



INFRASTRUCTURE, GOVERNMENT AND
HEALTHCARE

Orkney NHS Board

Annual audit report to Orkney
NHS Board and the Auditor
General for Scotland
2007-08

16 July 2008

AUDIT

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Notice: About this report

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Nothing in this report constitutes an opinion on a valuation or legal advice.

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Executive summary

This report summarises our work for 2007-08 and our findings in relation to our audit of the financial statements, corporate governance and performance management arrangements.

Financial statements

We have issued unqualified opinions on the financial statements.

No material adjustments have been required to the draft financial statements presented for audit.

Corporate governance

There continues to be changes in board membership, during a time when the framework for the nature of future services has been under review.

The statement on internal control does not disclose any significant weaknesses in the systems of internal control. The content of the statement is consistent with our understanding, but there is no evidence of annual reports from clinical and audit governance committees to support the content of the statement.

Management has made progress in strengthening risk management arrangements, but weaknesses prevail in documenting evidence that identified risks are being managed and mitigated.

The Board facilitated a clinical governance development day, resulting in compilation of a quality and improvement action plan to address issues identified by NHS Quality Improvement Scotland.

The assurance reported from the findings of the internal audit work programme has varied between "limited", "adequate" and "substantial" with a large number of recommendations for action agreed with management. The chief internal auditor concluded that significant assurance can be given that there is a generally sound system of internal control.

The Board participated in NFI for the first time in 2007, but did not establish adequate arrangements for managing its obligations at the outset of the project. Despite this, management satisfactorily resolved all relevant data matches during 2007-08.

The Board met all three of its financial targets for 2007-08. However, while the achievement of financial targets has been secured for the year, this has been achieved wholly through short term, non-recurring measures principally abatement of part of the Board's resource transfer to the Council of £1.3 million and additional, late allocations secured from the Scottish Government Health Directorate relating to exceptional cost pressures.

While management routinely reported the anticipated financial position to members during the year, in our view the formal, written reports to public meetings of the board did not provide sufficient detail on risks surrounding the outturn of assumptions in the financial plan or indeed the progress towards securing the required outturn.

Achievement of the target 2008-09 financial position requires tight budgetary control and staff engagement at all levels of the organisation. The underlying assumptions on which achievement of any financial plan is predicated presents significant challenges for management.

Performance management

The board established the *Shaping Up* programme to implement the findings and recommendations from Creating Sustainable Services Project. Delays in receiving clarification from the Scottish Government Health Directorate about whether NHS Orkney will be subject to the independent scrutiny model for the proposed changes to the provision of primary care services is causing significant delays in implementing change and achieving savings targets.

The Board is continuing to develop mechanisms to address staff performance and will strengthen arrangements through full implementation of the knowledge and skills framework.

The Board continues to have a positive commitment to close working with a number of partners, including Orkney Islands Council. Management continues to see the commitment to closer working with the Council as important, not only in the context of exploiting and maximising efficiencies, but also key to the future success of public services in Orkney. Management has made progress towards establishing a CHP; the Board needs to formalise arrangements in 2008-09.

Management recognised the need for a robust performance management framework and established a framework of quarterly performance monitoring and reporting to the board, but we were only able to identify one report to the board covering the period to September 2007.

There is no evidence to demonstrate the Board's recognition of and commitment to the Best Value agenda, despite the chief executive's personal responsibility, as accountable officer, to embed Best Value arrangements.

Controls over pre-employment checks for overseas staff are designed and implemented appropriately.

Introduction

Audit framework

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

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

- provide an opinion on the Board’s financial statements and the regularity of your transactions;
- review and report on:
 - your corporate governance arrangements as they relate to: your review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; and your financial position
 - the Board’s arrangements to achieve Best Value
 - other aspects of your arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

We outlined the framework under which we operate, under appointment by Audit Scotland, in the audit plan discussed with the Board’s audit committee.

Service overview

During 2006-07 the Board established its Creating Sustainable Services Project (“CSSP”) to develop a strategic plan for the modernisation and re-design of services for healthcare in the Islands. The project was to focus on how the Board can deliver services in a sustainable way, taking into account population demographics and needs. Having made a number of recommendations on the future of local services, the board dissolved CSSP in December 2007 and replaced it with the “Shaping Up” programme under the supervision of a programme board chaired by the chief executive. The board and senior management have devoted considerable attention to progression of the various strands of the project and *Shaping Up*.

Shaping Up will:

- oversee the development of final options for primary care and the development of the formal consultation strategy;
- monitor completion of outstanding CSSP work;
- monitor implementation and benefit realisation;
- progress other initiatives to secure recurring savings;
- champion and advocate the overall programme; and
- ensure good governance.

There are eight workstreams to improve service and reduce costs: hospital, primary care, communication and consultation, pharmacy, support services, transport, education and learning, and management, control and information systems.



During the year there has been continued close working with Orkney Islands Council (“the Council”). This has been beneficial in the context of exploiting and maximising opportunities for improved efficiency; both parties also see this partnership as key to securing the future of public services in the Islands.

We considered the processes and arrangements for CSSP and *Shaping Up* and the partnership arrangements with the Council in focusing our audit effort.

Priorities and risks

KPMG’s audit methodology is risk based. To assist in the identification of risks and ensure development of a consistent approach to the audit across bodies, Audit Scotland published a *Priorities and Risks Framework* setting out seven areas for consideration:

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

Responsibilities of the Board and its auditors

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

We have structured the report around the headings financial statements audit, governance arrangements and performance management arrangements.

Acknowledgement

We wish to record our appreciation of the continued co-operation and assistance extended to us by your staff.

Financial statements audit

- No material adjustments have been required to the draft financial statements presented for audit.
- We have issued unqualified opinions on the financial statements.

Reporting arrangements and timetable

In accordance with the Board's timetable, draft financial statements were available for audit on 2 June 2008. This allowed for completion of the audit and consideration and approval of the financial statements by the board on 26 June 2008.

Audit opinion

Following approval on 26 June 2008 we issued an audit report expressing an unqualified opinion on the financial statements for the year ended 31 March 2008 and on the regularity of transactions reflected in those financial statements.

Equal pay

Article 141 of the Treaty of Rome requires member states to ensure and maintain "the application of the principle that men and women should receive equal pay for equal work". This was expanded on in the Equal Pay Directive, which made it clear that all such discrimination should be eliminated from all aspects of remuneration. The NHS in Scotland has received a number of claims for backdated pay increases, arising from this requirement.

For 2006-07, we accepted that no estimate of the potential liability for these claims could be identified because of the stage of development and as a result of the inclusion of a contingent liability within the financial statements. We strongly encouraged management, working with the Scottish Government Health Directorate and other NHS boards, to resolve this matter in advance of preparation of the 2007-08 financial statements.

As at 31 March 2008, NHS bodies in Scotland had received some 12,000 claims and referred them to the NHS Central Legal Office. It is possible that these claims represent a current liability for NHS boards generally. At 31 March 2008 there were three grievances or employment tribunal claims registered directly against the Board. The CLO has co-ordinated the response to all claims and attended discussions which have taken place so far. The CLO affirms that the cases in Scotland are at too early a stage to allow any assessment of financial risk to be included in the financial statements.

We note the CLO's current view of the stage the cases have reached and management should continue to work with the Scottish Government Health Directorate and other NHS boards to form a view of the potential liabilities in line with accounting standards, taking into account the progress of cases in Scotland and in England.

Recommendation one

Corporate governance

- There continues to be changes in board membership, during a time when the framework for the nature of future services has been under review.
- The statement on internal control does not disclose any significant weaknesses in the systems of internal control. The content of the statement is consistent with our understanding, but there is no evidence of annual reports from clinical and audit governance committees to support the content of the statement.
- Management has made progress in strengthening risk management arrangements, but weaknesses prevail in documenting evidence that identified risks are being managed and mitigated.
- The Board facilitated a clinical governance development day, resulting in compilation of a quality and improvement action plan to address issues identified by NHS Quality Improvement Scotland.
- The assurance reported from the findings of the internal audit work programme has varied between “limited”, “adequate” and “substantial” with a large number of recommendations for action agreed with management. The chief internal auditor concluded that significant assurance can be given that there is a generally sound system of internal control.
- The Board participated in NFI for the first time in 2007, but did not establish adequate arrangements for managing its obligations at the outset of the project. Despite this, management satisfactorily resolved all relevant data matches during 2007-08.
- The Board met all three of its financial targets for 2007-08. However, while the achievement of financial targets has been secured for the year, this has been achieved wholly through short term, non-recurring measures principally abatement of part of the Board’s resource transfer to the Council of £1.3 million and additional, late allocations secured from the Scottish Government Health Directorate relating to exceptional cost pressures.
- While management routinely reported the anticipated financial position to members during the year, in our view the formal, written reports to public meetings of the board did not provide sufficient detail on risks surrounding the outturn of assumptions in the financial plan or indeed the progress towards securing the required outturn.
- Achievement of the target 2008-09 financial position requires tight budgetary control and staff engagement at all levels of the organisation. The underlying assumptions on which achievement of any financial plan is predicated presents significant challenges for management.

Introduction

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

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

- reviews of systems of internal control, including reporting arrangements;

- the prevention and detection of fraud and irregularity;
- standards of conduct and arrangements for the prevention and detection of corruption; and
- financial position.

Corporate governance framework

Where the board has delegated responsibility or decision-making power to a committee, this is included in the terms of reference for the relevant committee. There are six committees: quality and improvement, audit, staff governance (including its remuneration sub-committee), ethics, discipline (for primary care practitioners) and public patient involvement. Committee terms of reference are appended to the standing orders and include the committee's objectives, membership profile, remit, meeting frequency and reporting arrangements.

During 2006-07 we identified a number of areas for improvement of the corporate governance framework, including revising out of date terms of reference, organisational structures and corporate policies. At that time we also noted evidence of a lack of clarity over some roles and responsibilities and that all lines of accountability were not defined. We also identified risk management and clinical governance arrangements as areas requiring significant improvement.

While the majority of policies and procedures are available on the intranet, management has not yet updated a number of them. Management updated the code of corporate governance, standing financial instructions and standing orders and committee terms of reference during the year. The audit committee has considered the revised versions, but the board had not agreed and approved these revisions at 31 March 2008.

Recommendation two

At 31 March 2008 the board consists of six executive directors, including the chief executive, and eight non-executive directors, including the chair. During 2007-08, to support the Board's strategic agenda, the Scottish Government Health Directorate approved the appointment of one additional non-executive director, who was appointed in May 2008.

As in the previous year, there have been a number of changes in board membership, during a time when the framework for the nature of future services has been under review. A new chair was appointed from 3 December 2007, following the end of the appointment period of the previous chair on 31 October 2007. The medical director, who had previously been on special leave followed by a six-month secondment to the Scottish Government Health Directorate, resigned in May 2007. During the period of the medical director's secondment, a secondee from NHS 24 filled the role. At 31 March 2008, the post was still filled on an interim basis, but options to secure the individual on a permanent basis were being discussed with his current employer. If secured, this appointment would not be made in accordance with the Board's recruitment procedures.

Recommendation three

Following the appointment of the director of finance as interim chief executive from September 2006, then chief executive from February 2007, a secondee from NHS Lanarkshire performed the director of finance role from October 2006. This secondment position continued for the whole of 2007-08. The Board advertised the position in autumn 2007, but did not attract internal NHS or external interest other than from the secondee. The Board continues to make progress towards a substantive appointment.

The basis of these current secondment arrangements means that, in addition to payment of salary and employers' cost to other NHS bodies, the Board is liable for travel and accommodation costs. A local organisation, in which one of the non-executive directors is a partner, provides accommodation services to the interim medical director and director of finance. The draft financial statements did not disclose this related party transaction in accordance with financial reporting standards.

Recommendation four

On 1 April 2007 the board elevated the positions of hospital manager and head of human resources to board level, albeit that the head of human resources was on secondment as CSSP project manager until December 2007. In January 2008, the Board established a new post of joint director of human resources position with the Council.

The Scottish Government Health Directorate issued revised pay arrangements for executive cohort positions from 1 October 2005. Health department letter (2006)23 required the Board to evaluate all relevant posts and submit these evaluations to the national joint monitoring and evaluation committee for approval. At the year end, none of the executive cohort positions had been subject to the national evaluation process.

Recommendation five

The demands of CSSP and *Shaping Up* have placed significant capacity pressures on executive directors and managers at various levels within the organisation. In this context, it is important that non-executive members provide not only support but also appropriate challenge on matters presented by management for decision. Review of public board and committees minutes did not always demonstrate with clarity the way in which business had been taken and subsequently discharged. In particular, the minutes of the remuneration committee do not clearly set out all matters relating to a number of human resources issues under consideration. In part, this may be due to the way in which administrative support is resourced. The appointment of a new chair may provide an opportunity to revisit the skills needed by the board and the development and training needs of the non-executives.

Recommendations six and seven

The Ethical Standards in Public Life etc. (Scotland) Act 2000 requires NHS organisations to implement a code of conduct for board members, outlining their responsibilities. In line with the model code, the code contains rules of conduct on:

- general conduct;
- registrations of interests;
- declaration of interests; and
- lobbying and access to members of public bodies.

The Board established codes of conduct for members and staff in April 2004. These set out the expectations and responsibilities of all members and employees. While both these codes were subject to review during 2007-08, at 31 March 2008 these had yet to be finally approved. The published register of interests for board members was not up to date and did not consistently support the disclosures which had been made in the draft financial statements.

Recommendation eight

Capital grants

In the latter part of the financial year, management progressed discussions with Orkney Islands Council over a contribution by means of grant to four capital projects. Agreement on this was not finalised until after the year end. Two grants of £500,000 contributed to projects completed during 2007, namely, a Loganair hangar with costs of £1.5 million and the Kirkwall Travel Centre with costs of £2.5 million. The other grants contributed to the community network infrastructure project (£500,000) and healthy living centres (£300,000). Capital grants are a budgeting mechanism whereby funding provided by the Board for capital expenditure, but accounted for as revenue in its operating cost statement, is charged against the capital resource limit, rather than the revenue resource limit.

The approved financial plan for 2007-08 made reference to the possibility of a capital grant and board members were aware of the discussions with the Council. We are, however, concerned that there was insufficient transparency surrounding the negotiation and approval of these grants. We would have expected that there would have been a formal proposal on the grants to the board and that the minutes of the board's public meetings would have specifically demonstrated consideration and approval of these transactions, demonstrating that it was satisfied that the terms on which such grants can be made were fulfilled. It was only by us obtaining additional confirmation from the Council on the circumstances in which the grants were approved that the matter could be concluded. We would also have expected that grants would contribute to projects still in the course of development rather than those already completed. Collectively, working on this basis would enable the Board to more explicitly demonstrate that all aspects of the relevant guidance had been adhered to, including the nature and eligibility of the projects for support.

These grants were reflected in the draft financial statements presented for audit. However, the guidance on capital grants strongly encourages health boards to discuss their possibility in advance so that the complex issues surrounding them can be fully explored on a timely basis. The Board's failure to do this had an adverse impact on the completion of our audit work.

Recommendation nine

Statement on internal control ("SIC")

The SIC for 2007-08 provides details of the processes and controls and management highlights that the organisation is committed to a process of continuous development and improvement and to developing systems in response to any relevant reviews and developments in best practice. The interim director of finance compiles the SIC.

During 2006-07 we noted that, while annual reports from the clinical governance and audit committee are prepared summarising the committees' approach during the year in respect of clinical governance, risk management and internal control, these are not routinely available to inform the preparation of the SIC for the year. Despite recommending that management should ensure that from 2007-08 a formal process is established to collate and review the Board's internal control framework, thus providing a robust basis to evidence the accountable officer's review and 'sign off' of the system of internal control, there is no evidence that this has been completed.

Recommendation ten

Risk management and clinical governance

During the year, the quality improvement committee replaced the clinical governance and risk management committee. The new committee is responsible for monitoring risk management processes on a monthly basis, with responsibility for identification of risk remaining at an operational level. The Board has created a strategic risk register, providing increased focus in this area. Work remains ongoing to develop the format of the register to capture necessary information on actions required and progress made to manage identified risks. The risk register database system, built by the information management and technology manager, is web based, allowing staff to gain access to the register through the network.

At an operational level, work has been undertaken to train department managers in managing the risk register system on a one to one basis, although this training is largely informal in nature. Management published *A Simple Guide to Risk Management within NHS Orkney* in 2006-07 and this is available on the intranet. This document covers risk management, definitions, measurement, treatment, the risk register and monitoring and review of risk. Monthly induction training for new employees also includes risk management training.

To support the revised framework, management introduced the DATIX risk management and incident reporting system, but only migrated incident reporting to this system. Moving risk management on to this system is under development. Approximately 50% of staff have received training on DATIX.

Risk management is not a standing agenda item at board meetings; there is no evidence that the board regularly reviews the risk register. There is also no clear evidence to demonstrate monitoring of how changes are made to the risk register or that responsible officers have completed agreed actions. Our review of the risk register found that the register did not appear to be up to date. In many cases management had identified risks, but not documented mitigating controls or completed an action plan for each risk.

Recommendation 11

The IM&T manager's responsibilities included risk management and information governance arrangements for most of the year. In February 2008 the IM&T manager was assigned a lead role in *Shaping Up*, leading the hospital redevelopment project. Consequently, the interim medical director (who has executive responsibility for risk management and information governance) has expressed concern over achievement of key risk management and information governance targets. Delays in finding an alternative, suitably qualified manager to assume these responsibilities accentuate these concerns. The quality and improvement committee and the board have noted these concerns.

In the context of the current status of risk management arrangements and internal and external audit findings regarding risk management, information governance and findings from a recent NHS Quality Improvement Scotland visit, the Board should ensure it establishes appropriate 'back-fill' arrangements as a matter of priority.

Recommendation 12

The Board approved a clinical strategy in December 2007 which sets out the context and framework for the delivery of healthcare services. The strategy outlines ten guiding principles to underpin clinical developments and services and aims to support and focus present and future clinical reviews and service re-design.

NHS Quality Improvement Scotland published the national standards for clinical governance and risk management: achieving safe, effective, patient-focused care and services in October 2005. These standards are used to assess the quality of services provided by NHS Scotland nationwide. NHS Quality Improvement Scotland concluded following a visit in 2006-07 that the Board was developing its policies, strategies, processes and procedures for safe and effective care and services, health, well being and care experience, and assurance and accountability, but it identified a number of areas for further action. An action plan was subsequently been agreed with management. Key actions included:

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

Following the NHS Quality Improvement Scotland review the Board facilitated a clinical governance development day and all work from this exercise was combined into a quality and improvement action plan. During February 2008 management completed an exercise to follow up on the progress made in addressing the issues identified by NHS Quality Improvement Scotland and reflected within the quality and improvement action plan. This found that, in the main, work remained ongoing in the majority of core areas; a further action plan was developed to address the outstanding matters. During 2008-09 the Board is due to receive an NHS Quality Improvement Scotland review in respect of asthma services for children and young people.

Internal audit

During 2007-08 internal audit planned to complete reviews in respect of a number of areas directly relevant to governance arrangements and systems of control. As in 2006-07, we have completed an evaluation of the internal audit service in order to inform our approach in terms of reliance. This has allowed us to take into account internal audit's findings and conclusions in our work, where appropriate.

The assurance reported from the findings of the internal audit work programme has varied between "limited", "adequate" and "substantial" with a large number of recommendations for action subsequently agreed with management. The chief internal auditor concluded that "based on the work undertaken in 2007-08, significant assurance can be given that there is a generally sound system of internal control, designed to meet the organisation's objectives and that controls are generally being applied consistently. However, some weaknesses in the design and inconsistent application of controls put the achievement of particular objectives at risk."

Internal controls

We carried out detailed testing in relation to both organisation-wide and key financial controls. On organisation-wide controls, we concluded that some progress had been made in strengthening the framework. On key financial controls we concluded that, with the exception of controls over pharmacy stock, controls were designed appropriately and operating effectively. We identified a number of areas for enhancement of controls over pharmacy stock. Management accepted these recommendations.

IT arrangements are an important element of the framework of support for services to patients. Our work identified that, while progress had been made in response to issues reported in the previous year, significant risks persisted. IT remains a low priority at board level, but management has made progress on the e-health strategy and an e-health programme board meets on a bi-monthly basis, reporting to the interim director of finance. There are no up to date business continuity or disaster recovery plans. Management has considered staffing levels within IT and acknowledges that, if demand were to increase, it is unlikely that there would be sufficient resources to respond. The internal auditors reviewed information governance arrangements and identified three major areas of non-compliance where they consider that fundamental action is required to meet the required governance standards. These include the lack of approved information governance and records management policies, and the requirement to amend staff contracts to specify responsibility for confidentiality, data protection and security.

Testing confirmed that controls over the reimbursement of patient travel and employee relocation expenses are designed, implemented and operating effectively.

Prevention and detection of fraud and irregularity

Fraud policy

The Board has distributed its fraud policy, including a fraud response plan, to all staff. The policy outlines the procedures to prevent and detect fraud and other irregularities. The content of the policy meets the requirements and identifies specific responsibilities for the prevention and detection of fraud. The designated fraud liaison officer, to whom all suspected fraud should be reported, is a member of the outsourced internal audit team. The fraud liaison officer is responsible for liaison with NHS Counter Fraud Services. During 2007-08 management reviewed the fraud policy, including the fraud response plan, but the revised policy was not formally approved.

National Fraud Initiative (“NFI”)

In 2007-08 the Board participated in the NFI in Scotland. The Scottish Government Health Directorate and NHS Counter Fraud Services have strongly supported the involvement of health bodies in the exercise, which is undertaken as part of the audits of the participating bodies. NFI brings together data from health bodies, councils, police and fire and rescue boards, and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. Health bodies provided payroll data for the exercise. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005), but if fraud or overpayments are not identified, assurances may be taken about internal arrangements for preventing and detecting fraud. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application.

The overpayments and savings identified by participating bodies in Scotland during the 2006-07 exercise is currently £9.7 million. This is likely to increase in the months ahead as bodies complete their follow up work. While NHS boards did not identify a significant part of these savings, as they are principally responsible for payroll matches, the inclusion of NHS boards was worthwhile. NHS employees were linked with several payroll irregularities, including a significant payroll fraud involving working while on sick leave at another body. NHS employees were also linked with more than 90 cases of housing benefit fraud or overpayment.

The Scottish Government Health Directorate issued guidance to all NHS boards in April 2008 to outline the requirements for data preparation and submission for inclusion in the 2008-09 NFI exercise which commences on 6 October 2008.

We monitored the Board's involvement in NFI during the course of the 2006-07 audit, and updated our understanding of the status of investigations during 2007-08. Our responsibilities in relation to the NFI exercise included completing a questionnaire evaluating the response to NFI and sample testing of cleared matches.

The assistant director of finance was the key NFI contact and was responsible for facilitating the review and reporting of work. He worked closely with members of staff from the human resource and payroll department to review matches, but did not formally report progress to the audit committee.

In our view, the Board did not establish adequate arrangements for managing its obligations with respect to NFI at the outset of the project. As a result, management did not achieve key data submission and completion deadlines. However, management resolved all relevant data matches during 2007-08. We performed sample testing of the documentation available to support work performed for a sample of data matches and did not identify any errors or weaknesses. It will be important that management develop written procedures and agree responsibilities and reporting requirements for the 2008-09 exercise.

Recommendation 13

Patient exemption checking

NHS Counter Fraud Services published the results of the 2007 patient exemption checking process in April 2008. The patient fraud protocol requires provision of an annual estimated level of fraud and error to each NHS board for the 12 months to December. The figures are based upon the results of routine checking undertaken by the patient claims team, which aims to reduce fraud by targeting higher risk areas. These results are extrapolated to produce a statistically robust estimate of total fraud within each board area and on a national basis.

Total estimated fraud within NHS Orkney in 2007 is £5,000 (2006: £5,000). This represents income lost through patients fraudulently or mistakenly claiming exemptions against dental, pharmaceutical and ophthalmic treatment charges. The percentage rate of estimated fraud is within the national average. Management believe that the potential fraud / error is not significant and has not adjusted the financial statements. We have recorded the potential loss of income as an unadjusted audit difference.

Regularity

In accordance with our responsibilities within the *Code*, we provide an opinion on the Board's financial statements and, as required by relevant authorities, the regularity of transactions. In order to gain assurance over the regularity of expenditure we have updated our understanding over the processes in place to receive SGHD circulars, register, allocate and distribute responsibility for action points and monitor and follow up these action points. We have considered the specific requirements of a number of circulars and other guidance, particularly those relating to remuneration and fixed assets, and no matters came to our attention.

Family health services

NHS National Services Scotland ("NHS NSS") processes family health services ("FHS") income and payments on the Board's behalf. As a result, there is no direct control over issues of systems of control and the regularity of transactions. Transactions are completed on the basis of self-certification by FHS contractors. The Board thus needs to arrange appropriate governance structures and processes to verify payments made on its behalf.

Payment verification

We previously reported that the Board did not have a process for completing payment verification visits to primary care practitioners. During 2006-07 management implemented a full programme of payment verification visits covering all but three practices. The payment verification processes involved receipt of NHS NSS practitioner services division ("PSD") generated reports, meetings to review reports and decisions on follow-up actions. The Board worked closely with PSD in 2006-07 to improve the existing arrangements. Management continued to meet with staff from PSD to discuss the findings of payment verification visits to family health contractors undertaken by PSD during 2007-08. The Board agreed follow up actions with PSD, the majority of which are the responsibility of PSD with a small number of actions to be implemented locally.

During 2007-08 four payment verification visits were completed. The payment verification process did not identify any instances of significant fraud or error during the year at two practices, but, for two practices, established that 'a very significant number' of organisational indicators claimed had not in fact been achieved. While management has prepared periodic reports summarising the results of PSD reports and practitioner payment verification visits during the year, there is no evidence of an annual report summarising the key issues and implications for the board as part of the annual assurance framework.

Qualities and outcomes framework ("QOF")

During 2006-07 we noted that, for the first time, management commenced work to introduce a comprehensive framework for payment verification and Quality Outcomes Framework ("QOF") visit programme, including the evaluation of findings and reporting. Accordingly, in our 2006-07 annual audit report we recommended that it was important that the Board ensured that formal arrangements were established in respect of payment verification and QOF with periodic reporting of outcomes.

NHS NSS has refined and extended pre-payment verification procedures over quality payments due to GP practices under the new general medical services contract. In line with national guidance, NHS NSS visited 50% of GP practices during 2007-08 to review the prior year outturn and to provide assurance over the practices' likely achievement in the year. They randomly selected two practices for verification of quality payments; both practices achieved a high level of assurance.

Management has made progress in addressing our recommendation, but there is no evidence of an annual report being prepared summarising the key issues and implications for the board.

Recommendation 14

Service organisations

NHS NSS operates a number of systems and initiatives on behalf of NHS organisations in Scotland. Service auditors are appointed to provide assurance over control objectives agreed between NHS NSS and NHS boards in relation to the operation of these national systems. For the first time, service audits for 2007-08 were conducted in accordance with Statement on Auditing Standard 70, issued by the American Institute of Certified Public Accountants, in order to provide positive assurance over controls in place and to identify areas of control weakness. Audit Scotland, as external auditor of NHS NSS, reviews the work of service auditors on behalf of auditors of other NHS bodies. This has enabled us to place reliance upon the work of service auditors.

- The practitioner services division of NHS NSS is responsible for calculating and making payments to primary care contractors on behalf of territorial NHS boards. The service auditor issued an

unqualified opinion on 30 April 2008. Five new significant control exceptions were reported in 2007-08.

- The national logistics programme provides a centralised service for ordering, storing and distributing supplies on behalf of a number of NHS Scotland organisations. The service auditor issued an unqualified opinion in March 2008, reporting two “high risk” control weaknesses in relation to authorisation of purchase orders and the creation of new suppliers.
- NHS NSS manages a range of national information and management technology systems that underpin delivery of the eHealth strategy and are integral to the operations of NHS bodies. The service auditor issued an unqualified opinion in March 2008. Two “high risk” control weaknesses were identified, relating to awareness of password policies and documentation of ‘known errors’ referred to service teams.
- Audit Scotland performed an additional review of NHS NSS arrangements to manage the national information management and technology infrastructure. This review highlighted a small number of risk areas but concluded that overall management arrangements were adequate.

Financial position

The Board met all three of its financial targets for 2007-08. However, while the achievement of financial targets has been secured for the year, this has been achieved wholly through short term, non-recurring measures principally abatement of part of the Board’s resource transfer to the Council of £1.3 million and additional, late allocations secured from the Scottish Government Health Directorate relating to exceptional cost pressures.

In addition, the Council had agreed to the abatement of resource transfer of £1.8 million in 2006-07. The total abatement to date of £3.1 million is seen as part of the Council’s joint working with the Board and a recognition of the pressures that the Board faces. The Council has requested that the Board submit detailed five-year financial projections by September 2008 so that it can establish within its own medium term financial strategy what level of resource transfer abatement it may be able to offer during that period.

Last year we reported that achievement of financial balance in 2007-08 would present significant challenges for management and that there was a substantial risk that the outturn projected in the financial plan would not be achieved. The local delivery plan forecast that there would be a deficit of £577,000, which would need to be managed locally. The plan included two key assumptions: abatement of resource transfer to the Council of £1 million and achievement of savings through CSSP of £1.2 million. Savings secured in year from CSSP and *Shaping Up* fell well below initial expectations and plans.

While management routinely reported the anticipated financial position to members during the year, in our view the formal, written reports to public meetings of the board did not provide sufficient detail on risks surrounding the outturn of assumptions in the financial plan or indeed the progress towards securing the required outturn. The last in-year financial report in March 2008 noted a net overspend at the end of February 2008 of £1.6 million, with pressures in healthcare purchases, general medical services locum costs and prescribing contributing to the position. At that time it was indicated that late revenue funding allocations were under discussion with the Scottish Government Health Directorate. Late funding allocations include £875,000 agreed on 16 May 2008 to cover demand for hyperbaric services, specialist care items, exceptional out-of-hours locum costs, and CSSP double-running costs, severance costs and other costs associated with the consultation process.

Recommendation 15



Financial plans

The Board's current projections for 2008-09 indicate an underlying, recurring deficit of £4.6 million. After applying assumed net non-recurring income of £200,000, savings of £4.4 million are required. The Scottish Government Health Directorate and the Board remain in discussions over the finalisation of the financial plan for the year. Management has classed £2.3 million of the current version of the corporate savings plan as 'low risk', £367,000 of which management are reporting as already achieved. The main residual element of these 'low risk' savings includes £1.8 million resource transfer abatement from the Council. Management believe that securing achievement of the remaining £2.1 million is 'high risk'.

In our view, the Board continues to be exposed to significant risks in achieving financial balance, while managing recurring and non-recurring cost pressures and continued reliance on non-recurring income. Achievement of the target 2008-09 financial position requires tight budgetary control and staff engagement at all levels. The underlying assumptions on which achievement of any financial plan is predicated presents significant challenges for management.

Recommendation 16

Performance management

- The board established the *Shaping Up* programme to implement the findings and recommendations from CSSP. Delays in receiving clarification from the Scottish Government Health Directorate about whether NHS Orkney will be subject to the independent scrutiny model for the proposed changes to the provision of primary care services is causing significant delays in implementing change and achieving savings targets.
- The Board is continuing to develop mechanisms to address staff performance and will strengthen arrangements through full implementation of the knowledge and skills framework.
- The Board continues to have a positive commitment to close working with a number of partners, including Orkney Islands Council. Management continues to see the commitment to closer working with the Council as important, not only in the context of exploiting and maximising efficiencies, but also key to the future success of public services in Orkney. Management has made progress towards establishing a CHP, but the Board needs to formalise arrangements in 2008-09.
- Management recognised the need for a robust performance management framework and established a framework of quarterly performance monitoring and reporting to the board, but we were only able to identify one report to the board covering the period to September 2007.
- There is no evidence to demonstrate the Board's recognition of and commitment to the Best Value agenda, despite the chief executive's personal responsibility, as accountable officer, to embed Best Value arrangements.
- Controls over pre-employment checks for overseas staff are designed and implemented appropriately.

Service developments

During 2006-07 the Board implemented its Creating Sustainable Services Project ("CSSP"). The aim of which was to develop a strategic plan for the modernisation and re-design of services. In December 2007 CSSP presented its final report and recommendations to the board. CSSP completed a review of all areas of NHS Orkney and identified a range of service improvement initiatives.

The plans developed include fundamental redesign of the hospital to modernise service improvement and the patient experience. In addition, it identified options for creating a more sustainable and cost effective approach to delivering primary care in the Islands, while taking into account the wider social and economic needs of these communities. The potential to reduce medicine costs by around 14% through changing prescribing habits and making use of collective buying power was also identified.

CSSP also reviewed the Board's support services to identify cost savings. Many of the proposals around support services involve reducing staff numbers and moving to joint services with the Council to improve efficiency.

The board established the *Shaping Up* programme to implement the findings and recommendations from CSSP and the programme board met for the first time in December 2007 and issues frequent progress reports to the board.

The most recent report to the board, in May 2008, noted that the delay in receiving clarification from the Scottish Government Health Directorate about whether NHS Orkney will be subject to the independent scrutiny model for the proposed changes to the provision of primary care services is causing significant delays in implementing change. Management are also concerned that this impacts timely delivery of identified savings.

Management believe that the work completed as part of CSSP and implemented by *Shaping Up* extend the work already underway through the Efficient Government initiative and wider public sector reform. CSSP identifies total recurring annual savings of £2.2 million. To achieve these recurring savings management estimate that the Board will incur one-off implementation costs of £707,000 and ongoing implementation costs will amount to £118,800.

Workforce management

The Board prepares an annual workforce plan, which considers areas such as professional groups, service themes and clinical priorities. The 2008-09 workforce plan is now in place. The Board also has an annual human resource plan to detail how human resource objectives fit with the Board's overall objectives on a short-term basis. The human resource plan details the Board's objectives, required outcomes, and responsible officer and target date for completion. Management discuss and update the human resource plan on a quarterly basis.

The Board has a system of performance appraisal. Staff members set their goals at the start of the year and managers ensure that goals are congruent with overall objectives and strategies. Part way through the year a progress report is completed to allow any issues to be identified. A full appraisal is undertaken at the year end; this is a two way process with staff able to respond to the feedback they receive. The results of the appraisal are held on personnel files.

The Board is continuing to develop mechanisms address staff performance. Now that the *Agenda for Change* process is complete, each employee will use the knowledge and skills framework ("KSF") as the basis of their appraisal. KSF is based on six core dimensions which apply to all staff and optional dimensions relating to individual roles. These dimensions are tailored to one of four levels depending on the individual's grade in the organisation. The Board is still in the process of establishing how to fully implement KSF.

Partnership working

The Board continues to have a positive commitment to close working with a number of partners, including the Council. Audit Scotland's review of Orkney Islands Council's Best Value and Community Planning, published in June 2008, reports that the Board is now contributing financial resources to assist in taking forward a number of strands of community planning work. Management continues to see the commitment to closer working with the Council as important, not only in the context of exploiting and maximising efficiencies, but also key to the future success of public services in Orkney. However, during 2006-07 we noted that this commitment needed to be taken forward in the context of formalised arrangements and the development of the community health partnership ("CHP"). Work in this respect remained ongoing throughout 2007-08, including appointment of the CHP general manager.

In April 2008 the board approved to vary a previous decision and agreed to defer forming the CHP committee and formally establishing the CHP. Originally, the board had agreed that the CHP would be fully operational from March 2008. The decision to delay formation and operation of the CHP was linked to ongoing work in respect of CSSP and progression of the joint improvement team programme in clarifying future joint working arrangements and accountabilities. The executive management team were also keen to delay to minimise costs until corresponding savings had been identified. The Scottish Government Health Directorate, in view of the Board's financial position, agreed this course of action.

In May 2008 management provided a progress update to the board on the establishment of the CHP. This noted that the CHP was not yet operational, although a shadow CHP management team comprising interim service managers for all clinical service areas was established in February 2008. There has been a number of constraints on the establishment of the CHP, including the absence of some appointments to the CHP committee and organisational restructuring.

Management are aware that they need to prioritise establishment of a formal CHP committee and embed the required governance arrangements. Management are currently considering the possibility that it may be appropriate to expand the remit of the CHP to include social care, which is being explored as part of the wider public sector reform agenda in Orkney. Such a change would require revision to existing joint agency reporting, decision-making structures and schemes of delegation. The board has agreed that progress reports will now be received on an ongoing basis and a target date for July 2008 has been set for formal establishment of the CHP committee.

Performance management

During 2006-07, senior management recognised that performance management was an area that required improvement, including remedying the absence of regular performance reporting to the board. During 2007-08 the performance and planning manager established a framework of quarterly performance monitoring and reporting to the board. Despite the establishment of this revised framework, we were only able to identify one performance report to the board covering the periods to September 2007. This report highlighted performance against all relevant national HEAT targets and other local performance measures. The format of the reporting framework takes into account the Citistat approach.

Recommendation 17

Audit Scotland performance studies

Audit Scotland undertakes a programme of studies on financial management, governance and performance on behalf of the Auditor General. This programme covers topics of national importance. During 2007-08 the following reports were published in relation to the NHS:

- primary care out-of-hours services;
- overseas staff in the NHS – pre-employment checks;
- overview of Scotland's health and NHS performance in 2006-07;
- free nursing and personal care; and
- managing long term conditions.

Studies on NHS asset management, diagnostics, mental health, national general medical services contract and palliative care are in progress. Audit Scotland expects to publish the NHS overview report 2007-08, focusing on financial management, in December 2008.

During the year the audit committee discussed the process for dealing with reports requiring consideration / action from entities other than the Board's internal or external auditors, for example Audit Scotland and NHS Quality Improvement Scotland. The Board has not finalised its process to demonstrate how national reports are considered in relation to local practices.

Recommendation 18

Overseas staff in the NHS – pre-employment checks

Events in Glasgow and London in 2007 were alleged to involve overseas staff working in the NHS. Following these incidents reviews were instigated which covered the arrangements for recruiting overseas staff for work in the NHS. In Scotland the Cabinet Secretary for Health and Wellbeing also requested a review of whether pre-employment screening of overseas staff working in the NHS in Scotland was in line with guidelines set out by the Centre for Protection of National Infrastructure.

Audit Scotland carried out a review as to whether NHS boards are following their own procedures on pre-employment screening, reporting in November 2007. This review considered whether NHS boards were complying with pre-employment screening procedures for overseas staff and included testing source documentation in five NHS boards.

During our 2007-08 audit planning process we indicated that, following consideration of Audit Scotland's report by the audit committee of the Scottish Parliament, we had been requested to undertake compliance testing of records at NHS boards that were not part of the national review.

Audit Scotland reported a high level of compliance and, from a sample of 235 files across five NHS boards, there was evidence on files to demonstrate that 75% of checks were performed. Overall, the Board's files demonstrate that 69% of checks were performed.

Our work over the design, implementation and effectiveness of controls over overseas recruitment has therefore concluded that controls are designed and implemented appropriately. We reported our conclusions to the chief executive on 30 April 2008 and management are reviewing current processes to ensure compliance with guidance.

Asset management

The NHS in Scotland owns assets valued at over £4 billion including land, hospitals and equipment. The way these are managed has a significant impact upon service delivery. The NHS is currently undergoing service redesign which will also have an impact on the way assets are managed. The overall aim of the study is to consider the extent to which the NHS manages its assets strategically in order to ensure they are used as efficiently and effectively as possible. The study will highlight areas of good practice and make recommendations where assets can be used more efficiently.

Best Value

In April 2002 the Scottish Ministers introduced a non-statutory duty on accountable officers to ensure arrangements are in place to secure Best Value.

Audit Scotland published a baseline of Best Value arrangements in the NHS from the results of its survey during the 2005-06 audit. We noted in 2006-07 that while the Board did not participate in this baseline review of current arrangements, the chief executive has a responsibility to embed a Best Value framework in the Board's arrangements. At that time, the Board had not formalised its arrangements in respect of Best Value, but had been working closely with the Council to progress the agenda. Management accepted our recommendation to formally consider how the Board can most effectively embrace this initiative and embed Best Value arrangements in its operations.

There is no evidence that management completed a comprehensive exercise during 2007-08. However, in January 2008, the board received a report presenting the findings of a Best Value review of the community mental health service provided jointly with the Council. The results of the review provided evidence of effective and committed staff and a high level of satisfaction amongst patients and service users who responded to the consultation and comparable performance with services in Shetland and the Western Isles. However, the review also identified a number of issues to be addressed, specifically the associated risk due to absence of local psychiatric services. The cost of providing community mental health services in 2005-06 was £383,000. The report notes that additional funding required to implement the recommendations identified by the review will have to be sourced from existing resources.

Recommendation 19

2008-09 onwards

Audit Scotland has been committed to extending the Best Value audit regime across the whole public sector for some time now, with significant amounts of development work having taken place during the last year. Using the Scottish Executive's nine best value principles as the basis for audit activity, Audit Scotland has selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working). Audit Scotland is currently developing a series of toolkits that auditors will be required to use from 2008-09. Completion of these toolkits will require a detailed examination of arrangements in specific areas. The focus of this work in 2008-09 will be on the use of resources, including efficiency, information management, procurement, asset management, performance management and people management.

Efficient government

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

In order to achieve financial balance, the total savings target for 2007-8 was £3.320 million: £2.179 million recurring and £1.141 million non-recurring. Final outturn reports indicate that the Board only achieved £114,000 of recurring savings. Non-recurring savings were achieved through vacancy management, late funding allocations and abatement of resource transfer of £1.3 million.

National shared support services

In response, to the revised national arrangements for shared services, the Board joined a consortium led by NHS Ayrshire and Arran. For the host board and two other consortium boards the shared ledger “went live” on 16 April 2008, two days later than planned. Despite some initial difficulties regarding the operation of interfaces and reporting, the new system is working satisfactorily. The Board and remaining members of the consortium will “go live” from October 2008. The migration to a new ledger will allow a cleansing of data within the ledger and a streamlining of the cost centre and account code hierarchy to meet operational needs. The shared ledger system will include an enhanced reporting tool that will provide a larger range of management information.

The Board's interim director of finance is a member of the financial services consortium management team, which oversees the project and includes representatives from the other member boards. This team meets on a monthly basis and receives and consider a project update, updates on the national shared services programme, and risk management. A risk register and action plan exists at consortium level, but has yet to be developed fully to reflect the risks associated with this project from an NHS Orkney perspective.

Appendix – action plan

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

No.	Issue and performance improvement observation	Management response	Officer and due date
1	<p>We note the CLO's current view of the stage the equal pay cases have reached and management should continue to work with the Scottish Government Health Directorate and other NHS boards to form a view of the potential liabilities in line with accounting standards, taking into account the progress of cases in Scotland and in England.</p> <p><i>(Grade two)</i></p>	<p>Management will continue to work with the Scottish Government Health Directorate and other NHS boards in this area. This item is regularly discussed at national directors of finance meetings.</p>	<p>Interim Director of Finance Ongoing</p>
2	<p>While the majority of policies and procedures are available on the intranet, management has not yet updated a number of them. Management updated the code of corporate governance, standing financial instructions and standing orders and committee terms of reference during the year. The audit committee has considered the revised versions, but the board had not agreed and approved these revisions at 31 March 2008.</p> <p>Management should ensure that the board approves the code of corporate governance and other governance policies. In addition, management should implement a rolling programme of review for all governance and operational policies.</p> <p><i>(Grade one)</i></p>	<p>The Board approved the adoption of the code of corporate governance, standing financial instructions and standing orders and sub-committee terms of reference on an interim basis at the meeting on the 28 February 2008. These documents were approved by the audit committee on the 26 June 2008 and will be on the agenda of the August 2008 board meeting for agreement and approval of the revisions.</p>	<p>Interim Director of Finance 31 August 2008</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
3	<p>There continues to be changes in board membership, during a time when the framework for the nature of future services has been under review, and there are a number of staff in acting or interim posts.</p> <p>Management should ensure that recruitment procedures are completed in accordance with local and national recruitment procedures.</p> <p><i>(Grade one)</i></p>	<p>A meeting between members of the remuneration committee and executive managers has been arranged for 30 June 2008. This recommendation will be discussed and a response made as an outcome of this meeting.</p>	<p>Director of Human Resources</p>
4	<p>In addition to payment of salary and employers' cost to other NHS bodies, the Board is liable for travel and accommodation costs for secondees. A local company, in which one of the non-executive directors and a member of the audit committee are partners, provides accommodation services to the interim medical director and director of finance. The draft financial statements did not disclose this related party transaction in accordance with financial reporting standards.</p> <p>Management should consider the appropriateness and external perception associated with continuing these arrangements and ensure compliance with disclosure requirements of financial reporting standards.</p> <p><i>(Grade one)</i></p>	<p>A meeting between members of the remuneration committee and executive managers has been arranged for 30 June 2008. This recommendation will be discussed and a response made as an outcome of this meeting.</p>	<p>Director of Human Resources</p>
5	<p>The Scottish Government Health Directorate issued revised pay arrangements for executive cohort positions from 1 October 2005. Health department letter (2006)23 required the Board to evaluate all relevant posts and submit these evaluations to the national joint monitoring and evaluation committee for approval. At the year end, none of the executive cohort positions had been subject to the national evaluation process.</p> <p>Management should continue to progress local evaluation and national approval of all executive cohort evaluations as a matter of priority.</p> <p><i>(Grade one)</i></p>	<p>A meeting between members of the remuneration committee and executive managers has been arranged for 30 June 2008. This recommendation will be discussed and a response made as an outcome of this meeting.</p>	<p>Director of Human Resources</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
6	<p>The demands of CSSP and <i>Shaping Up</i> have placed significant capacity pressures on managers at various levels within the organisation. In this context, it is important that non-executive members provide not only support but also robust challenge on matters presented by management for decision.</p> <p>The board and its sub-committees should perform annual self-evaluation exercises to identify areas for development or training.</p> <p>(Grade one)</p>	<p>NHS Orkney has invested significant time and resource during 2007-08 in moving the board towards a culture where it reflects on its performance and identifies and actions improvement opportunities.</p> <p>In April 2008, the board had an externally facilitated away day to review its performance during the previous year. The event examined the issue of creating a more appropriate balance between support and challenge. The outcomes from this event are being incorporated into a board develop plan which should be submitted to the September 2008 board meeting.</p> <p>The board now conducts a self-assessment of performance at the end of each formal meeting. The actions from these reviews are minuted and reviewed at the next meeting. During 2008-09 each statutory governance committee will be asked to review its own performance and present the outcome of this as part of its annual assurance report to the board.</p>	<p>Director of Human Resources</p> <p>Ongoing</p>
7	<p>Review of public board and committees minutes did not always demonstrate with clarity the way in which business had been taken and subsequently discharged. In particular, the minutes of the remuneration committee do not clearly set out all matters relating to a number of human resources issues under consideration. In part, this may be due to the way in which administrative support is resourced.</p> <p>Management and non-executive directors should ensure that minutes provide a comprehensive and accurate record of discussions and independent challenge.</p> <p>(Grade one)</p>	<p>At the meeting of the audit committee on 24 June 2008 KPMG agreed to provide the board with samples of minutes from other boards that they consider follow good practice in this area. The committee agreed that on receipt of these samples they would review them and make recommendations to the board with regard to content of board minutes.</p>	<p>Interim Director of Finance</p> <p>31 August 2008</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
8	<p>The published register of interests for board members was not up to date and did not consistently support the disclosures which had been made in the draft financial statements.</p> <p>Management should implement a robust process to ensure that the register of board members' interests is up to date.</p> <p><i>(Grade one)</i></p>	<p>The register is now up to date, though the NHS Orkney website does not yet reflect the updated information. The website is under review and will be updated accordingly.</p>	<p>Chief Executive 31 December 2008</p>
9	<p>The approved financial plan for 2007-08 made reference to the possibility of a capital grant and board members were aware of the discussions with the Council. We are, however, concerned that there was insufficient transparency surrounding the negotiation and approval of these grants. We would have expected that there would have been a formal proposal on the grants to the board and that the minutes of the board's public meetings would have specifically demonstrated consideration and approval of these transactions, demonstrating that it was satisfied that the terms on which such grants can be made were fulfilled.</p> <p><i>(Grade one)</i></p>	<p>Capital grants were discussed with the board at 'in committee' sessions throughout the year.</p> <p>Management recognises however that no formal proposals with reference to the grants were discussed at public meetings of the board.</p> <p>Management will ensure that in future any transactions of this nature will be subject to full approval process at a public meeting of the board.</p>	<p>Chief Executive Immediate</p>
10	<p>Despite previously recommending that management establish a formal process to collate and review the Board's internal control framework, including systems relating to family health services, thus providing a robust basis to evidence the accountable officer's review and 'sign off' of the system of internal control, there is no evidence that this has been completed.</p> <p>Management needs to formalise arrangements to prepare regular and annual reports to evidence consideration of the effectiveness of the systems of internal control.</p> <p><i>(Grade two)</i></p>	<p>Minutes from the audit and quality improvement committees are standing items on the board meeting agendas and are routinely reviewed by the board.</p> <p>An annual summary of these minutes outlining progress made will be prepared and will be part of the year-end financial statement process.</p>	<p>Interim Director of Finance 31 March 2009</p>
11	<p>Management has made progress in strengthening risk management arrangements, but weaknesses prevail in documenting evidence that identified risks are being managed and mitigated.</p> <p>The board needs to implement and manage a robust risk management system that complies with best practice.</p> <p><i>(Grade one)</i></p>	<p>NHS Orkney has now put in place a more robust team to deliver on risk management, clinical effectiveness and patient safety. By expanding the team and integrating the functions into one team it is expected that NHS Orkney will have a more effective risk management system that will comply with best practice.</p> <p>The team will be fully functional by the end of July 2008.</p>	<p>Interim Medical Director 31 July 2008</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
12	<p>The interim medical director has expressed concern over achievement of key risk management and information governance targets due to staffing changes.</p> <p>In the context of the current status of the Board's risk management arrangements and internal and external audit findings regarding risk management, information governance and findings from a recent NHS Quality Improvement Scotland visit, the Board should ensure establish appropriate 'back-fill' arrangements as a matter of priority.</p> <p><i>(Grade one)</i></p>	<p>With regard to the management of risk there is a new team set up which will manage risk, clinical effectiveness and patient safety on an integrated basis. This team is dedicated to these functions.</p> <p>The executive management team will have identified a solution for the information governance by the end of June 2008.</p>	<p>Interim Medical Director</p> <p>31 July 2008</p>
13	<p>The Board participated in NFI for the first time in 2007, but did not establish adequate arrangements for managing its obligations at the outset of the project.</p> <p>Despite this, management resolved all relevant data matches during 2007-08, but needs to implement a formal process for the 2008-09 exercise.</p> <p><i>(Grade two)</i></p>	<p>The assistant director of finance is taking the lead in the 2008-09 exercise and a formal process will be in place prior to the exercise commencing in October.</p>	<p>Assistant Director of Finance</p> <p>30 September 2008</p>
14	<p>Management has made progress in addressing our recommendation to formalise arrangements in respect of payment verification and QOF with periodic reporting of outcomes, but there is no evidence of an annual report being prepared summarising the key issues and implications for the board.</p> <p>Management should ensure that this is completed in 2008-09.</p> <p><i>(Grade two)</i></p>	<p>A report will be produced for the October audit committee meeting summarising the key issues and will inform the next phase of PV and QOF visits.</p>	<p>CHP Manager</p> <p>31 October 2008</p>
15	<p>While management routinely reported the anticipated financial position to members during the year, in our view the formal, written reports to public meetings of the board did not provide sufficient detail on risks surrounding the outturn of assumptions in the financial plan or indeed the progress towards securing the required outturn.</p> <p>Management should ensure that, going forward, there is appropriate reporting to public meetings of the board.</p> <p><i>(Grade one)</i></p>	<p>Members have been kept informed through formal and informal means including fortnightly updates via e-mail during the final months of the year. At the emergency board meeting on 20 June 2008 and at the audit committee meeting on 26 June 2008, board members agreed that management had provided detailed information with regard to the financial position throughout the year.</p> <p>Management accepts the need to formally record this detailed information and will ensure that future finance reports to the board will meet this requirement.</p>	<p>Interim Director of Finance</p> <p>30 June 2008</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
16	<p>The Board continues to be exposed to significant risks in achieving financial balance, while managing recurring and non-recurring cost pressures and continued reliance on non-recurring income.</p> <p>Achievement of the target 2008-09 financial position requires tight budgetary control and staff engagement at all levels of the organisation. The underlying assumptions on which achievement of the financial plan is predicated presents significant challenges for management.</p> <p>The board should approve the corporate savings plan, including action plans to deliver efficiency savings, without delay.</p> <p>Management should profile savings plans across the year and present detailed reports to all board meetings on progress achieved against the plan.</p> <p><i>(Grade one)</i></p>	<p>The Board fully understands the risk in achieving financial balance. The CSSP project was started in financial year 2006-07 with the aim of providing a significant contribution to recurring balance by March 2008. Significant issues in implementing planned initiatives that stemmed from the project have had a negative impact on that objective. The Shaping Up programme is now in place to manage the delivery of the initiatives and a benefits realisation group has been formed to closely track planned savings. The progress report from the Shaping Up programme is now a standing item on the agenda of the audit committee.</p> <p>Management have submitted the LDP to the Scottish Government Health Directorate and discussions continue with the objective of getting the financial plan approved. A special 'in committee' board meeting has been scheduled to review the plan in detail with the objective of agreeing to approve the plan. In addition, the board has appointed IPF consultants to rigorously challenge all budget managers as to the resources required to deliver their services.</p>	<p>Chief Executive and Interim Director of Finance</p> <p>31 August 2008</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
17	<p>Management recognised the need for a robust performance management framework and established a framework of quarterly performance monitoring and reporting to the board, but we were only able to identify one report to the board covering the period to September 2007.</p> <p>Management should embed performance management arrangements, including regular reporting to the board.</p> <p><i>(Grade one)</i></p>	<p>A business planning group has been established to develop and oversee business planning and performance management for NHS Orkney. An early task of this group was to establish a strategic business planning framework. This framework is currently being updated to reflect the recently introduced "Orstat" performance management process (NHS Orkney version of Citistat). The revised framework will clearly state the NHS Orkney performance management process including the rolling programme of Orstat meetings with the chief executive and service providers. It will include the rolling programme of performance monitoring by the board to the chief executive and other members of the corporate management team. A progress reports will be provided to the January 2009 audit committee.</p>	<p>Chief Executive 31 January 2009</p>
18	<p>During the year the audit committee discussed the process for dealing with reports requiring consideration / action from entities other than the Board's internal or external auditors, for example Audit Scotland and NHS QIS.</p> <p>The board should finalised its process to demonstrate how national reports are considered in relation to local practices.</p> <p><i>(Grade one)</i></p>	<p>The process for considering national reports in relation to local practices is currently carried out in an informal manner. A formal process where external reports are assigned to accountable managers for action will be put in place.</p>	<p>Chief Executive 30 September 2008</p>
19	<p>There is no evidence to demonstrate the Board's recognition of and commitment to the Best Value agenda, despite the chief executive's personal responsibility, as accountable officer, to embed Best Value arrangements.</p> <p>The board should evidence formal consideration of its approach to Best Value and ensure that management embed arrangements across all operations and services.</p> <p><i>(Grade two)</i></p>	<p>The chief executive and interim director of finance will bring a report on this subject to the next audit committee meeting.</p>	<p>Chief Executive 31 August 2008</p>

