



INFRASTRUCTURE, GOVERNMENT &
HEALTHCARE

Orkney NHS Board

Annual audit report to Orkney
NHS Board and the Auditor
General for Scotland
2006-07

28 June 2007

AUDIT

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Executive summary

This report summarises our work for the 2006-07 year and our findings in relation to our audit of the financial statements, corporate governance, and performance management arrangements.

Financial statements

On 28 June 2007 we issued an audit report expressing an unqualified opinion on the financial statements of the Board for the year ended 31 March 2007 and on the regularity of transactions reflected in those financial statements.

Corporate governance

Management's consideration of the control environment has not identified any significant matters having implications for the statement on internal control. However, while annual reports from the relevant governance committees are prepared, these are not routinely available to inform the preparation of the SIC.

There are a number of areas for improvement within the existing corporate governance framework, including revisions to out of date terms of reference, organisational structures and corporate policies. There is evidence of a lack of clarity over some roles and responsibilities within the Board and lines of accountability are not defined. This may lead to a lack of responsibility and ownership in key areas. Risk management and clinical governance arrangements are areas requiring significant improvement; measures are now being introduced to address these.

Work undertaken by NHS Quality Improvement Scotland identified a need for the Board to formalise risk management arrangements and conclude the development of an organisation-wide business continuity plan. The findings outlined in the report are consistent with the findings from our work.

Historically, the Board has not had a comprehensive framework for payment verification work and the Quality Outcomes Framework visit programme, including the evaluation and reporting of findings. This has been effected during the year and should strengthen arrangements in this important area of primary care.

The Board achieved all three financial targets for the year, but this was solely due to a number of specific, non-recurring actions. A five year financial plan was submitted to the Scottish Executive Health Department as part of the local delivery plan in February 2007. Since then, there have been regular discussions on its content. At the time of this report, the plan has yet to be approved. The funding gap for 2007-08 currently stands at £1.9 million, after recognising £1.8 million of potential savings. Management has yet to develop a formalised savings plan to secure these. The financial plan identifies a number of risks and pressures, including the impact of full implementation of the NHS tariff scheme, the cost of general medical services and the achievement of recurring savings. There is a strong correlation between the absence of a strategic plan for service sustainability and the Board's current financial position.

As the Board has been reliant on short term solutions to meet its financial targets, management urgently needs to ensure that the Creating Sustainable Services Project is effectively progressed so that the financial benefits of its various workstreams are secured. In our view, achievement of financial balance

will present significant challenges for management. As such, there remains a substantial risk that the outturn projected in the financial plan will not be achieved.

Performance management

In many of the elements reviewed, our findings indicated that, while actions had been initiated by the Board to address the risks, these will take some time to implement and, therefore, the risk profile for many of the Board's arrangements remains high. In other elements, once actions are effectively completed and frameworks revised, the risk profile is likely to reduce.

Arising from our review, an action plan containing 38 recommendations was agreed with management. Twenty-five recommendations were graded as "significant" in terms of the business issues facing the Board. Almost all recommendations had an implementation date set by management of summer 2007. There is a strong inter-relationship between many of the issues and resulting recommendations, including the recommendations agreed arising from the NHS QIS review. Implementation will therefore place considerable demands on management capacity.

In comparison to a number of other NHS boards, the Board has yet to fully develop a strategic plan for the modernisation and re-design of services, with work on this only commencing during 2006-07 as part of the Creating Sustainable Services Project. This project is focussing on how services can continue to be delivered in a sustainable way, taking into account changes in the local population and its health needs. Evidence available from our most recent visit suggested that some of the key workstreams were running two months behind plan and there must therefore be some risk that the objectives of the project are not secured on a timely basis.

The Board has a positive commitment to close working with a number of partners, including Orkney Islands Council. The commitment to closer working with the Council is seen as important, not only in the context of exploiting and maximising efficiencies, but also key to the future of public services in Orkney. However, this commitment needs to be taken forward in the context of formalised arrangements and the development of the community health partnership.

There has been a recognition that performance management is an area requiring improvement, including remedying the absence of regular performance reporting to the board. Budgets for 2007-08 were not established for all services for the start of the new financial year. Furthermore the integrated planning process is still under development. A key issue in both of these areas is a lack of capacity.

A workforce plan remains in development and is likely to require revision in light of the conclusions from the Creating Sustainable Services Project. There are no formal procedures to enable production of pay modernisation benefits delivery plan progress reports to the Scottish Executive Health Department.

IM&T issues tend not to be a priority at board level and there is no formal IT governance structure. The Board does not currently have a strategic e-health plan, rather e-health is managed on a project by project basis. A business continuity plan is currently in the process of development, but this has not yet been fully formalised, tested or reviewed.

Introduction

Audit framework

This was the first year of our five-year appointment as external auditors of Orkney NHS Board (“the Board”). This report to the Board and Auditor General for Scotland outlines our opinion and conclusions and highlights significant issues arising from our work.

In accordance with Audit Scotland’s *Code of Audit Practice* (“the *Code*”) the scope of the audit was to:

- provide an opinion on the Board’s financial statements and, as required by relevant authorities, the regularity of transactions;
- review and report on (as required by relevant legislation, the *Code* and any guidance issued by Audit Scotland):
 - the Board’s corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; and its financial position
 - the Board’s arrangements to achieve Best Value
 - other aspects of the Board’s arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources.

The framework under which we operate under appointment by Audit Scotland was outlined in the audit plan for the year discussed with the Board’s audit committee.

Priorities and risks

To assist in the development of a consistent approach to the audit across bodies, Audit Scotland published a *Priorities and Risks Framework* setting out seven areas for consideration. We built on this and considered the Board’s processes and management arrangements in these areas in focusing our audit effort. Resulting reports were presented to the audit committee in April 2007.

Responsibilities of the Board and its auditors

External auditors do not act as a substitute for the Board’s own responsibilities for putting in place proper arrangements to account for its stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through accountable officers, to make arrangements to secure Best Value.

Acknowledgement

We wish to place on record our appreciation of the co-operation and assistance extended to us by staff during the first year of our work in the discharge of our responsibilities.

Financial statements audit

Audit opinion

On 28 June 2007 we issued an audit report expressing an unqualified opinion on the financial statements of the Board for the year ended 31 March 2007 and on the regularity of transactions reflected in those financial statements. We wish to bring the following issues to your attention.

Sale of Garden House and Graham House

During the year the Board concluded the sale of two of its properties to Orkney Islands Council, Garden House (the Board's headquarters) and Graham House (a staff residential block) having been unsuccessful in obtaining expressions of interest following advertisements and the submission of the properties for auction. The sale generated gain on disposal of £0.7 million.

Allied to the sale agreement, the Board has agreed to lease these premises from the Council for a period of 15 years at a combined, initial rental of £99,000 per annum. The rental agreements do not include any "break" clause and the financial implications of these leases will require to be considered in the context of any future service re-design and accommodation needs.

Capital grants

During the year the Board made three capital grants to Orkney Islands Council. The aim of the grants was to benefit the residents of the Islands in terms of health care and community / social services. The largest capital grant (£2.5 million) was a contribution towards the Smiddybrae care facility in Dounby. This facility supports the delayed discharge action plan in preventing clinically unnecessary acute hospital bed days. Capital grants are a budgeting mechanism whereby funding provided by the Board for capital expenditure, but accounted for as revenue in its operating cost statement, is charged against the capital resource limit, rather than the revenue resource limit.

Equal pay

Article 141 of the Treaty of Rome requires member states to ensure and maintain "the application of the principle that men and women should receive equal pay for equal work". This was expanded on in the Equal Pay Directive which made it clear that all such discrimination should be eliminated from all aspects of remuneration. The National Health Service in Scotland has received a number of claims for backdated pay increases, arising from this requirement. As at 31 March 2007 the Board had received three claims and these had been referred for attention to the Central Legal Office, the Board's legal advisers. Even taking account of the work which has been undertaken in relation to *Agenda for Change*, it is still possible that these claims represent a current liability for the Board; although it is worth noting that we have not been able to obtain from the Central Legal Office any estimate of the potential liability being faced by the Board.

For 2006-07 we have accepted this position because of its stage of development and as a result of the Board including within its annual accounts a contingent liability note setting out relevant details on the matter. Nevertheless, we would have expected further details to have been available to management beyond those currently received from the Central Legal Office, including a reasonable estimate of the



Board's liabilities determined in accordance with financial reporting standards. We would strongly encourage Board management, working with the Scottish Executive Health Department, to resolve this matter in advance of compilation of next year's financial statements.

Corporate governance

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Through its chief executive, the Board is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on the Board's corporate governance arrangements as they relate to:

- the Board's reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity;
- standards of conduct and arrangements for the prevention and detection of corruption; and
- its financial position.

Systems of internal control

Statement on internal control ("SIC")

The SIC for 2006-07 provides details of the processes and controls and management highlights that the organisation is committed to a process of continuous development and improvement and to developing systems in response to any relevant reviews and developments in best practice.

While annual reports from the clinical governance and audit committee are prepared, summarising the committees' approach during the year in respect of clinical governance, risk management and internal control, these are not routinely available to inform the preparation of the SIC for the year. Management should ensure that from 2007-08 a formal process is established to collate and review the Board's internal control framework, thus providing a robust basis to evidence the accountable officer's review and 'sign off' of the Board's system of internal control.

Governance arrangements and risk management

We found a number of areas for improvement within the Board's existing corporate governance framework, including revisions to out of date terms of reference, organisational structures and corporate policies. There was evidence of a lack of clarity over some roles and responsibilities; lines of accountability were not defined. This may lead to a lack of responsibility and ownership in key areas. Risk management and clinical governance arrangements were identified by us as areas requiring significant improvement and some measures have since been introduced to address these.

During 2006-07 NHS Quality Improvement Scotland ("NHS QIS") performed a local peer review of 'clinical governance and risk management: achieving safe, effective, patient focussed care and services'. The key findings in relation from NHS QIS's work on governance and risk management arrangements were consistent with our own planning approach and findings reported to management during the year.

While NHS QIS concluded that the Board is developing its policies, strategies, processes and procedures for safe and effective care and services, health, well being and care experience, and assurance and accountability, it identified a number of areas for further action. An action plan has subsequently been agreed with management. Key actions include:

- formalising risk management arrangements;
- concluding the development of an organisation-wide business continuity plan;
- implementing a prioritised programme of assessment of clinical effectiveness;
- formalising documentation on partnership working with stakeholders;
- revising arrangements for effective oversight of clinical governance, health and safety and risk management; and
- concluding an overarching framework for performance management and information governance.

Internal audit

The approved 2006-07 internal audit programme has been completed and the internal auditors have reported that 'based on the work undertaken in 2006-07, significant assurance can be given that there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, some weaknesses in the design and inconsistent application of the controls put the particular objectives at risk.' The two fundamental risks were in budgetary control and human resources / payroll. Management have taken account of the internal auditor's views in framing the content of the SIC.

Primary care

Family health services ("FHS") income and payments are processed on behalf of the Board by NHS National Services Scotland ("NHS NSS") and therefore issues of systems of control and the regularity of transactions are outwith the direct control of the Board. Transactions are completed on the basis of self-certification by the patient. Consideration in terms of payment verification therefore needs to be given, not only to the question of practice visits in relation to FHS payments, but also in relation to related charges to patients, e.g. prescription charges.

In accordance with the protocol on patient fraud, NHS Counter Fraud Service ("CFS") provided an estimate of the level of fraud/error in respect of the Board's FHS income. Using the latest available data, this suggests an estimated fraud/error for the 12 months to 31 December 2006 of £5,057 (2005: £13,127). This decrease is consistent with the national results. This fraud/error estimate relates only to pharmacy income and management believe that this is not significant enough to indicate there is a material level of irregularity in respect of FHS income.

The Board did not previously have a process for completing payment verification visits to primary care practitioners. During 2006-07 management implemented a full programme of payment verification visits covering all but three practices. The payment verification processes involve receipt of NHS NSS practitioner services division ("PSD") generated reports, meetings to review reports and decisions on follow-up actions. The Board has been working closely with PSD in 2006-07 to improve existing arrangements. Periodic reports summarising the results of PSD reports and practitioner payment verification visits or the results of patient exemption checking are not routinely prepared.

Prior to 2006-07 only limited quality outcomes framework ("QOF") visits were undertaken and there has been no reporting of the results to a relevant committee. During 2006-07 a full programme of visits

commenced, covering 12 of the Board's 15 practices. These visits related to achievement payments made for the financial year 2005-06. The Board is currently planning to undertake visits to five practices to verify achievement payments made in respect of 2006-07. These visits will be completed prior to payments being processed to practices. The QOF visits have identified a large number of issues, mainly relating to data recording and quality. Management have confirmed that the results will be reported to the clinical governance committee during June 2007 and will include an action plan of recommendations for implementation. Going forward, it is important that the Board ensures formal arrangements are established in respect of payment verification and QOF with periodic reporting of outcomes.

Internal controls

Drawing on the work of internal audit, in accordance with our plan we undertook detailed testing in relation to both entity-level and key financial controls. We concluded that, subject to the weaknesses reported, controls were designed appropriately and operating effectively. We identified a number of areas for enhancement, including revisions to the processes for compiling and authorising journal entries, timely notification of payroll termination forms and the absence of pharmacy count verification procedures. Recommendations were accepted by management. To ensure that all agreed recommendations are satisfactorily implemented on a timely basis, management will require to implement robust follow-up arrangements, with status update reporting to meetings of the audit committee.

Prevention and detection of fraud and irregularity

Fraud policy

The Board's fraud policy, including a fraud response plan, is distributed to all staff. The policy outlines the procedures to be followed to prevent and detect fraud and other irregularities. The content of the policy meets the requirements and identifies specific responsibilities for the prevention and detection of fraud. The Board's designated fraud liaison officer, to whom all suspected fraud should be reported, is a member of the outsourced internal audit team. The fraud liaison officer is responsible for liaison with CFS.

National Fraud Initiative

In 2006-07 the Board took part in the National Fraud Initiative ("NFI") in Scotland. The Scottish Executive Health Department and CFS have strongly supported the involvement of health bodies in the exercise, which is undertaken as part of the audits of the participating bodies. NFI brings together data from health bodies, councils, police and fire and rescue boards, and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. Health bodies provided payroll data for the exercise. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005), but if fraud or overpayments are not identified, assurances may be taken about internal arrangements for preventing and detecting fraud. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the Board's involvement in NFI 2006-07 during the course of the audit.

The interim director of finance is the NFI key contact and is responsible for overseeing the review and reporting of the work being performed, but the assistant director of finance has taken the lead for reviewing and resolving data matches identified along with staff members from the human resources and payroll department.

While the exercise has now been completed with no significant issues identified, there were a number of process issues in relation to the Board's participation in the NFI exercise:

- the Board did not initially submit its data or identify a key contact within the NFI application in a timely manner (other boards were provided with data match information on 29 January 2007);
- the Board did not complete the NFI data matching exercise until the week commencing 11 June 2007. This resulted in the Board missing a key deadline of 31 May 2007 for resolving the data matches;
- the fraud liaison officer was not formally involved in the planning of the exercise;
- the approach was not formally documented and there was no plan or policy detailing who was taking responsibility for each type of match, the planned timetable, how results would be recorded and the type of supporting evidence that would be collected;
- there was no formal control record detailing what matches were reviewed, by whom, or the stage reached; and
- progress has yet to be reported to a governance committee.

Standards of conduct

The Board has an approved code of conduct which outlines the responsibilities of board members in fulfilling their duties, including registration and declaration of interests. Staff are currently provided with a staff code of conduct that sets out the principles and standards which staff are expected to adhere to at all times. A copy of the code of conduct is issued to all staff upon appointment.

Financial position

The forecast position for the financial year 2006-07 was achievement of all financial targets, including a break even position against the Board's revenue resource limit. The Board identified that in order to achieve the break even in 2006-07 cost savings of £2.4 million needed to be identified. A revised financial plan was submitted to the Scottish Executive Health Department ("SEHD") during August 2006 and identified how the Board intended to cover a savings gap of nearly £2.1 million over the remainder of the financial year. That plan forecast that the Board would meet all of its financial targets in 2006-07 and would be in recurring balance by 31 March 2008.

The Board achieved all three financial targets for the year, but this was solely due to a number of specific, non-recurring actions. In addition to achieving recurring and non-recurring efficiency savings of £1.5 million in year, the outturn against the revenue resource limit was secured by:

- the gain on disposal of Board properties (£0.7 million);
- abatement of agreed resource transfer to Orkney Islands Council (£1.8 million); and
- treatment of certain revenue transactions as capital grants (£3.3 million).

A five year financial plan was submitted to SEHD as part of the local delivery plan in February 2007. Since then, there have been regular discussions on its content. At the time of this report, the plan has yet to be approved. The Board's initial financial plan was to break even over a three year period, but SEHD has requested that break even is achieved in 2007-08. The funding gap for 2007-08 currently stands at £1.9 million after recognising £1.8 million of potential savings. Management has yet to develop a formalised savings plan to secure these, supporting intentions in relation to savings from the creating

sustainable services project ("CSSP"), vacancy control and other non-recurrent savings. The financial plan identifies a number of risks and pressures, including the impact of full implementation of the NHS tariff scheme, the cost of general medical services and the achievement of recurring savings.

As the Board has been reliant on short term solutions to meet its financial targets, management urgently needs to ensure that CSSP is effectively progressed so that the financial benefits of its various workstreams are secured. In our view, achievement of financial balance will present significant challenges for management. As such, there remains a substantial risk that the outturn projected in the financial plan will not be achieved.

The majority of the Board's cross-boundary patient activity is with Grampian NHS Board. Prior to introduction of the NHS tariff scheme payments were made in line with service level agreements based on activity. The initial impact of the national tariff on the Board for 2006-07 was assessed at £336,000. However, an agreement has been reached to limit the impact of the national tariff to 0.4% of revenue resource limit. This reduced the impact in 2006-07 to £108,000. For 2007-08 the full implementation of national tariffs was assessed at £776,000, but it has been agreed with NHS Grampian that the impact will be limited to 0.8% of revenue resource limit; currently estimated at £220,000. There will be a further increase in 2008-09, with the full financial impact in 2009-10. Management should monitor the cost implications of changes in national tariffs and activity levels to provide accurate information for financial planning purposes.

The underlying financial position in 2006-07 and the forecast position in 2007-08 are shown below.

	2006-07	2007-08
	£'000	£'000
Recurring income	32,532	35,962
Recurring expenditure	(36,113)	(39,706)
Underlying recurring (deficit)	(3,581)	(3,743)
Non-recurring income	3,514	431
Non-recurring expenditure	1,354	462
<i>Balance of non-recurring</i>	<i>(2,160)</i>	<i>(31)</i>
Difference	(1,421)	(3,774)
Other income sources	-	-
Non-recurring SEHD income/year-end support	50	-
Corporate savings programme	1,510	1,847
<i>Total other income</i>	<i>1,560</i>	<i>1,847</i>
Financial surplus	139	(1,927)

Source: Orkney NHS Board minimum dataset (June 2007)

Performance management

Priorities and risks

Audit Scotland's priorities and risks framework set out seven areas for consideration during the audit, building on the work undertaken in each of these in earlier years. Consideration of these areas identified the need to carry out more work on arrangements in relation to:

- service sustainability;
- financial management;
- governance;
- performance management;
- people management;
- partnership working; and
- Information management.

In many of the elements reviewed, our findings indicated that, while actions had been initiated by the Board to address the risks, these would take some time to implement and, therefore, the risk profile for many of the Board's arrangements remains high. In other elements, once actions are effectively completed and frameworks revised, the risk profile is likely to reduce.

Arising from our review, an action plan containing 38 recommendations was agreed with management. Twenty-five of the recommendations were graded as "significant" in terms of the business issues facing the Board. Almost all recommendations had an implementation date set by management of summer 2007. There is a strong inter-relationship between many of the issues and resulting recommendations, including the recommendations agreed arising from the NHS QIS review. Implementation will therefore place considerable demands on management capacity.

Service sustainability

In comparison to a number of other NHS boards, at the time of our review, the Board had yet to fully develop a strategic plan for the modernisation and re-design of services. Work on this commenced during 2006-07 as part of CSSP. This project is focussing on how services can continue to be delivered in a sustainable way, taking into account changes in the local population and its health needs. The project involves a number of work streams, including budgetary control, manpower planning, performance management, information and governance data and systems, and service reviews.

Recent reports on CSSP indicate some progress in many of the workstreams and the development of emerging options for future service delivery. These include GP services to islands, identification of data on current and future health needs to enable planning of service and health promotion activity, pharmacy, primary care and hospital redesign. Given the potential significance of the service changes, management are developing arrangements for consulting with the community. However, evidence available from our most recent visit suggested that some of the key workstreams were running two months behind plan and there must therefore be some risk that the objectives of the project are not secured on a timely basis.

Partnership working

The Board has a positive commitment to close working a number of partners, including Orkney Islands Council. The commitment to closer working with the Council is seen as important, not only in the context of exploiting and maximising efficiencies, but also key to the future success of public services in Orkney. However, this commitment needs to be taken forward in the context of formalised arrangements and the development of the community health partnership ("CHP"). Communication mechanisms for sharing information with partners are being considered as part of CSSP. As the planning for the CHP continues, a communications plan is due to be developed, but this has yet to be documented. A chair for the CHP was appointed in May 2007.

Performance management

There has been a recognition that performance management is an area requiring improvement, including remedying the absence of regular performance reporting to the board. Performance management as a whole is being reviewed as part of CSSP and regular reporting to the board has been introduced. The intention to adopt Citistat was proactive and would have allowed for effective monitoring of performance through a more accountable framework. However, given delays in the implementation of Citistat, temporary monthly performance arrangements have had to be established by management.

Some of the key deliverables in CSSP have not been completed by the target date of April 2007. This includes budgets for all services for the start of the new financial year due to a lack of capacity within the finance department. In addition, the integrated planning process is still under development, again due to a lack of capacity. Given these ongoing issues, the Board's performance management arrangements remain an area for continuing focus.

People management

A workforce plan was submitted to the SEHD in May 2007, but it is likely to require revision in light of the conclusions from CSSP to ensure the plan takes account of local service needs. There are no formal procedures to enable production of pay modernisation benefits delivery plan progress reports to the Scottish Executive Health Department.

Implementation of *Agenda for Change* was successfully progressed during 2006-07. At 31 March 2007 almost all staff had been assimilated, although there remains an accrual at that date for payments not yet processed.

Information management

IM&T issues tend not to be a priority at board level and there is no formal IT governance structure. Although there are a number of operational policies, there is no overarching governance policy.

The Board does not currently have a strategic e-health plan, rather e-health is managed on project by project basis. No formal procedures currently exist for identifying e-health issues and plans tend to be reactive rather than proactive. There is no reporting to the board against the e-health plan.

A business continuity plan is currently in the process of development to ensure the organisation can continue to operate in the event of serious incident, but this has not yet been fully formalised, tested or reviewed.

Best Value

Audit Scotland published a baseline of Best Value arrangements in the NHS from the results of its survey during the 2005-06 audit. While the Board did not participate in this baseline review of current arrangements, the chief executive has a responsibility to ensure that a Best Value framework is embedded in the Board's arrangements.

The Board has yet to formalise its arrangements in respect of Best Value, but has been working closely with Orkney Islands Council to progress the Best Value agenda. Management should ensure that formal consideration is given by the board as to how it can most effectively embrace this initiative and that Best Value arrangements are fully embedded within the Board's operations.

Efficient government

The efficient government initiative is a five-year programme with the aim of tackling waste, bureaucracy and duplication in Scotland's public sector. NHS boards need to embrace the efficient government agenda and establish a clear programme for delivering efficiency savings. The 2005-06 efficient government diagnostic was completed in April 2006.

Management reported efficiency savings of £1.5 million were achieved 2006-07 against a target of £2.4 million. £142,000 of these savings related to the efficient government programme and arose from non-recurring vacancy control measures and, on a recurring basis, from administration and miscellaneous schemes.

The Board has received £580,000 in respect of an efficient government bid. This funding will be used to cover seven areas including: procurement, a shared head of human resources, a shared training and development manager, catering, IM&T, transport and estate management. These initiatives will require close working with Orkney Islands Council to ensure that efficiencies are achieved.

National shared support services

During the period to January 2007 NHS Scotland has been developing proposals for shared support services in financial and related services in the form of a "hub and spoke" model. The response to the proposals, including that from the Board, was characterised by reservations over the risks inherent in the proposed scheme, the impact on staff and the deliverability of savings. The project has recently been re-launched as the shared support services programme, involving a two-tier approach which seeks to build confidence in new ways of working, using common processes and systems, leading to a single services model based on a common finance system. The approach involves a "foundation" level of involvement around common ledger arrangements, or a "pathfinder" approach which seeks to develop more advanced elements. The Board has indicated that it wishes to participate in a pathfinder project. It is envisaged that a national business case for the revised approach will not be available until mid to late 2008.

Appendix – action plan

Priority rating for performance improvement observations raised		
<p>Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Board or systems under consideration. The weakness may therefore give rise to loss or error.</p>	<p>Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.</p>	<p>Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
1	<p>Allied to the sale of two of its properties to Orkney Islands Council, the Board has agreed to lease these premises from the Council for a period of 15 years at a combined, initial rental of £99,000 per annum. The rental agreements do not include any "break" clause and the financial implications of these leases will require to be considered in the context of any future service re-design and accommodation needs.</p> <p><i>Grade two</i></p>	<p>Accepted. This will be considered in the context of any future accommodation needs. This risk was evaluated before the decision to enter into the sale and lease back agreement and was considered to be low.</p>	<p>Director of Finance</p> <p>Ongoing</p>
2	<p>Despite the existence of claims in relation to equal pay, management has not yet been able to quantify the extent of the potential liability it may face.</p> <p>While some of the factors impacting resolution of this matter are outwith the Board's direct control, we strongly encourage management, working with the Scottish Executive Health Department, to resolve this matter in advance of compilation of next year's financial statements.</p> <p><i>Grade one</i></p>	<p>Accepted. This issue impacts all NHS boards in Scotland and there will be a national response within the financial year.</p>	<p>Director of Finance</p> <p>31 March 2008</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
3	<p>While annual reports from the clinical governance and audit committee are prepared, summarising the committees' approach during the year in respect of clinical governance, risk management and internal control, these are not available to inform the preparation of the statement on internal control.</p> <p>Management should ensure that from 2007-08 a formal process is established to collate and review the Board's internal control framework, thus providing a robust basis to evidence the accountable officer's review and 'sign off' of the Board's system of internal control.</p> <p><i>Grade two</i></p>	<p>Accepted. The reports are currently being prepared. A review of the timing of these reports will be carried out with a view to having them available for 2007-08 in line with the annual accounts timetable.</p>	<p>Chief Executive 31 March 2008</p>
4	<p>The Board did not previously have a process for completing payment verification visits to primary care practitioners. Periodic reports summarising the results of PSD reports and practitioner payment verification visits or the results of patient exemption checking are not routinely prepared. Prior to 2006-07 only limited quality outcomes framework ("QOF") visits were undertaken and there has been no reporting of the results to a relevant committee.</p> <p>Going forward, it is important that the Board ensures formal arrangements are established in respect of payment verification and QOF with periodic reporting of outcomes.</p> <p><i>Grade one</i></p>	<p>Accepted. The plan for 2007-08 is to carry out four visits by the end of June 2007. A review will then be carried out and a future plan of visits developed. A report will be prepared for each visit and a summary report will be prepared by the Practitioners Services Division verification manager.</p>	<p>Medical Director 31 July 2007</p>
5	<p>During 2006-07 we have identified a large number of areas for improvement in the Board's control framework.</p> <p>To ensure that all agreed recommendations are satisfactorily implemented on a timely basis, management should implement robust follow-up arrangements, with status update reporting to meetings of the audit committee.</p> <p><i>Grade one</i></p>	<p>Accepted. Temporary extra resources are being applied to this issue over the next three months to address the back log. A formal tracking system for audit recommendations will be established and update status reports will be produced for each meeting of the audit committee.</p>	<p>Director of Finance 30 September 2007</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
6	<p>The initial impact of the national tariff on the Board for 2006-07 was assessed at £336,000. However, an agreement has been reached to limit the impact of the national tariff to 0.4% of revenue resource limit. This reduced the impact in 2006-07 to £108,000. For 2007-08 the full implementation of national tariffs was assessed at £776,000, but it has been agreed with NHS Grampian that the impact will be limited to 0.8% of revenue resource limit; currently estimated at £220,000. There will be a further increase in 2008-09, with the full financial impact in 2009-10.</p> <p>Management should monitor the cost implications of changes in national tariffs and activity levels to provide accurate information for financial planning purposes.</p> <p><i>Grade two</i></p>	<p>The cost implications of changes in national tariff activity levels is constantly monitored and forecast through work with the national tariff reference group and ISD. This information is used to input to the five year plan.</p>	<p>Director of Finance</p> <p>Immediate</p>
7	<p>A five year financial plan was submitted to SEHD as part of the local delivery plan in February 2007. Since then, there have been discussions on its content. At the time of this report, the plan has yet to be approved. The funding gap for 2007-08 currently stands at £1.9 million, after recognising £1.8 million of potential savings. Management has yet to develop a formalised savings plan to secure these.</p> <p>The Board should continue to work with the SEHD to ensure that their financial plan and local delivery plan is approved. In addition, a detailed savings plan requires to be developed with regular performance monitoring and reporting to the board.</p> <p><i>Grade one</i></p>	<p>Accepted. The financial and local delivery plans are being reviewed and regular meetings with the SEHD are being held to update them with progress. A detailed savings plan is being developed with the involvement of all executive directors and heads of departments.</p>	<p>Chief Executive / Director of Finance</p> <p>30 September 2008</p>

