

Government and Public Sector

June 2006

NHS Orkney

Annual Report to Board Members

2005/06

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27 June 2006

Ladies and Gentlemen

Annual Report to Board Members 2005/06

We have completed our audit of NHS Orkney (the "Board") and its financial statements for the year ended 31 March 2006.

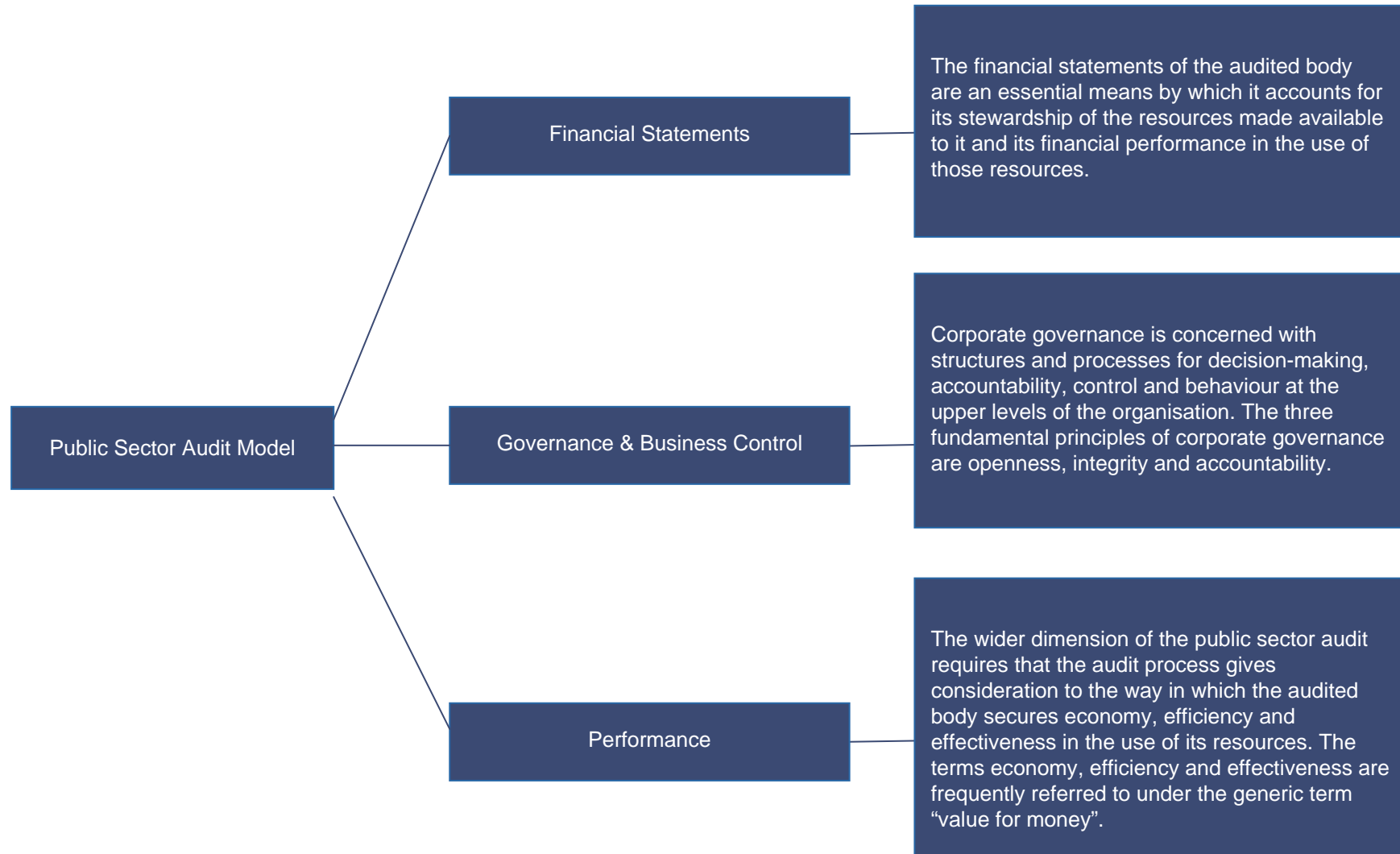
The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2005/06 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

As this is our last year of our 5 year audit appointment, we would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of our appointment.

Yours faithfully

PricewaterhouseCoopers LLP

Our report structure



Our report structure (continued)

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1. Audit Opinions and Financial Targets

Our Audit Opinion

- 1.1 Our audit opinion concerns the true and fair statement of NHS Orkney's financial balances and results for the year ended 31 March 2006, together with the regularity of its income and expenditure in the year.
- 1.2 Our true and fair opinion on the financial statements is unqualified.
- 1.3 Our regularity opinion on income and expenditure is unqualified.
- 1.4 The Counter Fraud Services ("CFS") of the National Support Services ("NSS") performs testing in relation to patient exemptions with regard to pharmacy, dental and ophthalmic charges for the whole of Scotland. On the basis of the data obtained, the CFS extrapolates the information to give an estimated (and possible) total value for patient exemptions that may be non eligible. The extrapolation for NHS Orkney for 2005/06 suggests that exemptions amounting to £10,000 may have been given that were not eligible.
- 1.5 Our opinion is set out in full in [Appendix 3](#).

Financial Targets

- 1.6 The Board achieved its three financial targets:

Financial Targets	Achievement
Net resource limit should not exceed the Revenue Resource Limit ("RRL")	During 2005/06 the Board spent £35.087 million against its RRL of £35.137 million, resulting in a surplus of £50,000.
Capital Resource Limit ("CRL")	Total capital spend was £2.440 million against a CRL of £2.563 million.
Cash Requirement Target	The Board spend during 2005/06 was £35.404 million remaining within the cash requirement target of £35.475 million.

- 1.7 The surplus of £50,000 was achieved as a result of in year additional allocation funding of approximately £2 million and a late allocations of £1.245 million from the Scottish Executive Health Department ("SEHD"). The financial position of the Board is explained in greater detail in Section 2 – Financial Performance.

2. Financial Performance 2005/06

2.1

Overall Financial Performance in Year	£000's	£000's
Clinical Services Costs		
Hospital and Community	25,900	
Less: Hospital and Community Income	<u>(119)</u>	25,781
Family Health	10,191	
Less: Family Health Income	<u>(327)</u>	<u>9,864</u>
Net Clinical Services Costs		35,645
Administration costs	777	
Other Non Clinical Services costs	1,843	
Less: Other Operating Income	<u>(587)</u>	<u>2,033</u>
Net Operating Costs		37,678
Less: Capital Grants to other bodies	(702)	
Less: FHS Non Discretionary Allocation	<u>(1,889)</u>	<u>(2,591)</u>
Net Resource Outturn		35,087
Revenue Resource Limit		35,137
Savings/(excess) against Revenue Resource Limit		<u>50</u>

2.2 It is emphasised that we do not express a specific audit opinion on the figures which follow – these have been extracted in agreement with management from various reports, supporting papers and other available documentation.

<u>The Board's Overall Financial Out-turn Reported for 2005/06</u>	£000's	£000's
	Actual	Actual
Recurring Income	31,568	
Recurring Expenditure	(33,713)	
Underlying recurring surplus/(deficit)		(2,145)
Non-recurring income	3,568	
Non-recurring expenditure	(3,692)	
Balance of non-recurring funding		(124)
2005/06 Funding Gap		(2,269)
Other Income Sources		
Non-recurring SEHD income	60	
Further allocations (including late allocations)	616	
Corporate Savings Plan	1,643	
Total other Income		2,319
Surplus for 2005/06		50

Financial Performance in the Year

- 2.3 At the start of the financial year 2005/06, NHS Orkney forecast a deficit of £2.4 million based on the budgeted RRL of £31.568 million. Although the Board planned to generate internal revenue savings of £2.375 million, the SEHD provided significant additional allocations during the year. The in year financial performance is detailed below:

	£000's	
Budgeted 2005/06 RRL	31,568	
+ Non recurring income	3,568	
+ Recurring SEHD income	60	} *
+ SEHD late allocation	616	
 Total income		 35,812
 Recurring expenditure	 (33,713)	
+ Non recurring expenditure	(3,692)	
Total expenditure		<u>(37,405)</u>
 Deficit		 (1,593)
In year corporate savings		<u>1,643*</u>
Surplus		<u>50</u>

* Note – NHS Orkney planned to achieve corporate savings of £2.375 million and delivered savings of £1.643 million. This shortfall of £0.732 million has been partly set off against the additional non recurring SEHD funding of £0.676 million (i.e. £60,000 plus £616,000).

- 2.4 The additional non recurring SEHD funding made a significant impact on the Board's outturn financial position. As in prior years, the Board set a challenging savings plan which has only been partly achieved. We acknowledge that delivering such a relatively high savings plan represented a significant challenge to the Board during the financial year and considerable work has been undertaken to achieve certain savings. It is worth noting that continued reliance on non-recurring income is not sustainable in the longer term.

2.5 We acknowledge that the Financial Reports presented to the Board highlighted the ongoing financial pressures but did not always highlight key financial movements and developments making them difficult to comprehend. We recommend that future reports should be presented in a format that clearly indicates the movement in the RRL during the year, identifies areas of overspend, includes a forecasted year end position and a narrative on the actual savings achieved compared to the forecast. This will improve the transparency of the Board's financial reporting and will provide Board Members with a more readily understandable explanation of the Board's financial position.

Action Point 1

2.6 An element of the planned revenue savings included the use of capital grants to indirectly fund revenue expenditure. The nature of these transactions were the subject of ongoing discussion between PwC and Board management throughout our year end audit. The capital grants related to the funding of assets built by Orkney Islands Council ("the Council"). In order for these transactions to be defined as a capital grant, the following criteria have to be demonstrated:

- Evidence to demonstrate that the Council received the capital grant;
- A statement from the Council stating that the capital grant will/has been used for capital purposes which will bring benefit to NHS Orkney; and
- A statement from the Council advising that the capital will be set off against future revenue costs.

2.7 During the course of our audit, Board management experienced difficulties in obtaining the required supporting evidence from Orkney Islands Council. The required evidence was received near the end of our audit process and we recommend that where similar transactions are to be used in the future, the necessary documentation is received earlier in the process.

Action Point 2

2.8 This transaction made a contribution to the Board's year end revenue position, however, future transfers of this nature will continue to be the focus of discussions between the Board and your newly appointed external auditors.

2.9 As detailed in paragraph 2.4 achievement of the savings programme remained the biggest challenge facing the Board. A number of cost pressures also contributed to the financial predicament in 2005/06. We have explained some of these in the paragraphs which follow:

General Medical Services

2.10 The Board continues to have a dependency on external locums to cover vacancy and absence within the Orkney GP practices. While these costs are reducing as recruitment of salaried GPs is successful, this still remains a significant pressure. General Medical Services was overspent by approximately £0.86 million in 2005/06. We understand that action to identify more cost effective solutions than expensive external locums is being progressed by Management.

Agenda for Change

2.11 Agenda for Change ("AfC") is a major change programme in the NHS, designed to modernise pay structures, assist service delivery of patient care, and recruitment and retention and allow for personal development of staff. The new pay structure consists of nine pay bands and several pay points within each pay band. Individual posts are placed in the correct pay band by either matching the job to the national profile or a local job evaluation.

- 2.12 The national timetable for completing the assimilation of all staff to the AfC pay band structure is September 2006, with the payment of arrears by 31 December 2006. Approximately 700 individual members of staff require to be assimilated onto the new AfC pay scales. We have been advised that to date 305 staff have been assimilated and will all be paid at AfC rates by the end of June 2006. The staff groups affected are Nursing, Midwifery and Ancillary.
- 2.13 Progress in assimilating the remaining 395 staff has been temporarily delayed as a result of the key staff responsible for the AfC being absent from work. We recommend that corrective action be taken as a matter of urgency to ensure all appropriate payments are made to employees within a realistic timeframe.

Action Point 3

Modernising Medical Careers

- 2.14 The Board has taken initial action to implement Modernising Medical Careers and with effect from the 1 August 2006 will be utilising Vocational Trainees at Balfour Hospital supplied by NHS Grampian as approved by National Education Scotland. The costs of this have yet to be established.

3. Forecast Financial Position for 2006/07

3.1 For the purposes of this report we have summarised the projected 2006/07 financial position for NHS Orkney in the table below:

<u>NHS Orkney's Forecast Financial Position for 2006/07</u>	£'000s	£'000s
Recurring Income	32,921	
Recurring Expenditure	(35,144)	
Underlying recurring surplus/(deficit)		(2,223)
Non-recurring income	454	
Non-recurring expenditure	(629)	
Balance of non-recurring funding		(175)
2006/07 Funding Gap		(2,398)
Other Income Sources		
Non-recurring SEHD income	50	
Corporate Savings Programme	2,348	
Total other Income		2,398
Surplus for 2006/07		0

- 3.2 The Board completed a 5 year financial plan in March 2006 covering the period 2006 – 2011 and this plan has been submitted to the SEHD, along with detailed financial forecasts based on certain financial assumptions.
- 3.3 The SEHD advised the Board in February 2006 that its Revenue Resource Limit for 2006/07 would be £29.464 million, which represents a 7.14% increase from 2005/06. The Board is currently forecasting a deficit of £2.3 million in 2006/07. The financial challenges facing the Board during 2006/07 and beyond include:

Pay related issues

- 3.4 During 2006/07 Agenda for Change and the implementation of the knowledge and skills framework are expected to be fully implemented, although it does need to be recognised that there is an accrual within the 2005/06 financial statements to reflect the anticipated costs, including any additional costs in relation to back pay due to unsociable hours. The estimated cost of backdated pay due to the implementation of Agenda for Change is £0.536 million.

Introduction of tariffs with NHS Grampian

- 3.5 The introduction of a standard tariff for cross-boundary work flows will have a substantial financial effect for 2006/07 onwards. We have been advised that the impact of the tariff with NHS Grampian will lead to an increase of £0.545 million in the cost of services.

Efficiency Savings

3.6 Our review of the Board's 2006/07 financial forecast highlighted that a savings plan for only £1.178 million of the forecast £2.3 million has been agreed. The remaining savings for the £1.143 million shortfall have yet to be identified. The agreed savings plan will focus on the following areas:

• Vacancy control	£374,000
• Reduction in financial support to Orkney Hyperbank Trust	£37,000
• NHS Orkney Ophthalmologist replacing Visiting Consultant	£25,000
• Cease external contract to provide Art Psychotherapy	£26,000
• Reduction in facilities and IM&T budgets	£38,000
• Procurement savings (BPI contracts)	£30,000
• Charge Finance Costs to Endowments	£15,000
• Review on call arrangements	£7,000
• Rural Fellowship Income from NES	£14,000
• Capital grant	£550,000
• Change to Maternity Services Model	£50,000
• Health Board Administration Savings	£12,000
Total	£1,178,000

3.7 The Savings Plan will need to be further developed to account for the remaining £1.143 million shortfall and be monitored throughout the year. In addition, it should be noted that only a proportion of the identified savings have been achieved in previous years. Therefore the breakeven position forecast for 2006/07 would appear extremely challenging.

Action Point 4

4. The Audit Process and Accounting Issues

Audit Process

- 4.1 The Financial Statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of working papers provided and internal review process undertaken by Management were of a satisfactory standard. Overall, we believe an efficient audit process was achieved and an effective working relationship exists with Board staff.

Preparation of Financial Statements

- 4.2 The Financial Statements were prepared in accordance with the accounting requirements contained in the Manual for Annual Report and Accounts of Unified NHS Boards & supplementary guidance, as issued by the Scottish Executive Health Department ("SEHD") and approved by the Scottish Ministers.

Financial Statements Approval

- 4.3 The Financial Statements were submitted to the Board's Audit Committee on the 27 June 2006 and approved and adopted at the Board meeting on the same day.

Audit Adjustments

- 4.4 A small number of minor adjustments were noted during the course of our year end audit. All of the adjustments have been discussed with Management and the Audit Committee.

5. Systems of Internal Control

Statement on Internal Control

- 5.1 We do not disagree with the Board's disclosures contained in the Statement of Internal Control. The Board has used the format prescribed in the Manual for Accounts and has outlined its processes to identify and evaluate risks. In addition, key elements of the Board's control framework have been highlighted including internal and external audit, risk management, and clinical governance.

Follow Up Report on previous control matters

- 5.2 The follow up report on our 2004/05 control recommendations from previous audit years was issued to the Audit Committee in March 2006. Of the 24 agreed recommendations still requiring action, 5 actions were implemented fully, 8 actions were still in progress, 7 actions have had little action taken to date and 4 were no longer applicable at the time of our review.

Action Point 5

Financial Systems and our 2005/06 Internal Controls Report

- 5.3 An Internal Controls Report was issued to the Audit Committee in April 2006. The Board has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion. None of the recommendations raised in this report were considered to be business critical and will be followed up as part of the 2006/07 audit process.

Internal Audit's Report on the Board's Internal Controls

- 5.4 The extract of the Internal Auditor's opinion for 2005/06 is reproduced below:

"I am satisfied that sufficient internal audit work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the Health Board's risk management, control and governance processes.

In my opinion, NHS Orkney:

- Has adequate and effective control processes;*
- Has adequate and effective risk management processes;*
- Has adequate and effective governance processes.*

However, whilst the framework of control is adequate to meet internal needs, there are potentially external funding constraints which could materially undermine the control environment and against which the Board has limited control."

6. Governance Arrangements

6.1 Through good governance, NHS boards are able to improve services for patients and the working lives of staff that care for them. Governance means setting the strategic direction within the parameters laid down by the Scottish Executive Health Department's policies, providing leadership, setting the tone for the whole organisation, overseeing the control of the board's work and reporting activities and progress to stakeholders. NHS Board Members are, therefore, collectively responsible for the success of their organisation.

6.2 Governance within the NHS can be considered under 4 main headings:

Financial and Performance Governance	The proper management of resources and a sound financial standing will enable the organisation to achieve its aims and objectives to meet its obligations as and when they fall due.
Clinical Governance	The Board should have an established clinical governance framework which supports and monitors standards for care, creates an environment for the continuous improvement of services, supports strategic planning and facilitates service delivery.
Risk Management	Responsibility is placed on the Board and primarily the Accountable Officer in the Statement of Internal Control to maintain a sound system of internal control and comply with all applicable laws and regulations.
Staff Governance	NHS employers are expected to have systems in place to identify areas that require improvement and to develop action plans that describe how improvements will be made. The underlying principal is that NHS Boards should recognise that investing in staff will allow them to deliver services to the best of their ability in modern healthcare settings.

Financial and Performance Governance

6.3 NHS Orkney has established Board and Committee structures which have been developed over a number of years.

- 6.4 The key governance Committee's established by the Board include – Board, Clinical Governance, Risk Management, Remuneration, Staff Governance and Audit Committee's. In particular:
- The Board meetings are chaired by a Non-Executive and the Committee structure is made up of six Non-Executive Members, the Chief Executive and four NHS Orkney Directors. The Board meets regularly throughout the year and receive and discuss both financial and non-financial information for example clinical governance, financial governance, corporate governance and strategic planning.
 - Standing orders have been established, which are updated on an annual basis and are supported by a scheme of delegation. All established Committees are supported by detailed terms of reference.
- 6.5 Overall, NHS Orkney is in a period of consolidating its main governance structures and going forward management will consider any areas of additional best practice that can be developed to strengthen its governance arrangements further.

Clinical Governance

- 6.6 The Clinical Governance Committee meets regularly, with standing agenda items including clinical effectiveness, risk management, complaints and infection control.
- 6.7 The Board approved the revised Clinical Governance Strategy in February 2006. At a meeting of the Clinical Governance Committee in March 2006, the title of the Committee was amended to "Clinical Governance and Risk Management Committee" and the agreed remit is to:
- "Establish operational working groups that will have the responsibility to ensure that all relevant strategic issues are incorporated into the Orkney Delivery Plan and to determine the clinical governance reporting mechanisms which will be required from Orkney Community Health Partnerships and Hospital Services and the Department of Public Health."*
- 6.8 Overall, the Board has taken positive steps during 2005/06 to further develop its Clinical Governance Arrangements.

Risk Management

- 6.9 Risk management is defined as "a systematic process for identifying, assessing, controlling, monitoring, reviewing and auditing risk." Effective risk management is of critical importance to the health service as adverse consequences of risk could place limitations on the quality of health care delivery, and put a strain on staff and financial resources. To fulfil this requirement the Board is required to implement a robust and effective framework for the management and understanding of risk. The framework should be developed by building on existing good practice and should be used to facilitate the organisation's planning and decision making process.
- 6.10 At a Board Meeting on 30 March 2006, the role, remit and structure of the Risk Management Committee was revised. The Risk Management Committee was previously constituted as a standing committee of the Board, which led to difficulties in achieving a quorum at a number of meetings. Experience also highlighted that the majority of agenda items at most meetings dealt with largely operational issues which need to be discussed on a regular basis.

- 6.11 To address these areas of weakness, the Board restructured the Committee to comprise a standing committee which will deal with strategic issues, composed of Board Members and chaired by a non-executive member, and a Risk Management Group which will focus on operational issues. The former will meet quarterly while the latter will meet monthly and be chaired by the Director of Finance with the Risk Manager as a deputy Chair.

Action Point 6

Staff Governance

- 6.12 The NHS Scotland Staff Governance Standard was launched in January 2002. It was developed by a partnership of management, trade unions and professional organisations through the Scottish Partnership Forum. Under the auspices of NHS Reform (Scotland) Act it is now a legal requirement for Health Board's to have in place arrangements for good governance of staff. Such arrangements will allow for staff governance to be monitored and improved. The Act introduces this requirement by the way of amendment to the National Health Service (Scotland) Act 1978. It is the duty of every Health Body to put and keep in place arrangements for the purposes of:
- Improving the management of the officers employed by it;
 - Monitoring such management; and
 - Workforce planning.
- 6.13 NHS Orkney has an approved Staff Governance Action Plan for 2005/06 which is regularly reported to the staff governance committee. An update report was presented to the December 2005 Staff Governance Committee which detailed that *"the majority of the action points were progressing well."* Management should ensure that action is ongoing to address the future areas for Staff Governance improvement.

Action Point 7

Audit Committee Membership

- 6.14 The NHS Scotland Audit Committee Handbook set out the key requirements of an Audit Committee. The Handbook highlights that an audit committee should be composed of, as a minimum three Non-Executive Directors, with a quorum of two and in particular the duties and experience of audit committee non-executive members:
- "At least one non-executive director of the Committee should have significant, recent and relevant financial experience, for example as an auditor or finance director. All members of the committee, whatever their background should have an understanding of Board objectives and significant issues, Board structure and culture, relevant legislation and rules, major initiatives and accountability. The Committee as a whole should have knowledge/skills/experience in accounting, risk management and audit."
- 6.15 We are pleased to report that at present the Audit Committee does have individuals with financial experience, although not previously in the role of an auditor or finance director.

7. Prevention and Detection of Fraud and Irregularities

Fraud and Corruption Reviews

- 7.1 As part of our rotational plan to review the key systems and methods for the prevention and detection of fraud and corruption we have conducted a review of certain of the Board's overall arrangements and policies. No major issues of concern were identified.

Fraud Guidance

- 7.2 We have reviewed the fraud and irregularities guidance issued by Audit Scotland during 2005/06 and certain HDL's issued by SEHD, and undertaken work accordingly. There were no matters arising from this work.

Fraud Submission

- 7.3 A fraud return has been made to Audit Scotland of the reported frauds that have occurred within the Board during the year. Two first tier frauds (less than £5,000) have been reported. The actual value of these frauds were less than £50 each.

Termination Packages

- 7.4 The Board had no reported settlements for senior officers / Board level officers during the year.

8. Priorities and Risks Framework

- 8.1 To assess the effectiveness by which NHS Scotland bodies are implementing required reforms, Audit Scotland developed with PricewaterhouseCoopers and other partners a “Priorities and Risks Framework” (“PRF”) which is designed to identify key business challenges and the main risks which could prevent their achievement.
- 8.2 As part of our 2005/06 audit, we consulted with numerous officers and reviewed selected evidence within NHS Orkney to assess the Board’s status in addressing the eight key areas of the PRF, namely:
- Governance
 - Service Sustainability
 - Financial Management
 - Performance Management
 - Pay Modernisation
 - Workforce Management
 - Joint Future
 - Information Management
- 8.3 Our findings and assessment as at February 2005 in relation to each of the eight key areas of the PRF and, where relevant, key areas for further development have been highlighted at Appendix 5.
- 8.4 The key areas for further development were given a risk assessment rating of between 1 and 5 (with 1 being lowest and 5 being highest). We did not identify any areas where the risk assessment was 5, and only two areas in which the risk assessment was 4. These were:

Financial Management

- 8.5 As in prior years, NHS Orkney has experienced significant financial pressures during 2005/06. The Scottish Executive Health Department had ongoing discussions with Board management during the year to agree the financial recovery plan.
- 8.6 The Board continue to face ongoing financial pressures and have forecast a break even position for 2006/07.

Efficient Government

- 8.7 NHS Orkney continues to work closely with Orkney Islands Council to identify potential savings which may contribute to the Efficient Government Agenda. However, no clear strategies have been agreed; this area is considered in detail in the next section of this report.

9. Efficient Government Initiative

- 9.1 The Efficient Government initiative is a five year programme with the aim of attacking 'waste, bureaucracy and duplication in Scotland's public sector'. A key feature of the initiative is that it focuses on the public sector as a whole, rather than individual organisations, with the intention of realising efficiencies through joining up – in purchasing, in accommodation, and in support services. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money.
- 9.2 The Efficient Government Plan sets targets to achieve £745 million (rising to £900 million) of cash-releasing savings, and £300 million (rising to £600 million) of time-releasing savings, by 2007-08.
- 9.3 Audit Scotland required all auditors to complete, together with their audited bodies, an "Efficient Government Diagnostic" – a self assessment tool covering the key themes of the Efficient Government agenda:
- Asset Management;
 - Managing Absence;
 - Procurement;
 - Shared Support Services; and
 - Streamlining Bureaucracy.

- 9.4 The key findings within the diagnostic return submitted to Audit Scotland can be summarised as follows:

Asset Management Strategy

- 9.5 We have been advised that the Board does not have an asset managed strategy mainly as a result of NHS Orkney being the smallest territorial Board in NHS Scotland. However, the Board does have local policies that include areas such as property, vehicle and medical equipment management.

Managing Absence

- 9.6 The Board has a sickness absence policy that has been made available to all staff and a means of recording sickness absence within the organisation. The Board has recorded a 4% absence rate.

Procurement

- 9.7 NHS Orkney has a centralised procurement function which participates in the Best Procurement Implementation Programme across NHS Scotland. We understand that a procurement partnership may be established with Orkney Islands Council as part of a future Orkney Efficient Government bid.

Shared Support Services and Streamlining Bureaucracy

- 9.8 NHS Orkney is a participant of the NHS Scotland National Shared Support Services Project which is currently at the planning and development stage. We understand that the full Business Case for this initiative will receive approval in December 2006. The Board has also commenced a Service Re-Design Programme for Clinical Services which was approved by the Board in March 2006.

Efficiency Savings 2006/07 and beyond

- 9.9 The Board has set efficiency saving target of approximately £800,000 for 2006/07, represented by a number of targeted schemes. At present, the Board is developing those anticipated savings, on a cash and time releasing basis that will be generated in line with the five key areas of the Efficient Government agenda. We understand that Management will quantify the savings anticipated and their nature during 2006/07.

Action Point 8

Appendix 1: Action Plan

Report Reference	Recommendation	Management Response	Responsible Officer	Due Date
Action Point 1	<p>Board Financial Reporting</p> <p>Financial reports should be in a prescribed format that clearly indicates the movement in the RRL during the year, identifies areas of overspend, includes a forecasted year end position and a narrative on the actual savings achieved compared to the forecast.</p>	Director of Finance has developed a revised template for monthly reporting which has not yet been brought fully into operational use.	Director of Finance	With effect from 1 August 2006
Action Point 2	<p>Capital Grants</p> <p>Partnership Working arrangements between NHS Orkney and Orkney Islands Council should be improved to ensure the required evidence to support capital grants is produced.</p>	Board have agreed that the Orkney Island Council (OIC) Convener, NHS Orkney (NHSO) Chair and respective Chief Executives and Directors of Finance meet to discuss the way forward on joint working which will include Capital Grants	Director of Finance	As soon as possible
Action Point 3	<p>Agenda for Change</p> <p>NHS Orkney should complete the assimilation process for the Agenda for Change Framework to ensure specified deadlines are met.</p>	NHSO has arranged that NHS Greater Glasgow provide remote assimilation support to ensure national deadlines are met	Director of Finance / Head of Human Resources	31 October 2006
Action Point 4	<p>2006/07 Financial Position</p> <p>Management should continue to monitor financial pressures in particular, agreement and achievement of savings plan.</p>	Savings Group will meet monthly to evaluate and monitor Savings programmes. Monthly Finance Report to the Board and the SEHD will include a Section on progress with Savings programme.	Director of Finance	Monthly

Report Reference	Recommendation	Management Response	Responsible Officer	Due Date
Action Point 5	<p>Follow Up Report</p> <p>The outstanding control recommendations should be implemented during 2006/07.</p>	Director of Finance to review and action any outstanding issues.	Director of Finance	31 August 2006
Action Point 6	<p>Risk Management</p> <p>Management should review the recently revised risk management arrangements during 2006/07 to ensure that these are operating effectively.</p>	Progress report to be made to the Audit Committee.	Head of Risk Management	September 2006 and March 2007 Audit Committee Meetings
Action Point 7	<p>Staff Governance</p> <p>Management should ensure that action is ongoing to address the future areas for Staff Governance improvement.</p>	Action Plan Developed and agreed in Partnership and monitored quarterly.	Head of Human Resources	Ongoing
Action Point 8	<p>Efficient Government Initiative</p> <p>Management should agree the anticipated Efficient Government savings, on a cash and time realising basis that will be generated in line with the five key areas of the Efficient Government agenda.</p>	Action Plan to be developed once outcome of Stage 2 Bid is known.	Director of Finance	August 2006

Appendix 2: Responsibilities of External Audit and the Board and its Management

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within the Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of the Board and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility we evaluate significant financial systems and associated internal controls and where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist the Board regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with the Board and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to the Board or any other party.

The prime responsibility for the prevention and detection of fraud and irregularities rests with the Board. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach we consider these arrangements, but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of the Board and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of the Board to put in place proper arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct, and the prevention and detection of fraud and corruption.

It is the responsibility of the Board to put in place proper arrangements to manage its performance, to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that the Board has put in place to secure economy, efficiency and effectiveness in its use of resources. We also have a responsibility to undertake reviews arising from national studies commissioned by Audit Scotland where these have been designated as mandatory studies.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to the Board during the year and as listed at [Appendix 4](#).

Appendix 3: Audit Opinion

Independent Auditor's report to the members of NHS Orkney, the Scottish Parliament and the Auditor General for Scotland

We have audited the financial statements of NHS Orkney ("the Board") for the year ended 31 March 2006 prepared under the National Health Service (Scotland) Act 1978. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland and for no other purpose as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

Respective responsibilities of the Board, Accountable Officer and auditor

The Board and Accountable Officer are responsible for preparing the annual report and the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. The Accountable Officer is also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of the Chief Executive's Responsibilities as the Accountable Officer of the Board.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited, which solely concerns Board Members and Senior Employees remuneration, have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. We also report whether in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. We also report if, in our opinion, the Directors' Report is not consistent with the financial statements, if the body has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

We review whether the Statement on Internal Control reflects the board's compliance with the Scottish Executive Health Department's guidance. We report if, in our opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Director's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Board and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the body's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

Financial statements

In our opinion

- the financial statements give a true and fair view, in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers, of the state of affairs of the Board as at 31 March 2006 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

Regularity

In our opinion in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

PricewaterhouseCoopers LLP
Glasgow

27 June 2006

Appendix 4: Other formal reports submitted during the 2005/06 process

	Financial Statements	Governance & Business Control	Performance
• Annual Service Plan	✓	✓	✓
• Follow Up of Prior Years Audit Recommendations	✓	✓	
• Internal Controls Report 2005/06	✓	✓	
• Efficient Government Return			✓
• Priorities and Risks Framework Return	✓	✓	✓

Appendix 5: Priorities and Risks Framework

Risk assessment for NHS Orkney – completed in February 2006

PRF area	Risk assessment	Comments on key issues arising
	1 to 5	
Governance	<p>2 = medium risk</p> <p>But actions identified to address these risks.</p>	<p>Financial Governance:</p> <ul style="list-style-type: none"> • A corporate governance framework is in place which is appropriate to the needs of the organisation. • The Board, the Audit Committee and the Directors Group all meet on a regular basis to discuss current financial pressures. • Standards of reporting and information required to support effective governance and accountability have been agreed, including appropriate schemes of delegation and financial procedures. <p>Clinical Governance:</p> <ul style="list-style-type: none"> • NHS Orkney has an established Clinical Governance Committee which operates as a standing committee of the NHS Board. • The Clinical Governance Committee is supported by the work of the Clinical Effectiveness Department and specifically the clinical audit function. • The Board has recently approved an updated Clinical Governance Strategy which covers the period 2005-2008. The strategy includes key issues such as performance management, culture and resources.

PRF area	Risk assessment 1 to 5	Comments on key issues arising
Governance (continued)		<p>Staff Governance:</p> <ul style="list-style-type: none"> • NHS Orkney has in place an effective Staff Governance Committee which meets on a regular basis and discusses the means by which NHS Orkney ensures it demonstrates corporate accountability for the fair and effective management of staff. • A specific Staff Governance Intranet site is in place which allows employees of the Board to access information relating to current action being taken by the Staff Governance Committee to ensure that staff are well informed, appropriately trained, involved in decisions which effect them, treated fairly and consistently and provided with a safe working environment. • Good progress was made with the Staff Governance action plan during 2005/06, specifically NHS Orkney now has in place a functioning Public Partnership Forum. • As in prior years the provision of training aimed at developing staff has been restricted as a result of the current financial pressures experienced by the Board.

PRF area	Risk assessment 1 to 5	Comments on key issues arising
Financial Management	<p>4 = significant risk Actions have been identified but these may take a long time to implement.</p>	<ul style="list-style-type: none"> • As in prior years, NHS Orkney has experienced significant financial pressures during 2005/06. The Scottish Executive Health Department are currently discussing financial recovery plans with the Director of Finance on an ongoing basis. • Initial indications show that NHS Orkney will report a financial deficit by the end of March 2006. • Particular financial pressures include the overspend in General Medical Services. This overspend can mainly be attributed to a Correction Factor funding shortfall and a dependency on external locums to cover vacancies. The other GMS pressure faced by the Board is Out of Hours for two practices (OOH) which decided to opt out of OOH during 2005/06. • The cost of services provided by NHS Grampian continues to be a source of pressure with the SLA for 2005/06 not yet concluded. In addition it is anticipated that the introduction of national tariffs will increase the financial pressure further. • NHS Orkney has put in place a breakeven plan designed to claw back the anticipated deficit before the year end. The Directors Group continues to monitor the implementation of the plan on a weekly basis.

PRF area	Risk assessment 1 to 5	Comments on key issues arising
People Management	<p>3 = significant risk But actions have been identified which are likely to address the problem. If implemented future risk assessment will shift to medium or low.</p>	<ul style="list-style-type: none"> • NHS Orkney as in prior years as experienced a low level of staff turnover during 2005/06. • All key members of the Corporate Management Team are now in place. This included the recruitment of a Director of Public Health during the year and the appointment of the existing part time interim Medical Director on a full time permanent basis. • Allowing for the above NHS Orkney continues to struggle to recruit Consultants with reliance placed on the use of Locums to fill vacancies. The use of Locums continues to be one of the largest financial burdens currently experienced by NHS Orkney. • As a result of increasing financial pressures a vacancy freeze on non essential personnel has been implemented during 2005/06 and will continue during 2006/07. • In the medium to longer term NHS Orkney will need to consider how it will respond to an increasing ageing workforce given the difficulties it has experienced when recruiting staff in prior years.
Information management	<p>3 = significant risk But actions have been identified which are likely to address the problem. If implemented future risk assessment will shift to medium or low.</p>	<ul style="list-style-type: none"> • The Board has adequate information management systems in place for the size of the organisations. The relatively small size of the Board means that while information management systems are not particularly advanced they are sufficient to enable the Board to manage performance. • A draft e-Health/IM&T strategy has been prepared and is expected to be approved by the Board and in place by April 2006. • It has been acknowledged that during 2005/06 progression in furthering IM&T objectives has been hindered by the financial pressures experienced by NHS Orkney.

PRF area	Risk assessment 1 to 5	Comments on key issues arising
Performance management	<p>3 = significant risk But actions have been identified which are likely to address the problem. If implemented future risk assessment will shift to medium or low.</p>	<ul style="list-style-type: none"> • Due to the small number of patients, one patient or one procedure can have a large impact in percentage terms on PAF performance and may change performance from green to red or red to green. • Performance against PAF indicators is reported quarterly to the Board and remains the primary responsibility of the NHS Orkney Chief Executive. • Moving forward into 2006/07 it is anticipated that once in place the approved Local Delivery Plan will act as a tool for monitoring the performance of the Board.
Service sustainability	<p>3 = significant risk Actions have been identified but these may take a long time to implement.</p>	<ul style="list-style-type: none"> • The Board has a shared vision of where the organisation will be in the next 3-5 years and longer term. • This vision will be documented in both the Local Delivery Plan as required by NHS Scotland and the Local Community Plan. • Once approved by the Board the Local Delivery Plan will be submitted to the Scottish Executive Health Department for approval. • The Local Community Plan has been prepared in conjunction with Orkney Islands Council with input obtained from the voluntary sector. • Once the draft plan has been approved by both the Health Board and the Council arrangements are in place to ensure the proposals are communicated to the public with any feedback appropriately considered prior to finalisation. • Both the Local Delivery Plan and the Local Community Plan will be fully costed, will consider workforce needs and be incorporated the risk management processes currently in place within the organisation.

PRF area	Risk assessment 1 to 5	Comments on key issues arising
Partnership Working	<p>3 = significant risk</p> <p>But actions have been identified which are likely to address the problem. If implemented future risk assessment will shift to medium or low.</p>	<ul style="list-style-type: none"> • The joint futures agenda continues to progress well with NHS Orkney working with Orkney Islands Council. • Both the Health Board and the Council meet on a regular basis to discuss means through which services can be shared and efficiencies achieved. • The relationship will be further advanced by the Community Health Plan once in place. • Progress in the development of Community Health Partnerships has been slow during 2005/06. • To date NHS Orkney has not had its Schemes of Establishment approved by the Scottish Executive. Currently a draft scheme is in place and is due to be submitted to both the Health Board and the Council in the near future. • Moving forward it is unclear as to the impact CHPs will have on the provision of patient services to the local Orkney community given the limited number of inhabitants, the current population of NHS Orkney is approximately 20,000.

PRF area	Risk assessment 1 to 5	Comments on key issues arising
Regional Planning	<p>3 = significant risk But actions have been identified which are likely to address the problem. If implemented future risk assessment will shift to medium or low.</p>	<ul style="list-style-type: none"> • Both the Chief Executive and the Director of Finance represent NHS Orkney at the Northern Regional Planning Group (“RPG”) meeting. • The RPG meets on a regular basis to discuss current issues and attempts to put in place actions which can resolve the problems on a regional basis. • Prior to each meeting NHS Orkney is required to produce an exception report detailing current pressures relating to both local and national performance targets. • The exceptions of each Board are discussed at the RPG meetings and where appropriate assistance is obtained from other regional health boards. • The arrangement is particularly useful to NHS Orkney as the group contains representation from NHS Grampian who NHS Orkney relies upon to deliver a significant proportion of its healthcare service. • Discussions with the other health boards such as NHS Highland and NHS Shetland are also of value as the issues they are facing are often very similar to the current local issues affecting NHS Orkney.
Efficient Government	<p>4 = significant risk Actions have been identified but these may take a long time to implement.</p>	<ul style="list-style-type: none"> • NHS Orkney continues to work closely with Orkney Islands Council to identify potential savings which may contribute to the Efficient Government Agenda. However, no clear strategies have been agreed. • While there is evidence of target savings being achieved i.e. with regards to improved prescribing of drugs ongoing financial pressures continue to restrict the extent to which true time releasing and cash releasing saving are being realised.

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