

NHS Orkney

2017/18 Annual Audit Report



 AUDIT SCOTLAND

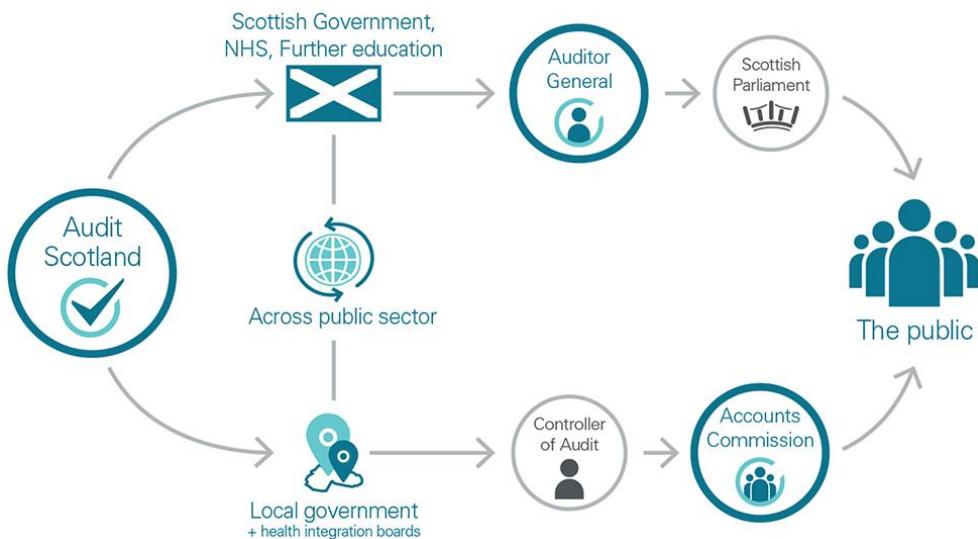
Prepared for the Board of NHS Orkney and the Auditor General for Scotland

25 June 2018

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	5
Part 1 Audit of 2017/18 annual report and accounts	7
Part 2 Financial management	10
Part 3 Financial sustainability	13
Part 4 Governance and transparency	17
Part 5 Value for money	23
Appendix 1 Action plan 2017/18	27
Appendix 2 Significant audit risks identified during planning	30
Appendix 3 Summary of national performance reports 2017/18	34

Key messages

2017/18 annual report and accounts

- 1 In our opinion: NHS Orkney's financial statements give a true and fair view and were properly prepared; expenditure and income was in accordance with applicable enactments and guidance; and 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 accounts direction.

Financial management

- 2 NHS has effective arrangements in place for managing its finances and the use of resources. NHS Orkney met all its financial targets for 2017/18 and achieved an underspend of £0.077 million against its revenue resource limit.

Financial sustainability

- 3 In recent years the board has had a good track record in achieving its savings targets although this has often required the Board to find a higher level of non-recurring savings than planned. NHS Orkney will struggle to achieve its saving targets in future years with many of the 'easier' savings already made. The board is required to make savings of £2.75 million in 2018/19, with £0.266 million of recurring savings still to be identified. The £1.70 million non-recurrent element remains unidentified but the board considers there to be a low risk of not achieving this. The board is required to make savings of £2.75 million in 2018/19, with £0.266 million of recurring savings still to be identified. The £1.70 million non-recurrent element remains unidentified but the board considers there to be a low risk of not achieving this.
- 4 NHS Orkney is finding it difficult to recruit consultant medical staff and continues to rely on temporary or agency staff to fill gaps. The costs of temporary staff are an ongoing financial pressures facing the board.

Governance and transparency

- 5 NHS Orkney has satisfactory governance arrangements in place that support scrutiny of decisions made by the board. The board has reviewed arrangements for committee meetings and has concluded not to hold them in public.

Value for money

- 6 NHS Orkney has an effective performance management framework in place which supports continuous improvement. However, the board continues to struggle to meet a few key national performance targets, such as outpatient referral times and has plans in place to address key areas of underperformance.

Introduction

1. This report summarises the findings from our 2017/18 audit of Orkney Health Board, commonly known as NHS Orkney

2. The scope of our audit was set out in our Annual Audit Plan presented to the December 2017 meeting of the Audit Committee. This report comprises the findings from:

- an audit of the board's annual report and accounts
- consideration of the wider dimensions that frame the wider scope of public audit set out in the *Code of Audit Practice 2016* as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:

- a review the board's main financial systems
- an audit of the board's 2017/18 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- consideration of the four audit dimensions.

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

- Performance Report
- Accountability Report (which includes the Directors' Report, Governance Statement and Remuneration and Staff Report)
- Financial statements and supporting notes.

5. The board is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

6. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and *the Code of Audit Practice (2016)*, and guided by the auditing profession's ethical guidance.

7. As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the board's performance management arrangements, suitability and effectiveness of corporate governance arrangements, financial position and arrangements for securing financial sustainability. In doing this, we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the *Code of Audit Practice 2016*.

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

9. 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 outstanding actions from last year and progress against these.

10. 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 2017/18 audit fee of £70,700, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. Our aim is to add value to NHS Orkney by providing insight and foresight on financial sustainability, risk and performance and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

12. 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.

13. We would like to thank management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual report and accounts



Main judgements

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

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

The audited part of the remuneration and staff report, performance report and governance statement are all consistent with the financial statements and have been properly prepared in accordance with the accounts direction.

Audit opinions on the annual report and accounts

14. The annual report and accounts for the year ended 31 March 2018 were approved by the board on 25 June 2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on the regularity of expenditure and income
- the audited part of the remuneration and staff report, the performance report and the governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

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

Submission of annual report and accounts for audit

15. We received the unaudited annual report and accounts on 11 May 2018, which was slightly later than our agreed audit timetable. The board's group accounts included the financial results of the Endowment Fund and the Integration Joint Board within its area.

16. The working papers provided were of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

17. Officers concluded the accounting treatment for the new hospital under construction late and consequently the accounts have been adjusted to reflect the liability for the leased asset and the element prepaid, and now include a new Note 18. This created additional work for accounts preparers and auditors late in the audit.

Risks of material misstatement

18. Appendix 2 provides a description of areas we assessed as being at risk of material misstatement at the planning stage, how we addressed them and our conclusions thereon. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and how the efforts of the audit team were directed. Also included within the appendix are wider dimension risks.

Materiality

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

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

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

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£0.595 million
Performance materiality	£0.297 million
Reporting threshold	£15 thousand

Source: Audit Scotland

How we evaluate misstatements

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. There are no adjusted or unadjusted misstatements to draw to your attention.

Other findings

23. We discussed with management the accounting treatment of a new provision for 'Pay as if at work' which totals £500,000. The provision represents legal obligations, which are the subject of claims but with no agreed resolution. We have confirmed the value of the provision which is a best estimate of expenditure required to settle the obligation.

Good practice in financial reporting

24. Our audit identified several presentational and disclosure issues in the performance report, the accountability report and related notes to the accounts. Following discussion with management, the reports were revised to an acceptable standard but there is scope for further improvement to ensure the reports and notes provide the users with a clear, understandable and balanced assessment of

the performance of the board. We would also recommend that such a review consider the removal of superfluous material, for example notes to the accounts which are not material to NHS Orkney.

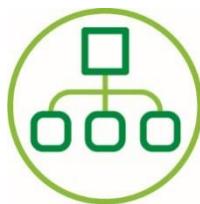
Follow up of prior year recommendations

25. We have followed up actions previously reported and assessed progress with implementation, these are reported in Appendix 1 and identified by the prefix b/f (brought forward).

26. In total, three recommendations were raised in 2016/17, two of which are progressing. The third recommendation related to openness and transparency. To support the principle of openness and transparency we recommended that the board should consider holding committee meetings in public with sensitive or confidential items held in private session. The board reflected on this recommendation in November 2017 and agreed to continue to hold Board meetings in Board premises, but that the Governance Committee meetings would not be made public, largely due to reasons of capacity. The agendas and minutes would continue to remain available via the website. The board is of the view that this provides sufficient transparency.

Part 2

Financial management



Main judgements

NHS Orkney has effective financial management arrangements in place.

NHS Orkney has, in the previous 2 years had to supplement the recurring savings with non recurrent with a higher percentage in 2017/18 and in our opinion, this situation is not sustainable for the board in the longer term

NHS Orkney has satisfactory systems of internal control in place and these were appropriate and operated effectively during the year.

Financial performance in 2017/18

27. NHS Orkney is required by statute to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD) annually. As illustrated in Exhibit 3, the board operated within all limits during 2017/18.

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

Exhibit 3

Performance against resource limits in 2017/18

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	55.694	55.617	0.077
Non-core revenue resource limit	2.228	2.228	0
Core capital resource limit	40.342	40.342	0
Cash requirement	93.019	93.019	0.000

Source: NHS Orkney Annual Report and Accounts 2017/18

Outturn against Revenue Resource Limit (RRL)

28. NHS Orkney reported a deficit of £12k against the in-year revenue resource limit of £55.694m for 2017/18. The deficit was offset by the surplus of £89k brought forward from 2016/17 resulting in an underspend of £77k against the core revenue resource limit for 2017/18.

Efficiency savings

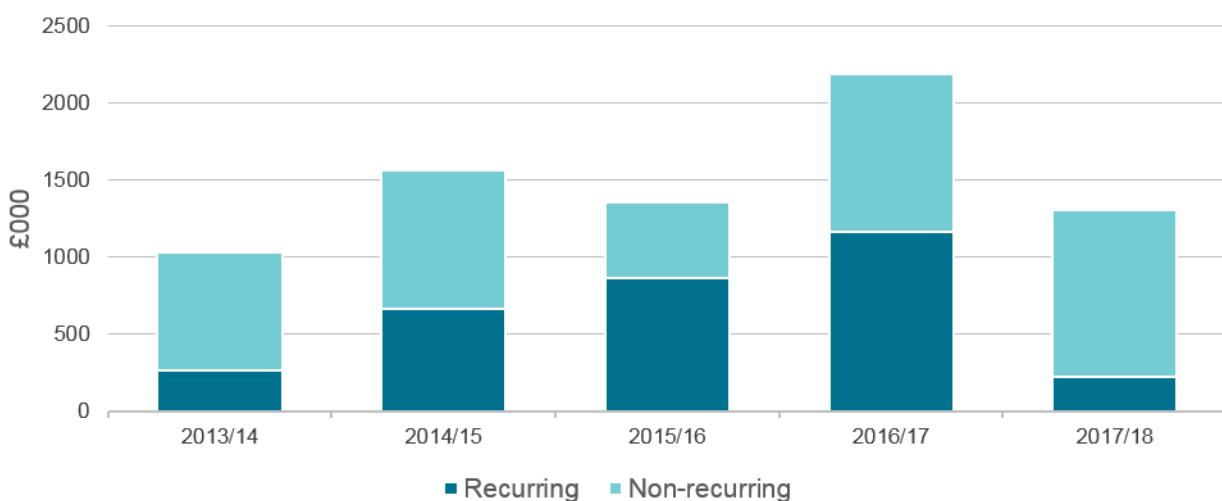
29. NHS Orkney was required to make efficiency savings of 2% in 2017/18. This is equivalent to a savings target of £1.307 million. The board did well to achieve the target, however only 17% (£222k) of savings was recurring.

30. 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.

31. The savings on a recurring and non-recurring split achieved is illustrated in [Exhibit 4](#), NHS Orkney has seen a shortfall in achieved recurring savings in the last 2 years compared to their Local Delivery plan and although substituted through a non-recurrent element, in our opinion, this situation is not sustainable for the board in the longer term.

Exhibit 4

Savings – recurring and non-recurring



Source: Final Financial Performance Reports 2013/14 – 2017/18

Budgetary processes

32. Given that such a big proportion of this year's spend is capital (Exhibit 3), we reviewed NHS Orkney's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we observed that senior management and members receive regular, timely and up to date financial information on the board's financial position.

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

Systems of internal control

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

35. We concluded that the controls put in place by management are satisfactory and are operating effectively. No significant internal control weaknesses were identified during the audit which could affect NHS Orkney's ability to record, process, summarise and report financial and other relevant data that would result in a material misstatement in the financial statements.

ICT controls

36. We identified in our Annual Audit Plan that we would monitor the status of the risks in the risk register and progress of the mitigating actions in relation to IT risks. IT risks have not increased, and now only one IT risk is considered Very High Risk. We also continued to monitor the development of internal policies, and note that some progress has been made.

Financial capacity

37. Within the last year the board has experienced capacity issues in the finance team through staff turnover and sickness absence. Capacity has been strengthened by extending the level of shared services with NHS Grampian.

38. At the time of our audit the finance team was not operating at full establishment and this resulted in significantly more changes being required to the unaudited accounts than last year. The board should ensure that oversight is maintained of the capacity of the finance team to ensure they can perform their role effectively.

Part 3

Financial sustainability



Main judgements

In recent years the board has had a good track record in achieving its savings targets although this has often required the Board to find a higher level of non-recurring savings than planned. NHS Orkney will struggle to achieve its saving targets in future years with many of the 'easier' savings already made.

NHS Orkney is required to make savings of £2.75 million in 2018/19, with £0.266 million of recurring savings still to be identified. The £1.70 million non-recurrent element remains unidentified but the board considers these to be of a lower risk.

The updated workforce strategy covering the period 2017-19 sets out the challenges NHS Orkney faces over the medium term and the actions required to ensure a sustainable workforce with the right skills and capacity. As a matter of priority, the board should carry out detailed succession planning and assess the potential impact of Brexit on the workforce for the medium to longer term.

Medium to long term efficiency savings

39. NHS Orkney is required to achieve efficiency savings of circa 6% of baseline RRL in 2018/19. This is equivalent to a saving of £2.75 million with 38% on a recurring basis. This is a significant challenge for the board and £0.266 million of recurring and £1.7 million of non-recurring savings have yet to be identified for 2018/19. However, NHS Orkney consider that there is a low risk in the non-recurring savings being achieved.



Recommendation 1

The board should ensure that robust plans are developed identifying how the £2.75 million of required savings in 2018/19 will be made.

40. In 2019/20 NHS Orkney is required to achieve efficiency savings of 3%, and 2% in each subsequent year of their five-year plan, as illustrated in Exhibit 5. Around half of the savings required in 2019/20 and beyond have yet to be identified. In recent years the board has had a good track record in achieving its savings targets although this has often required the Board to find a higher level of non-recurring savings than planned. In our opinion, the board will struggle to achieve its saving targets in future years with many of the 'easier' savings having already been made.

Exhibit 5

Savings forecast 2018/19 to 2022/23

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Recurring	1,050	1,000	750	750	750
Non-recurring	1,700	550	250	250	250
Total	2,750	1,550	1,000	1,000	1,000
% of RRL	5.67%	3.15%	2.00%	1.97%	1.94%

Source: NHS Orkney Local Delivery Plan 2018/19

Asset management

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

42. The new hospital and healthcare facility project is progressing well and is currently reported to be ahead of schedule. Construction work on this £64m NPD project began in April 2017 and is due to complete in spring 2019, with the building planned to become operational in late summer 2019. Following completion of the construction phase, the ownership of the property will remain with Robertson Capital Projects for 25 years and then it will transfer to NHS Orkney. However, the hospital will be on NHS Orkney's balance sheet throughout. Construction costs are being met through NHS Orkney's Capital Resource Limit as agreed with the Scottish Government. The board is currently planning for migration to the new building and working on the transformational change programme that will see more services being delivered in Orkney (i.e. certain services being repatriated) when it is appropriate to do so. The new hospital and healthcare facility is expected to deliver efficiencies through enabling new ways of working.

Workforce planning

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

44. NHS Orkney employs circa 624 members of staff. As such NHS Orkney is the smallest NHS Board in Scotland but the second biggest employer in Orkney, the first being Orkney Islands Council.

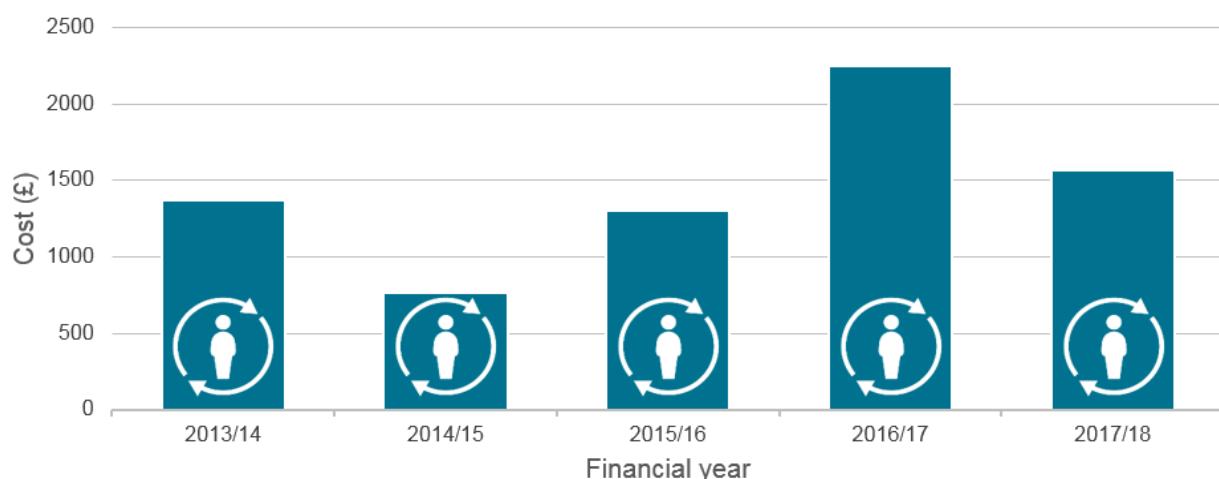
45. The board is continuing to experience a number of workforce challenges:

- consultant and GP vacancies have continued to be difficult to fill with at least 2 rounds of advertising proving necessary for each vacancy. However, during 2017/18 the board has transferred 46% of agency staff onto its payroll thus providing continuity to services and certainty of costs. This accounts for the decrease in cost of temporary staff in 2017/18 (exhibit 6).

- around 20% of the workforce is eligible for retirement. There will be a loss of experience as the older workforce retires and the board could experience difficulties in attracting experienced new staff. Any knowledge gap will have to be managed to minimise impact on service delivery
- sickness absence rates between 4.63% and 5.03% were consistently reported during 2017/18, exceeding the NHS Scotland target of 4%.

Exhibit 6

Temporary staff costs



Source: NHS Orkney Annual Report and Accounts 2013/14 – 2017/18

- 46.** In December 2017 the board approved a revised workforce strategy covering the period 2017-19. The strategy sets out the challenges NHS Orkney faces over the medium term and the actions required to ensure a sustainable workforce with the right skills and capacity. These actions include preparing succession plans which are considered critical to ensuring continued delivery of service.

Recommendation 2

As a priority, the board should carry out detailed succession planning to ensure a sustainable workforce with the right skills and capacity over the medium to longer term.

EU withdrawal

- 47.** There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.

- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

48. NHS Orkney has advised us that the only area of potential concern for the Board will be in relation to workforce. However, no detailed assessment has been carried out and we have therefore concluded that the board is currently unprepared for Brexit.

Recommendation 3

NHS Orkney needs to consider and plan for the impact of Brexit on delivering the business. This should be a priority in the months ahead.

Good Practice

49. The board is innovative and has continued to respond to recruitment and retention issues by putting new arrangements in place to allow for greater sustainability and continuity:

- As mentioned above in paragraph 45 half of agency staff have become permanent staff, and in many cases, this is on a part time basis thus matching the requirements of the board. NHS Orkney is investing in modern apprenticeships and Scottish Vocational Qualifications (SVQ's). Six out of nine staff in Business and Administration have completed training, with the remaining three close to completion. Three more staff have started SVQ's courses (one each in Business and Administration, Care and Catering).
- NHS Orkney has begun to redesign services in preparation for transfer to the new hospital and healthcare facility and is planning to develop a multidisciplinary workforce.

50. Orkney works with the other Island boards to procure services to support specialist areas, for example medical physics, and Director of Medical Education support from NHS Highland. In addition, NHS Grampian provide HR and payroll services through a shared service model arrangement, alleviating workforce demands in that regard.

Part 4

Governance and transparency



Main judgements

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

The board conducts meetings in an open and transparent manner. The board has reviewed arrangements for committee meetings and has concluded not to hold them in public.

NHS Orkney is actively strengthening cyber resilience arrangements

Governance arrangements

51. The Board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHS Orkney and for monitoring the adequacy of these arrangements.

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

53. The Board is responsible for the strategic leadership and governance of NHS Orkney. It is supported in this role by a number of standing committees as illustrated below. The clinical and care governance committee was established in 2017/18 to strengthen governance in this area.

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.



54. The standing committees meet on a regular basis throughout the year to consider relevant matters.

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

56. We have attended meetings of the audit committee during 2017/18 and have performed a detailed review of papers prepared for board, and finance and performance committee meetings. In our opinion committee papers were well prepared and issued in sufficient time for review, sufficient time was allowed at meetings to discuss issues arising from agenda papers, and committee members arrived well-prepared and asked appropriate questions.

57. Members are clear about their roles and responsibilities and are kept up to date on current issues. This enables them to discharge their role effectively.

58. Overall, we concluded that arrangements are satisfactory and support good governance and accountability.

Transparency

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

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

61. We have previously observed that committee meetings are held in private, with the minutes of these meetings posted and available to the public on the board's website. We note that consideration has been given to holding such meetings in public but that the board has decided to not make such a change (see paragraph 26).

Internal audit

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

63. 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.

64. The internal audit plan for 2017/18 has been completed. We have considered findings from their 2017/18 reports which include positive assurance over the project management of the new hospital and healthcare facility.

65. The overall conclusion of internal audit is that NHS Orkney has a framework of controls in place to achieve their objectives and manage key risks whilst promoting value for money and delivering best value.

Governance statement

66. Our review of the governance statement assessed the assurances which are provided to the Chief Executive as Accountable Officer regarding the adequacy and effectiveness of the board's system of internal control which operated in the financial year.

67. The Governance Statement summarises internal audit findings and key reports issued in the year. A number of risks are set out. These include financial sustainability, workforce issues, and aspects relating to health and social care integration. The statement also provides details of a data loss incident which occurred in 2017 and the swift response by NHS Orkney to inform appropriate authorities and investigate and resolve the underlying issue which caused the incident to occur.

68. We concluded that the Board has satisfactory arrangements in place to support good governance and accountability. We are satisfied that the information in the governance statement is consistent with information gathered during the course of our audit work.

National Fraud Initiative

69. 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.

70. NFI activity is summarised in Exhibit 7. There were 257 matches for NHS Orkney and management investigated all matches. As we reported in 2016/17 this identified one duplicate invoice, which had a value of £2,175. The supplier was contacted and the amount repaid within seven days.

Exhibit 7

NFI activity



Orkney 257
Matches



Orkney 38
Recommended
for investigation



Orkney 257
Completed/closed
investigations

Source: NHS Orkney Board papers 1 May 2018

71. We concluded that the board is pro-active in investigating matches and reporting the outcomes of NFI activity.

Standards of conduct for prevention and detection of fraud and error

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

73. We concluded that the board has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention

Cyber security

74. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017 which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

75. The board completed its Cyber Essentials pre-assessment by the required date (31 March) and is on track to achieve full compliance with Cyber Essentials Plus accreditation by the end of October 2018. We conclude that NHS Orkney is actively strengthening cyber resilience arrangements.

General Data Protection Regulation

76. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. All EU member states must implement the new Regulation. GDPR has introduced new and significantly changed data protection concepts.

77. It introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and decisions taken by automated processes. Failure to comply with the new GDPR data handling arrangements could result in the board incurring significant fines.

78. During 2017/18 NHS Orkney focussed on information governance, to ensure the board was prepared for the General Data Protection Regulation. This involved the development of organisation wide information asset registers, risk assessments, and a review of information governance strategy and policies. A new Strategy, renewed IT Security and Information Governance policies, new Data Protection Policy and Information Asset Registers for all of NHS Orkney were all approved by May 2018.

Health and social care

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

80. The Integration Joint Board comprises a wide range of service users and partners including three elected councillors nominated by Orkney Islands Council and three members nominated by NHS Orkney.

81. The Integration Joint Board is supported by a Chief Officer who provides overall strategic and operational advice to the Board, and is directly accountable to the Board for all its responsibilities. The Chief Officer is also accountable to both the Chief Executive of Orkney Islands Council and the Chief Executive of NHS Orkney. The current postholder has left and since 1 April 2018 there has been no Chief Officer (CO) in post to support these responsibilities, although a replacement CO has now been appointed and will start later in 2018. The interim arrangement is for CO responsibilities to be borne by the Chief Executive Officers of Orkney Islands Council and NHS Orkney.

82. The Integration Joint Board receives funding from both Orkney Islands Council and NHS Orkney with which to commission health and social care services. The Strategic Commissioning Plan 2017-19 indicated an opening budget of:

Budget £'000	
Orkney Islands Council	17,660
NHS Orkney	21,463
Total	39,123

83. At 31 March 2018 performance against budget for 2017/18 was reported as follows:

	Spend £'000	Budget £'000	(Over)/under spend £'000	(Over)/under spend %
Social care	18,270	18,270	0	0
NHS	23,997	23,519	(478)	(2)
Total	42,267	41,789	(478)	(1)

84. The main areas of overspend are in relation to providing primary care and the associated costs of employing locum doctors, and prescribing costs.

85. The Integration scheme requires partners to work together to agree a recovery plan in the event of any over or underspend against the annual budget. NHS Orkney agreed to provide additional funding of £478k towards the end of 2017/18 to ensure the IJB finished the year in a break-even position. This is the second

consecutive year that NHS Orkney provided services have overspent against the original budget allocation. Efficiency savings of 5% have been agreed for NHS Orkney in 2018/19 and this level of efficiency will put further pressure on delivering services within budget.

Recommendation 4

The Integration Joint Board partners will need to work together to find a means of delivering a balanced budget in 2018/19 and beyond.

2020 Vision

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

87. NHS Orkney has a Local Delivery Plan which contributes to the commissioning approach adopted to support the implementation of the 2020 Vision.

Part 5

Value for money



Main judgements

NHS Orkney has a limited performance management framework in place. However, we acknowledge the Board is making progress

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

Performance management

88. The Scottish Government monitors how NHS Orkney performs against targets set in the national performance framework. These include targets and their trajectories as set out in the board's Local Delivery plan (LDP). Examples include waiting times for accessing treatment such as the proportion of patients that are seen within 12 weeks, otherwise known as the Treatment Time Guarantee.

89. A process of updating performance reporting to the NHS Board is underway led by the Head of Transformational Change & Improvement. It is intended to use the Health Foundation Framework for Measuring and Monitoring Safety. In the meantime, the NHS Board will receive a shortened report covering health improvement, patient experience and access and treatment standards. Infection control measures will continue to be reported to the NHS by the Medical Director in his lead infection control and prevention Director role to the NHS Board. Staff related measures will continue to be reported through the staff governance committee. Other measures will be reported by exception.

90. The board has been kept well informed of performance across 11 of the 20 LDP performance standards. Detailed review and scrutiny of performance has been delegated to the Finance and Performance Committee, which meets bi-monthly. There is a regular review of papers by board members to find out how well the committee is scrutinising performance.

91. Reports to the committee provide current and trend analysis and the status of performance on targets is assessed on a risk basis rather than strictly by variance from standard / target. Committee members receive supplementary reports on specific aspects of performance, and the financial position.

92. It is unclear why the board does not currently receive performance monitoring reports for all LDP standards. Board members are of the view that the data they currently receive is considered helpful in scrutinising performance.

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

Overview of service performance

93. The board's performance against 11 of its LDP Standards was reported in the Performance Report on 31 May 2018 to the Finance and Performance Committee, and is based on the most up-to-date position at the end of March 2018.

94. Overall performance against 11 of the 20 LDP Standards is summarised in Exhibit 8.

Exhibit 8

Overall performance against 11 LDP Standards



Source: NHS Orkney Publications

95. NHS Orkney service performance improved in 2017/18 with the majority of the 11 Standards categorised as green (8), while 1 Standard was amber. The Treatment Time Guarantee Standard met the National Target of 100% which was an improvement from 2016/17 year-end when it was categorised as red (i.e. outwith acceptable standards). However, there are still 2 Standards that fall within the red category and further detail is provided in Exhibit 9.

96. NHS Orkney operates with other NHS Boards to provide services through Service Level Agreements (SLA), so capacity issues within other boards can also impact on NHS Orkney.

Exhibit 9

Performance against key LDP standards

Target/standard	Performance at March 2018	Action being taken by board
Treatment Time Guarantee (TTG) Proportion of patients that were seen within 12 weeks	100% ● 100%	Maintain current level of performance by 31 st March 2019, as targeted in the Elective Care Access Improvement Plan 2018/19.
Outpatients < 12 weeks from referral to first appointment Patients wait time from referral to first outpatient appointment within 12 weeks	95% (Stretch 100%) ● 85.6%	The Elective Care Access Improvement Plan 2018/19 lists several proposed actions for different areas, including: <ul style="list-style-type: none"> ophthalmology cardiology orthopaedics:

Target/standard	Performance at March 2018	Action being taken by board
Elective to commence < 18 weeks from referral Proportion of patients that commence treatment within 18 weeks of referral	90%  98.9%	As per board action for TTG above. • dermatology:
A&E – 4 hours from arrival to admission to discharge Proportion of patients waiting less than 4 hours in Accident & Emergency from arrival to admission	95% (Stretch 100%)  95.9%	N/A
Urgent referrals cancer to treatment < 62 days	95%  100%	N/A
Decision to start cancer treatment < 31 days	95%  100%	N/A
Clostridium difficile infections (CDI)	3  6	The board receives ongoing assurance through bi-monthly reports. There is a continued aim for zero or low number of cases by clinicians.
Sickness Absence Maintain sickness absence at 4% or below	4%  4.6 - 5%	N/A

Source: NHS Orkney Publications

97. Based on the above actions we conclude that the board's arrangements for monitoring key targeted performance issues are satisfactory and are appropriately focussed on addressing the 'red' risks for the performance measures reported.

98. Overall, we have concluded that NHS Orkney has a limited performance management framework in place, but acknowledge that this is being developed. We will explore the possibilities for increasing the number of targets monitored and reported during 2018/19.

National performance audit reports

99. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 a number of reports were published which are of direct interest to the board and are highlighted in [Appendix 3](#). We consider the following reports to be of interest to the Board:

100. [NHS workforce planning](#) – July 2017

101. [Self-directed support: 2017 progress report](#) – August 2017

102. [NHS in Scotland 2017](#) – October 2017

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

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Efficiency savings</p> <p>NHS Orkney is required to achieve efficiency savings of circa 6% of baseline RRL in 2018/19. This is equivalent to a saving of £2.75 million with 38% on a recurring basis. This is a significant challenge for the board given that around £2 million of savings have yet to be identified for 2018/19.</p> <p>There is a risk that the board may not be able to deliver the targeted savings in 2018/19.</p>	<p>The board should ensure that saving plans are developed identifying how the £2.75 million of savings in 2018/19 will be made.</p> <p>Paragraph 39</p>	<p>This will be a priority area for financial monitoring systems and processes. Separate reports will be provided to each Finance and Performance Committee. The savings report will identify progress to date and risks.</p> <p>Director of Finance</p> <p>From July 2018 F&P</p>
2	<p>Workforce planning</p> <p>NHS Orkney is facing a number of workforce challenges. Currently around 20% of the workforce is aged 55 or over and are all eligible for retirement.</p> <p>There will be a loss of experience as the older workforce retires and the board could experience difficulties in attracting experienced new staff.</p> <p>Any knowledge gap will have to be managed to minimise impact on service delivery. In December 2017 the board approved a workforce strategy covering the period 2017-19. The workforce strategy sets out the challenges NHS Orkney faces over the medium term</p>	<p>The workforce strategy highlights the need to implement approaches to succession planning to ensure a sustainable workforce with the right skills and capacity. This should be a priority for the board in the months ahead.</p> <p>Paragraph 46</p>	<p>Agreed, this will be a priority for the Staff Governance Committee to monitor progress and report to the Board</p> <p>Head of Organisational Development and Learning</p> <p>From August 2018 Staff Governance Committee</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p>EU withdrawal</p> <p>There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three key areas:</p> <ul style="list-style-type: none"> • workforce • funding • regulation. <p>No detailed assessments have been carried out and we have therefore concluded that the board is currently unprepared for Brexit</p>	<p>NHS Orkney needs to consider and plan for the impact of Brexit on delivering the business. This should be a priority in the months ahead.</p> <p>Paragraph 48</p>	<p>Agreed, we will undertake an impact assessment, identify any risks and report this to the Board.</p> <p>Head of Organisational Development and Learning</p> <p>Date to be agreed depending on government announcements</p>
4	<p>Health and Social care financial challenges</p> <p>The Integration Scheme requires partners to work together to agree a recovery plan in the event of any over or underspend against the annual budget. NHS Orkney agreed to provide additional funding of £478k towards the end of 2017/18 to ensure the IJB finished the year in a break-even position. This is the second consecutive year that NHS Orkney has overspent against the original budget allocation.</p> <p>Efficiency savings of 5% have been agreed for NHS Orkney in 2018/19 and this level of efficiencies will put further pressure on delivering services within budget.</p>	<p>The Integration Joint Board partners will need to work together to find a means of delivering a balanced budget in 2018/19 and beyond.</p> <p>Paragraph 85</p>	<p>Agreed. This is a key priority for the coming year and will be addressed in partnership with the IJB and the Council</p> <p>Director of Finance</p> <p>October 2018</p>

Follow up of prior year recommendations

b/f	<p>1. Efficiency Savings</p> <p>NHS Orkney is required to achieve efficiency savings of 2% of baseline RRL in 2017/18. This is equivalent to a saving of £1.25 million and</p>	<p>It is essential that the board has robust medium and long term plans in place to achieve its savings targets.</p>	<p>Updated response:</p> <p>Update: The Board has a long term cost reduction framework in place which will be updated to reflect the 2018/19 financial plan position. The 2018/19 unidentified recurring savings is progressing with £0.266m</p>
-----	---	--	--

No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>currently all of it is planned to be on a recurring basis.</p> <p>In each of the four years from 2018/19 – 2021/22 NHS Orkney is required to achieve efficiency savings of 1.12%–2.77%. NHS Orkney has financial planning arrangements in place based on the Local Delivery Plan for the period 2017/18 to 2021/22. Savings targets comprise of recurring and non-recurring savings, however the board has still to determine how it will achieve all the recurring savings from 2018/19 onwards.</p>		<p>remaining and further work is being undertaken to cost other proposals.</p>
b/f	<p>2. Workforce planning</p> <p>Work is ongoing to review staffing models to support new ways of working and a number of innovative recruitment projects are in place.</p> <p>The board should consider preparing an up to date workforce strategy document to provide clarity of direction and align workforce planning arrangements to service and improvement plans.</p>	<p>NHS Orkney should prepare a revised workforce strategy document for addressing the challenges the board is facing now and in the medium term.</p>	<p>Updated: NHS Orkney approved its revised workforce strategy covering the period 2017-19 in December 2017.</p>
b/f	<p>3. Transparency</p> <p>There is evidence, from a number of sources, which demonstrate the board's commitment to transparency including the annual accountability review (where members of the public can attend). Board meetings are open to the public and there is an open forum to allow members of the public to ask questions.</p> <p>However, we noted that committee meetings are held in private, with the minutes of these meetings posted and available to the public on the board's website.</p>	<p>Consideration should be given to holding committee meetings in public with sensitive or confidential items held in private session.</p>	<p>Update: The board has considered this recommendation but agreed to continue to hold Governance Committee meetings in private but that the agendas and minutes would remain available via the website. The board is of the view that this provides sufficient transparency. No further consideration is planned.</p>

Appendix 2

Significant audit risks identified during planning

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

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
1 Management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.	Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.	Overall, we found no evidence to suggest that management were overriding controls.
2 Risk of fraud over income Orkney receives a significant amount of income 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.	Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk. Liaise with the External Auditor of the Endowment Fund.	No fraud concerns were identified in respect of income.
3 Estimation and judgements 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	Completion of 'review of the work of an expert' for the professional valuer. Focused substantive testing of key areas.	We reviewed estimates and judgements, including impairments, provisions, asset life assumptions and their impact on depreciation and post-employment benefits as part of the audit. No misstatements were identified.
4 Integration Joint Board NHS Orkney and Orkney Integration Joint Board (IJB) are required to submit their audited accounts by 30 June	Liaise with Finance staff to ensure IJB figures will be available for the draft accounts.	We liaised early with key officer and received figures for the accounts in sufficient time for our audit.

Audit risk	Assurance procedure	Results and conclusions
<p>and 30 September respectively.</p>	<p>NHS Orkney is required to consolidate the IJB's financial and non-financial information in to their accounts and will need to ensure arrangements are in place for the IJB to provide the required information by a mutually agreed date to allow the board to meet its earlier statutory reporting obligations.</p>	<p>There is a risk that the board may fail to meet its statutory reporting requirements if appropriate information and assurances are not received from the IJB in time.</p>
5 Finance staff capacity	<p>We will monitor the capacity of finance function and mitigating actions put in place</p>	<p>We met regularly with key officers and obtained assurance that the finance function was operating with sufficient skills and capacity throughout the year and during the final accounts audit.</p>
<p>There have been a number of key staffing changes within Finance during 2017 and the service has been operating below establishment for several months.</p> <p>There is a risk that the Finance division has insufficient capacity to maintain service delivery, and meet business plan objectives in the changing financial and legislative environment.</p>	<p>There is also an increased risk of the likelihood of weaknesses in the control environment and errors in the financial statements</p>	

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

6 Change of Chief Executive Officer	<p>An interim CEO commences in January who has previous experience within NHO as a Director of Finance and as Deputy CEO and will reside in post until a suitable candidate has been recruited.</p>	<p>There was a satisfactory handover from the outgoing CEO to the interim CEO. The fact that the interim CEO is a former Director of Finance of the Board has made the transition smooth. Arrangements are not yet underway to recruit a permanent CEO and we are liaising with the board on this matter.</p>
<p>The current Chief Executive Officer has resigned to take up a similar role elsewhere with effect from 31 December 2017.</p> <p>An interim Chief Executive Officer has been appointed and is expected to start while the current Chief Executive is still in post.</p> <p>Arrangements for securing a permanent replacement officer are unclear and there is a risk that there may not be suitable measures in place following the</p>	<p>An advert will be going out to recruit a permanent CEO who has all the relevant experience to fulfil the requirements of the position, including compliance with statutes and regulations</p>	

Audit risk	Assurance procedure	Results and conclusions
<p>Chief Executive's departure to ensure compliance with all applicable statutes and regulations.</p>	<p>We will monitor the Board's financial position through continuing discussion with officers; reviewing finance reports to the Finance and Performance Committee and the Board; and reviewing the minutes of these meetings and include comment as appropriate in our Annual Audit Report.</p>	<p>We monitored the board's financial position and concluded that the financial monitoring arrangements are satisfactory. The year-end outturn is captured in the body of this report.</p>
<p>7 Wider Financial position</p> <p>The latest financial position to September 2017 shows that the board is currently in a deficit position of £0.327 million; however, the outturn position is forecast to be a surplus of £0.086 million by the year end.</p> <p>The 2017/18 budget was set including £1.250 million of recurring savings. It is likely that a significant proportion of the required savings will be non-recurring, rather than recurring savings in 2017/18. This will put pressure on future years to increase non-recurring savings.</p> <p>There is a risk that the Board is unable to meet its financial targets. Should this happen, an explanatory paragraph would be included in the independent auditor's report.</p>		
<p>8 Workforce Management</p> <p>Work is ongoing to review staffing models to support new ways of working and a number of innovative recruitment projects are in place.</p> <p>The board should consider preparing an up to date workforce strategy document to provide clarity of direction and align workforce planning arrangements to service and improvement plans.</p> <p>Until the strategy is agreed and implemented there is a risk that NHS Orkney may have insufficient staff and skills to meet strategic plan objectives.</p>	<p>Workforce strategy and planning arrangements to be monitored.</p>	<p>We reviewed the revised workforce strategy for the period 2017-19 and met with key human resource officers. We concluded that the revised workforce strategy is a good framework to start to develop detailed scenario plans for the medium to longer term.</p>

Audit risk	Assurance procedure	Results and conclusions	
9 New hospital and healthcare facility	<p>Review of project updates reported to the Board.</p> <p>Focussed testing of accounting transactions</p>	<p>Results from audit work satisfactory. We noted that officers concluded accounting treatment in year end accounts late.</p>	
<p>This is the largest construction project ever undertaken by NHS Orkney. It is therefore crucial that project management arrangements evolve during the project, and are robust throughout, to ensure it is successfully delivered on time, within budget and to the quality expected</p> <p>The size and scale of the project means it has significant financial, accounting, clinical and reputation risks.</p>	<p>Monitor the status of the risks in the risk register and progress of the mitigating actions.</p>	<p>Risks monitored on an ongoing basis and will report any significant issues through our reports should it be necessary.</p>	
10 ICT	<p>ICT continues to play a significant role in the day-to-day running of the board, both in relation to patient care and administration. The board is facing some significant ICT challenges. The impending loss of a key staff member may increase the challenge.</p>		

Appendix 3

Summary of national performance reports 2017/18



	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Common Agricultural Policy Futures programme: further update												
Self-directed support: 2017 progress report												
Equal pay in Scottish councils												
Transport Scotland's ferry services												
Local government in Scotland: Financial overview 2016/17												
Early learning and childcare												
Managing the implementation of the Scotland Acts												

NHS relevant reports

[NHS workforce planning](#) – July 2017

[Self-directed support: 2017 progress report](#) – August 2017

[NHS in Scotland 2017](#) – October 2017

NHS Orkney

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk