unscheduled acute care are reduced and there is a shift to community spending.

92. The financial planning processes with NHS Orkney and the IJB have proved challenging in prior years and the unscheduled care responsibility has never been fully delegated to the IJB. From April 2021 it is anticipated the IJB will have more control over the set aside budget in line with Scottish Government Guidance. In order for this to be successful, good partnership working will be crucial.

Part 5

Value for money



Main judgements

NHS Orkney has an appropriate performance management framework in place.

Service performance levels in 2019/20 were broadly in line with prior years with performance not attained in four out of ten key areas.

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

NHS Orkney has an appropriate performance management framework

93. *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. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

94. NHS Orkney measures performance against their Annual Operational Plan. A range of 19 indicators are considered by the Finance and Performance Committees and the Board, including key nationally reported operational plan targets and quality indicators.

95. While performance against 19 indicators is reported, 26 per cent of the indicators have not got up to date information and date back to 2018. A further 16 per cent have information during 2019/20 but an up to date year end position was not available. The benefits of performance management information can only be achieved if the information is accurate and received in sufficient time to drive actions.



Recommendation 12

NHS Orkney should consider the performance management information produced to align to the Annual Operational Plan and ensure the indicators reported are useful and current.

Only 4 of the 10 national waiting time standards with up to date information are being met

96. [Exhibit 9](#) shows that the performance at NHS Orkney has remained broadly consistent and the Board continues to face a number of challenges in delivering the performance targets.

Exhibit 9

Overall performance against LDP standards







Source: NHS Orkney Annual Report and Accounts and Performance Monitoring Reports

97. There are eight key targets, which we report on as part of our [NHS Overview report](#). In 2018/19 the overview report we noted that a number of boards across Scotland were struggling to meet key targets and NHS Orkney met 5 out of 8 which was good in comparison across the sector. The same number is reported in 2019/20 as shown in [Exhibit 10](#).

Exhibit 10

Performance against key national waiting time standards

Target/standard		Performance at March 2020**	Action being taken by Board
Cancer 62 Day RTT <i>Proportion of patients that started treatment within 62 days of referral</i>	95%	● 100%	Standard achieved
18 Weeks RTT <i>Proportion of patients that started treatment within 18 weeks of referral</i>	90%	● 93.6%	Standard achieved
Patient Treatment Time Guarantee (TTG) <i>Proportion of inpatients or day case that were seen within 12 weeks</i>	95%	● 85%	Covid-19 has increased waiting times for cataract surgery and in Orthopaedics and ENT. The targeting of waiting times standards is a key focus of the remobilisation plan.
Outpatients waiting less than 12 weeks	95%	● 81.7%	Delays were caused due to vacancies in some

Target/standard		Performance at March 2020**	Action being taken by Board
<i>Proportion of patients on the waiting list at month end who have been waiting less than 12 months since referral at month end</i>			specialities which made it challenging to meet demand. The Board performance declined further due to the Covid-19 pandemic and they are working on a remobilisation plan to tackle the backlog.
A & E attendees <i>Proportion of A & E attendees who were admitted, transferred or discharged within 4 hours</i>	95%	 95.2%	Standard achieved
Cancer 31 Days RTT <i>Proportion of patients who started treatment within 31 days of decision to treat</i>	95%	 100%	Standard achieved
Drug and Alcohol 21 days <i>Proportion of drug and alcohol patients that started treatment within 21 days</i>	90%	 100%	Standard achieved
CAMHS Waiting Times <i>Proportion of patients seen within 18 weeks of referral</i>	90%	 75%	Access to mental health services remains challenging but additional capacity has been created within the CAMHS through the recruitment of a locum.

** Figures still to be validated by NHS Information Services Division.

Source: NHS Orkney annual report and accounts and Performance Management Reports

98. The global pandemic has had an impact on improvement actions to enhance the performance of the Board. Further actions to improve performance against key national waiting times standards need to be undertaken with reference to Scottish Government Guidance [Re-mobilise, Recover, Re-design: the framework for NHS Scotland](#).

99. A draft re-mobilisation plan was submitted to the Scottish Government in May 2020. NHS Orkney are considering opportunities for re-design and to enhance patient care, whilst also managing the back log of non-Covid-19 patients and building resilience for any potential future waves.

100. Development of a core data set which will record and monitor progress with the re-mobilisation of services is being taken forward nationally.

Care Inspectorate Report

101. In February 2020 the Care Inspectorate published [Report of a joint inspection of services for children and young people in need of care and protection in Orkney](#). The report highlighted a number of areas requiring improvement with regards to child protection.

102. As reported in the annual report and accounts NHS Orkney has created an improvement plan and established a short life working group to progress and monitor the implementation plan. We will monitor progress in implementing the actions as part of our 2020/21 audit work.

National performance audit reports

103. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2019/20 a number of reports were published which are of direct interest to the board and are highlighted in [Appendix 4](#).

104. The NHS Overview Report on the 2019/20 audits will include a review of the response to the Covid-19 pandemic by the NHS in Scotland along with a report on financial and operational performance. This is due to be published early 2021.

Appendix 1

Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Performance and Accountability Reports</p> <p>The Performance and Accountability Reports required significant changes in year in order to meet required standards. The revised reports were acceptable but still were not fully compliant with the FReM and SPFM and contained some details which were not required.</p> <p>Risk – There is a risk that the narrative accompanying the accounts obscures key messages and does not provide the user with the information they need.</p>	<p>NHS Orkney should consider the content of the Performance and Accountability Reports to ensure that the narrative is clear, concise and meaningful and meets the minimum reporting requirements.</p> <p>Paragraph 22</p>	<p>We will review and action in 2020/21</p> <p>Head of Finance</p> <p>31 March 2021</p>
2	<p>Service Level Agreements</p> <p>Sample testing revealed that services provided by NHS Orkney to Orkney Islands Council for speech and language therapy were under an out of date SLA. We also identified that the SLA with NHS Grampian for mental health services had not been finalised.</p> <p>Risk – There is a risk that the terms and conditions are out of date and not aligned to the services which are provided. This could result in disputes over services provided or amounts due.</p>	<p>NHS Orkney should conduct a review of services provided under SLAs to ensure they are up to date and reflect the current arrangements.</p> <p>Paragraph 22</p>	<p>The Director of Finance is in discussion with NHS Grampian to seek a resolution to the outstanding issues.</p> <p>Consideration will be given to reviewing SLAs in general.</p> <p>Director of Finance</p> <p>30 November 2020</p>
3	<p>Accounting estimates disclosures</p> <p>The disclosures around accounting estimates in the accounts are brief and do not provide the user with key information such as the</p>	<p>NHS Orkney should consider the disclosures in the accounting policies in relation to estimates and increase the level</p>	<p>We will review and action in 2020/21</p> <p>Head of Finance</p> <p>31 March 2021</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>estimation methodology and underlying assumptions.</p> <p>Risk – There is a risk that the user of the accounts does not fully understand the degree of uncertainty associated with figures in the financial statements due to inadequate explanation.</p>	<p>of detail to improve clarity to the user.</p> <p>Paragraph 22</p>	
4	<p>Year-end finance performance reports</p> <p>The financial reports presented to the Finance and Performance Committee following the year end were at a high level and did not have detail in line with those presented throughout the year.</p> <p>Risk – There is a risk that the financial information is not subject to appropriate scrutiny and challenge.</p>	<p>We recommend NHS Orkney ensure that year-end financial report contains sufficient detail to allow scrutiny of performance against budget and efficiency savings targets.</p> <p>Paragraph 29</p>	<p>The Scottish Government following an out break of COVID 19 relaxed reporting requirements. Reporting requirements have now been reinstated which will allow appropriate levels of detailed scrutiny.</p> <p>Director of Finance August 2020</p>
5	<p>Internal audit coverage</p> <p>The Internal Audit Plan 2020/21 does not include any coverage of finance or financial management</p> <p>Risk – There is a risk insufficient assurance is achieved at the year end to support the governance statement.</p>	<p>We recommend NHS Orkney consider the assurance provided by Internal Audit and ensure they achieve sufficient assurance for the 2020/21 governance statement in a timely manner.</p> <p>Paragraph 45</p>	<p>This will be reviewed with internal audit to ensure appropriate levels of assurance.</p> <p>Director of Finance September 2020</p>
6	<p>Documentation of NFI results</p> <p>NHS Orkney has investigated a significant number of the 321 NFI matches but only 90 have been marked as completed.</p> <p>Risk – There is a risk that work undertaken is not appropriately documented and there is a lack of audit evidence.</p>	<p>The NFI Portal should be used to record the outcomes of the NFI review.</p> <p>Paragraph 50</p>	<p>This will be reviewed to ensure appropriate documentation is recorded and audit evidence can be provided.</p> <p>Head of Finance September 2020.</p>
7	<p>Workforce planning</p> <p>The workforce strategy covers the period 2017-19. A revised workforce strategy is therefore required to cover the medium term</p>	<p>It is critical NHS Orkney has up to date, robust workforce plans to ensure they maintain a sustainable workforce with the right skills and</p>	<p>The Workforce Strategy for 2020 – 2023 is currently in development, we plan to have this with the Board by December 2020.</p> <p>Head of Corporate Services. December 2020</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>Risk – There is a risk that inadequate planning leads to issues with service delivery due to insufficient staff.</p>	<p>capacity over the 2medium to long term.</p> <p>Paragraph 68</p>	
8	<p>Development activities have been put on hold due to Covid-19</p> <p>The Board identified the need to improve the risk management and develop a clinical strategy, however, the activities had limited progress due to the Covid-19 pandemic.</p> <p>Risk – There is a risk that important activities are not progressed leading to performance issues.</p>	<p>NHS Orkney should work to progress development activities which were put on hold due to the Covid-19 pandemic.</p> <p>Paragraph 75</p>	<p>The Clinical Strategy work has continued although at a slower pace. This has been picked up on the return of the Nurse Director and is being progressed. The draft plan will form a core part of the Future Planning Workshop on 26 August 2020.</p> <p>Director of nursing</p> <p>The aim is to have a Clinical Strategy for consultation in early 2021.”</p>
9	<p>Changes in senior management</p> <p>NHS Orkney saw significant leadership changes over the later part of 2019/20 with a new Chair of the Board and the retirement of the Chief Executive. It is crucial that appropriate steps are taken to preserve knowledge and support the new leadership team.</p> <p>Risk – There is a risk that governance and performance is impacted by the change in leadership</p>	<p>NHS Orkney should consider how they can create leadership capacity and ensure minimal disruption during the recruitment and appointment of a permanent Chief Executive.</p> <p>Paragraph 81</p>	<p>This will be considered by the Chief Executive and the Board.</p> <p>Chief Executive</p> <p>On-Going</p>
10	<p>Information Governance Group effectiveness</p> <p>NHS Orkney use an Information Governance Group to support the Audit and Risk Committee. There was poor attendance at the group in 2019/20 and a review of effectiveness has not been conducted.</p> <p>Risk – There is a risk that the group is not having the desired impact.</p>	<p>NHS Orkney should ensure sufficient consideration is given to the effectiveness of sub-groups to ensure they are functioning as intended and have sufficient impact on the organisation.</p> <p>Paragraph 85</p>	<p>Annual review of TOR has seen a shift in accountability and reporting to the Information Governance Committee. Training and support for Senior Leadership being considered to ensure awareness of roles, responsibility and accountability in relation to Information Governance.</p> <p>Head of Corporate Services</p> <p>December 2020</p>
11	<p>Internal audit recommendations</p>	<p>Higher risk internal audit recommendations should be addressed</p>	<p>Lack of resource and capacity has been reported as a risk to the audit committee in achieving recommended</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>Internal audit actions arising from the information governance report had only had initial response and actions were past due.</p> <p>Risk – There is a risk that control weaknesses are not addressed in a timely manner.</p>	<p>as a matter of priority to ensure there are no significant weaknesses in the Board's internal control systems.</p> <p>Paragraph 87</p>	<p>timelines, SMT have approved recruitment to IG Manager.</p> <p>Head of Corporate Governance</p> <p>December 2020</p>
12	<p>Performance management information</p> <p>The Performance Management information is out of date for 26 per cent of the indicators regularly reported to the Finance and Performance Committee.</p> <p>Risk – There is a risk that the performance management information reported does not add value or help drive improvement.</p>	<p>NHS Orkney should consider the performance management information produced to align to the Annual Operational Plan and ensure the indicators reported on are useful and current.</p> <p>Paragraph 95</p>	<p>Performance management approach will be reviewed and aligned with Annual Operational and Remobilisation Plans as well as the national quality of care framework.</p> <p>Chief Quality Officer</p> <p>November 2020</p>

Follow up of prior year recommendations

13	<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>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.</p>	<p>Ongoing – there is ongoing pressure on the NHS to make savings targets, however, the implications of Covid-19 need to be incorporated into the Annual Operational Plan to identify the additional pressures and where savings can be made. See recommendation 7. Agreed, The Finance and Performance Committee and the Board are updated regularly with regard to the financial position, savings targets and COVID 19 implications.</p>
14	<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 acute services. The delegated areas will be established in 2019/20 with a view to the IJB</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</p>	<p>Ongoing - the IJB will have more influence from April 2021, however, the success will depend on good partnership working between the two bodies.</p> <p>The organisation strives for good partnership working with the IJB. Recent developments have included agreement of the set aside budget.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
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	<p>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>		
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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
Risks of material misstatement in the financial statements		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Reviewed of accounting estimates</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluated significant transactions that are outside the normal course of business.</p>	<p>We have not identified any instances of management override from our testing.</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>We gained appropriate assurance over the completeness and occurrence of income and expenditure and we are satisfied that they are not fraudulently misstated in the annual accounts.</p>
<p>3 Senior Finance Capacity</p> <p>As the Director of Finance has been appointed on a part-time temporary basis there is a risk that there is insufficient finance capacity at a senior level.</p> <p>The Head of Finance left at the end of October 2019 and a new Head of Finance is due to take</p>	<p>Monitor arrangements for filling the Director of Finance role.</p>	<p>Due to delays arising from Covid-19 a permanent appointment to the post of Director of Finance was not made until June 2020.</p> <p>The reduced capacity within the finance team did not have a significant impact on the delivery of the financial statements.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>up post from January 2020. Until then the Finance division is operating below capacity.</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 including the Balfour hospital and vacant buildings.</p>	<p>NHS Orkney received a full valuation of the Balfour hospital in June 2019 when it became operational. We considered the support provided by the valuer and did not identify any material issues. We also considered the impact of Covid-19 on the valuation of land and buildings and concluded the risk of material misstatement was low.</p> <p>We reviewed estimates and judgments in other areas including impairments, provisions and asset life assumptions and did not identify any issues.</p>

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £20 thousand.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Other operating expenditure	21			
	Provisions				(21)
	Net impact	21			(21)

Notes:

1. Entry 1 relates to the calculation of the pension provision which was calculated using a discount factor of 0.5% when the required discount factor is -0.5%. The error is £21k and would not result in NHS Orkney exceeding the RRL.

Appendix 4

Summary of national performance reports 2019/20

		 2019/20 Reports	
		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	 Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	 Early learning and childcare: follow-up

NHS relevant reports

[NHS workforce planning – part 2](#) – August 2019

[NHS in Scotland 2019](#) – October 2019

NHS Orkney

2019/20 Annual Audit Report

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