



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Orkney NHS Board

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

Year ended 31 March 2009

30 June 2009

AUDIT

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of only Orkney NHS Board and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

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

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

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Executive summary

The clinical strategy underpins the Board's future direction and objectives. The draft strategy was subject to board approval on 25 June 2009 and sets out the key clinical objectives and priorities in delivering a high quality service to patients in Orkney. Two service redesign programmes support the strategy and build on the work formerly managed through the *Creating Sustainable Service Programme* and subsequently *Shaping Up*. The service redesign programme focuses on a number of areas which are fundamental to the implementation of the local delivery plan, including future service provision within the Balfour Hospital and reorganisation of healthcare services across the Orkney Islands.

Integral to the clinical strategy are the five-year financial plan and workforce plan, both of which outline detailed plans and consider the impact of service redesign. The integrated nature of future plans that consider the short to medium term should contribute to a cohesive approach to service redesign and future sustainability.

In 2008-09 the Board met its financial targets, but, similar to previous years, achievement of the revenue resource limit was dependent on using non-recurring measures to support recurring expenditure. The underlying deficit increased to £4.4 million primarily as a result of non-achievement of recurring savings in previous years.

The five-year financial plan forecasts a breakeven position in each year, but is dependent on Scottish Government Health Directorate brokerage of £2.8 million over the first two years and over £9 million of efficiency savings over the five years. £2.7 million of these savings are expected to be released through service redesign, but there are significant risks over recurring non-specific cash-releasing efficiency savings targets of £2.8 million. There are additional non-recurring savings of £2.6 million. Reliance on these reduces from £0.8 million in 2009-10 to £0.5 million each year thereafter. The five-year financial plan includes £4 million to cover the estimated impact of pay and supplies inflation and an additional £2.3 million to support cost pressures arising during the period.

Overall, management has made significant progress in preparing a clinical strategy that is supported by a five-year financial plan, which focuses on achieving recurring financial balance rather than short-term achievement of in-year financial targets. Nevertheless, the Board continues to face significant challenges and achievement of the clinical strategy and financial plan will require robust implementation and monitoring of new processes and financial results.

Following our reporting of significant weaknesses in previous years, management has made good progress in strengthening corporate governance arrangements, including drafting a revised code of corporate governance, clarifying the role of committees in the corporate governance cycle, and consideration of the board's effectiveness. In particular, the remuneration committee has made significant progress in developing its role of scrutiny and challenge of management's decisions and setting objectives for executive directors. Following a period of instability and frequent changes in, and interim appointments to the executive management team, permanent appointments to posts of director of finance and medical director were made in early 2009-10.

Establishment of a shadow community health and social care partnership with Orkney Islands Council during 2008-09 is the first step towards creating a substantive partnership from 1 April 2010, but risks remain over the agreement of joint funding with Orkney Islands Council.

Following a period of instability and focus on the short-term rather than a sustainable future, management has made progress in establishing arrangements – operating, clinical and financial – to underpin the clinical strategy and service redesign proposals. The progress made to date, combined with ongoing plans for development and enhancement, in strengthening governance and performance reporting processes should provide a basis for implementing change. However, management will need to ensure existing and planned arrangements operate effectively on a routine basis to ensure plans are delivered and benefits realised.

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("The Code"). This specifies a number of objectives for our audit.

Audit framework

This year was the third 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.

We outlined the framework under which we operate, under appointment by Audit Scotland, in the audit plan discussed with the audit committee on 27 January 2009.

The purpose of this report is to report our findings as they relate to:

- the **financial statements** and our audit opinions on net operating costs and the regularity of transactions;
- **use of resources**, including the financial outturn for the year ended 31 March 2009 and financial plans for 2009-10 and beyond;
- arrangements around **governance and accountability**, including risk management, patient safety, partnership working and our consideration of the work of internal audit; and
- **performance management** and the Board's arrangements to achieve efficiency savings.

Best Value

Audit Scotland and the Scottish Government have 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 selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working).

In 2008-09 we completed work on arrangements to achieve Best Value through information management, which will be reported later in 2009. Plans are being developed for the application of a series of toolkits on the use of resources in future years based on an assessment of the Board's priorities and risks during the audit planning process.

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 the 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 the accountable officer, to make arrangements to secure Best Value.

Action plan

This report includes an action plan containing areas for development or improvement identified during our financial statements audit fieldwork. We have not repeated recommendations raised in reports issued during our earlier work in respect of our 2008-09 audit. Responsibility for taking action and monitoring progress in response to all our recommendations lies with management.

Acknowledgement

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

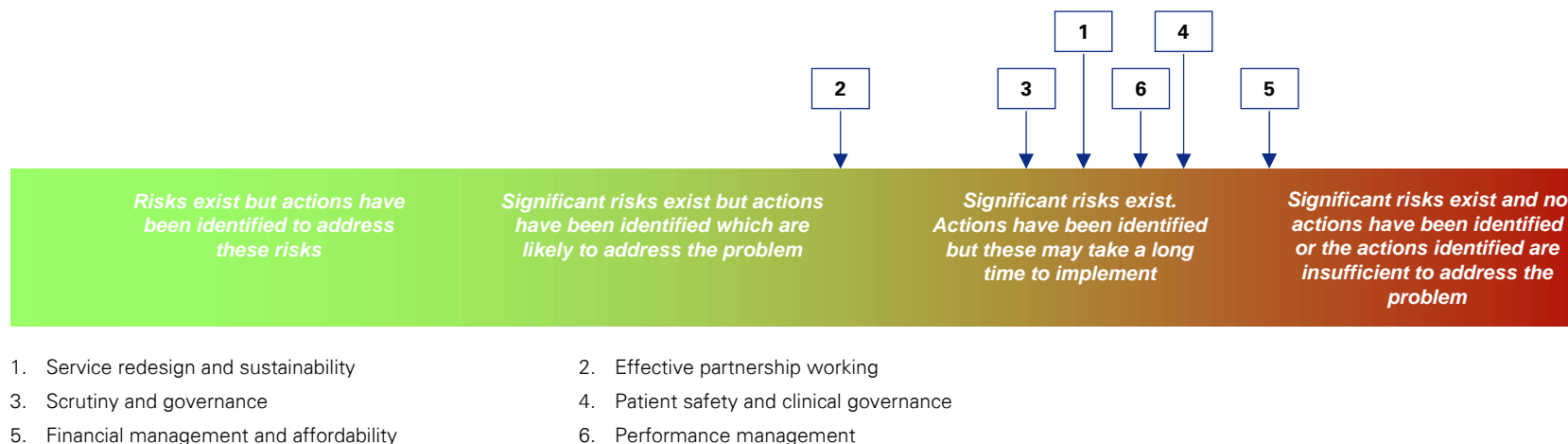
Background – service overview

Service Overview

The Board is in the process of implementing significant service redesign proposals and, central to these changes, has been the development of a clinical strategy, which is to be approved by the end of June 2009. This strategy sets out the key clinical objectives and priorities in delivering a high quality service to patients in Orkney. Two service redesign programmes support the strategy and build on the work formally managed through the *Creating Sustainable Services Programme* and subsequently *Shaping Up*. The service redesign programme focuses on a number of areas which are fundamental to the implementation of the local delivery plan, including future service provision within the Balfour Hospital and reorganisation of healthcare sites across the Orkney Islands. The provision of acute services and care in the community are both considered. The shadow community health and social care partnership focuses on partnership working with Orkney Island Council and developing effective joint working arrangements to achieve improved care for the people of Orkney.

In response to previously identified and reported weaknesses, management has made progress in developing arrangements during 2008-09. While areas for continued development remain, including risk management, establishment of routine arrangements provides a base on which service redesign can be progressed and managed. Financial sustainability continues to present new and existing challenges, but improvements in process and increasing focus on the longer term demonstrates commitment to sustainability through improved management and service redesign. Significant progress has been made in resolving a backlog of issues relating to remuneration and payments to staff and the remuneration committee's role in the governance framework has been clarified. HEAT targets remain the main focus of performance monitoring, responsibility for which was recently allocated to the newly established finance and performance review committee.

The Board continues to be subject to a number of changes in terms of both personnel and roles at a senior management level, but, recent permanent appointments to the director of finance and medical director posts is a positive step towards stability to support future developments.



Financial statements

We have issued unqualified opinions on the financial statements and the regularity of transactions reflected in those financial statements.

One key area for discussion arose during our audit of the financial statements:

- Accruals of £112,000 did not meet the recognition criteria in accounting standards, primarily due to the timing of decisions to take specific action being after 31 March 2009. Management adjusted the financial statements and reduced net operating costs.

Recommendations

We did not identify any significant recommendations arising from our audit of the financial statements.

Audit opinions and key issues

Reporting arrangements and timetable

In accordance with the Board's timetable, which was brought forward one week compared to 2007-08, draft financial statements were available for audit on 25 May 2009. Some areas of the financial statements and supporting documentation were incomplete, but these were provided during the audit fieldwork. This allowed for timely completion of the audit and consideration and approval of the financial statements by the board on 25 June 2009.

Audit opinion

Following approval by the board we issued an audit report expressing unqualified opinions on the financial statements for the year ended 31 March 2009 and on the regularity of transactions reflected in those financial statements.

Key issues arising during our audit of the financial statements

Our audit plan overview identified some key risk areas. We have concluded our work in these areas and summarise the results throughout this report. Two risks relating to the financial statements, and our conclusions, are summarised below.

Key risk area	Conclusions
Financial position	At the time of our audit plan overview (27 January 2009), the Board was forecasting an overspend of £0.6 million at 31 March 2009. This was dependant on additional efficiency savings of £0.5 million being secured in the last two months of the financial year. The outturn in the draft financial statement was a cumulative surplus of £8,000. Achievement of the revenue resource limit was due to previously unidentified underspends of £0.3 million and a reduction in payments to NHS Grampian agreed in March 2009. Achievement of the revenue resource limit continues to rely on non-recurring funding, one-off changes in expenditure or planned, but significant, agreements such as the resource transfer abatement of £1.8 million by Orkney Islands Council.
Capital grants	Capital grants of £2.1 million were made in 2008-09, the majority of which were paid to Orkney Islands Council in relation to five different projects; the most significant being £1.3 million for the schools investment programme. Although the audit committee expressed some concerns over the 'spirit' of the grants during its meeting in January 2009, the proposed grants were approved at the February 2009 board meeting.

Accruals

In order to deliver service redesign and sustain financial balance, management recognises that there is a need to reduce headcount in the short and medium term. Management recognised an accrual of £0.19 million in the 2008-09 financial statements to reflect potential payments to be made in 2009-10. While we recognise management's view that, in hindsight, there was a risk of payments being due in 2009-10, only one of the three cases met the criteria required by accounting standards for recognition as a liability at 31 March 2009. The financial statements were amended to reduce accruals by £0.12 million. In future, management should assess all potential liabilities against accounting standards during the preparation of the financial statements. The primary criteria are that the Board has a present obligation arising from a past event. In two cases management was unable to demonstrate that such an obligation existed at 31 March 2009 due to a lack of formal decisions being taken in respect of individual members of staff prior to 31 March 2009.

Regularity of transactions

In order to gain assurance over the regularity of expenditure we updated our understanding over the processes to receive Scottish Government Health Directorate circulars, register, allocate and distribute responsibility for action points and monitor and follow up these action points.

The administration department receives and distributes circulars from the Scottish Government and other regulatory bodies. A record is maintained of all circulars received and records acknowledgment and responses for each circular issued to staff for action.

We have considered the specific requirements of a number of financial circulars, particularly those in relation to remuneration, and did not identify any instances of non-compliance.

Family health services

NHS National Services Scotland ("NHS NSS") processes family health services ("FHS") income and payments on the Board's behalf. Transactions are completed on the basis of self-certification by FHS contractors.

- Payment verification – the internal payment verification team meets with NHS NSS practitioner services division on a quarterly basis to discuss the results of the work undertaken by NHS NSS. A summary of quarterly reports received during the year is presented to the audit committee on an annual basis. The 2008-09 report does not highlight any significant risks.
- Quality outcomes framework – in response to our recommendations in previous years management established a framework for review and checking of quality payments claimed by general practitioners. This group is supported by a senior member of staff from NHS Grampian. The minimum sample of 5% practices was achieved, which included checking of over 80% of payments claimed by these practices. The review process was completed during the year and, in line with good practice, results were reported to the audit committee in June 2009. The review process also considered amounts claimed in relation to 2007-08.

It is important that the review and checking process is embedded in the corporate governance framework and delivered in a timely manner, regardless of any changes in senior management, with a view to reducing the volume and nature of weaknesses reported as a result of this work.

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. Service audits 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 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 of the practitioner services division of NHS NSS, the national logistics programme, national information and management technology systems.

Regularity (continued)

Patient exemption checking

The patient fraud protocol requires NHS Counter Fraud Services to provide an annual estimated level of fraud and error to each NHS board for the 12 months to December. Total estimated fraud represents income lost through patients fraudulently or mistakenly claiming exemptions against dental, pharmaceutical and ophthalmic treatment charges.

Total estimated fraud within Orkney NHS Board in 2008 was £13,314 (2007: £4,662). We concur with management's view that the potential fraud / error is not significant and has not been reflected in the financial statements.

Implementation of International Financial Reporting Standards

The NHS will prepare full IFRS compliant financial statements for the year ending 31 March 2010. This is preceded by a shadow conversion process.

The 2007 budget had announced that central government and health bodies would report under international financial reporting standards (“IFRS”), as adapted by HM Treasury through the financial reporting manual (“IFReM”), from 2008-09. Following consultation with Government departments and the Financial Reporting Advisory Board on the technical work needed to implement this change, the Government now intends to move to IFRS from 2009-10 as announced in the 2008 budget.

Health bodies will be required to prepare their financial statements on the basis of the IFReM from 2009-10. Shadow IFReM financial statements, including an opening balance sheet, will be required for 2008-09. The shadow IFReM financial statements were subject to a ‘dry run’ audit in accordance with timescales prescribed by the Scottish Government. The timescales are set out in the table below. NHS Scotland has contracted with a third party for support to individual health boards on the application of IFRS.

	Presented for audit	Completion of dry-run audit
Opening 2008 IFRS based balance sheet	28 November 2008	28 February 2009
2008-09 shadow IFRS based financial statements	30 September 2009	30 November 2009

As a result of the audit of opening balances a report was issued to management highlighting the work done, our findings and areas for further work by management. Our work was undertaken in accordance with guidance included in Audit Scotland’s note for guidance 2008/6: *Auditors’ role in the implementation of international financial reporting standards*. The key points to note from our audit were that management must give further consideration to the updating of accounting policies, accounting for leases and the valuation of fixed assets.

Our work on the 2008-09 shadow IFReM based financial statements will be performed as part of our 2009-10 audit.

The Board met its financial targets – revenue resource limit, capital resource limit and cash requirement. The outturn against the revenue resource limit is consistent with the financial plan, but continues to depend on using non-recurring measures, including resource transfer abatement and additional funding allocations, to support recurring spend.

The underlying deficit increased to £4.4 million (2007-08: £1 million), primarily due to non-achievement of recurring savings in previous years.

Improvements to financial budgeting and reporting processes were approved in early 2009-10, together with a revised capital planning protocol.

The 2009-10 financial plan forecasts a breakeven position, but is dependent on Scottish Health Directorate brokerage of £1.6 million, £2.6 million of efficiency savings and £0.3 million additional allocations. Management assessed the risk of all assumptions underpinning the financial plan, £2.4 million of which were assessed as ‘high’ risk.

£2.7 million of planned savings relate to service redesign, but there are significant risks over the other targets (£5.4 million) - non-recurring (£2.6 million) or unspecified cash-releasing measures (£2.8 million) - during the five-year financial planning period to 2013-14.

The five-year financial plan demonstrates best practice through risk assessment of efficiency savings and planning assumptions and linking to the clinical strategy. Areas for improvement include early identification of non-specified cash-releasing efficiency savings and robust monitoring of savings delivered against targets during the year.

Workforce planning is also integrated with the clinical strategy. Introduction of a vacancy control committee in 2008-09 aims to manage workforce pressures, but risks continue to exist over the use and cost of bank and agency staff and proposals to reduce the number of general practitioners in outlying areas.

The Board did not achieve HEAT targets to reduce sickness absence and fully implement the knowledge and skills framework.

Recommendations

The action plan includes recommendations to improve the following areas:

Area for development	Action plan reference
Identification of efficiency savings prior to the start of the financial year and a robust in-year monitoring process would mitigate some of the risks around achievement of efficiency targets.	One
Management should continue to work with the Scottish Government Health Directorate to resolve equal pay claims.	Two
Identification and planning of initiatives to increase energy efficiency would assist in progressing towards HEAT targets in this area.	Three

Financial management

Financial position

Performance against the three financial targets was as follows:

£'000	Original forecast £000s	Final allocation £000s	Outturn £000s	Variance
Revenue resource limit	36,963	39,963	39,811	152
Capital resource limit	3,833	3,554	3,519	35
Cash requirement	40,209	45,400	45,288	112

The Board achieved all three of its financial targets for 2008-09. However, similar to previous years, achievement of the revenue resource limit was dependent on the use of non-recurring income to support recurring expenditure.

Reconciliation of the financial plan and outturn reported in the financial statements

Management reconciled key movements during the year, after the year end and during the preparation of the financial statements.

Movement	£'000	Movement	£'000
Underlying deficit	(4,400)	31 March SGHD return	-
Additional funding allocation	500	Minor post year-end adjustments	8
Resource transfer abatement	1,800	Draft financial statements	8
Savings plans	2,000	Write off of assets under construction	(20)
Expenditure overspends	(900)	Gain on revaluation of fixed assets	52
Additional operating income	400	Reversal of accruals	112
Reduction in external commissioning spend	300		
Underspend in local healthcare services	300		
31 March SGHD return	-	Final financial statements	152

Management reported that the opening underlying deficit increased from £1 million in 2007-08. This was primarily due to non-achievement of recurring savings in previous years. As highlighted above, the Board met its revenue resource limit during the year, however plans on how this would be achieved changed during the year. At 31 January 2009 management forecast that the £0.6 million deficit anticipated at that time would be reduced through achievement of additional savings. These savings did not materialise, but unplanned underspends, primarily relating to the prevention of drug and alcohol abuse and late renegotiation of service contracts with NHS Grampian, reduced expenditure by £0.6 million. The 2008-09 financial plan included £4.4 million of savings, 48% of which were to be achieved on a recurring basis. The final outturn includes £2.2 million of savings achieved, only 41% (£0.9 million) of which will recur in future years.

Continued use of non-recurring funding to support recurring expenditure increases the risk of non-achievement of targets.

Financial management (continued)

Financial management and budgetary control

In response to recommendations made in previous years and the volatility of financial forecasts in 2008-09, management recognised the need for an improved framework of financial control. The interim director of finance introduced a formal budget setting and financial forecasting procedure. Implementation of these procedures in 2009-10 should increase the robustness of financial forecasting and reduce unpredictability and unnecessary volatility in the financial outturn. These are supported by the introduction of a formal capital planning protocol that will ensure that the impact of capital spend on revenue costs is fully considered prior to approval of capital projects.

Financial planning

The 2009-10 financial plan forms part of a five year financial strategy and recovery plan. This was submitted to the board and Scottish Government Health Directorate for approval in June 2009. The underlying deficit has decreased to £3.6 million from £4.4 million at the beginning of 2007-08. Management continues to build on progress made in previous years in identifying planned areas of savings, underspend or additional funding that will be used to meet the underlying deficit, as shown below.

Movement	£'000	Movement	£'000
Underlying deficit at 1 April 2008	(4,400)	Gross underlying deficit 2009-10	(5,948)
Release of recurring underspends	800	Recurring savings planned	1,776
Underlying deficit at 1 April 2009	(3,600)	Allocation changes	300
New recurring cost pressures	(900)	National funding uplift	1,064
Capital charges arising from service redesign	(35)	Non recurring savings in year	800
Inflation costs for pay, non-pay and other budgets	(1,013)	Non-recurring allocations	400
In-year underlying deficit	(5,548)	Internal financial forecast	(1,608)
Non-recurring cost pressures	(400)	Brokerage from SGHD	1,608
Gross underlying deficit 2009-10	(5,948)	2009-10 forecast outturn	-

Recurring savings include those arising from a review of budgets (£0.6 million), prescribing (£0.3 million), 2% cash-releasing efficiency savings (£0.5 million), service redesign (£0.3 million), and a reduction in employers' superannuation contributions (£0.1 million). Management's 2009-10 financial plan includes the following assumptions:

- £0.3 million – distant islands allowance – this has been verbally confirmed by the Scottish Government Health Directorate, but has not yet been included in the 2009-10 allocation letter;
- £1.6 million – brokerage – similarly, this is included on the basis of discussion between management and the Scottish Government Health Directorate, but will not be confirmed before the five year financial plan has been approved in early July 2009; and
- £2.6 million – efficiency savings – an increase of £0.4 million (18%) compared to 2008-09.

Financial management (continued)

There are a number of factors which make the achievement of the 2009-10 financial plan challenging. The table below summarises management's assessment of the key risks over the five-year planning period, their impact and monetary value (in 2009-10). Some of the risks relating to 2009-10 have been eliminated, for example, the allocation letter has been received and this confirms the annual uplift.

Identified risks	Nature of risk	Financial impact £'000	Risk rating
Brokerage assumptions	Receipt	1,608	M
Uplift assumptions	Receipt	1,064	H
Cost pressures assumptions	Restrict expenditure	900	H
Failure to achieve non-specific CRES targets	Achievement of savings	550	M
Failure to agree resource transfer abatement	Restrict expenditure	500	M
Failure to deliver prescribing target	Achievement of savings	250	M
Failure to realise savings from service redesign programme	Achievement of savings	400	H

Long-term financial planning

The five year financial plan seeks to incorporate the redesign and associated planning assumptions required to secure the delivery of the clinical strategy. The financial plan recognises a number of key criteria that need to be achieved for the Board to meet its plan, such as a need to reduce the reliance on non-recurrent saving schemes and the need to focus on securing recurring resource release and investment. The plan is based on the key assumption that the Scottish Government Health Directorate will approve brokerage of £1.6 million in 2009-10 and £1.2 million in 2010-11. Current forecasts indicate that repayment will commence in 2012-13 and the total will be repaid by 2017-18. Management is confident that the estimated brokerage included in the five-year financial plan is the 'worst case scenario' and plans to seek to reduce this through in year management of financial and cost pressures. In our view this is an optimistic assumption given the existing challenges in achieving £2.8 million of non-specific cash-releasing efficiency savings over the five years.

The majority of efficiency savings (78% in 2009-10, decreasing to 58% in 2013-14) are linked to identifiable service redesign schemes, rather than general schemes, which, in our experience, should reduce the risk of non-achievement of these targets, subject to effective and robust in-year monitoring of progress. The table below summarises the recurring savings plans linked to service redesign.

£'000	2009-10	2010-11	2011-12	2012-13	2013-14	Total	Risk
Reduction in general practitioner and locum costs	150	150	150	150	-	600	H
Changes in nursing skill mix in primary care services	-	200	200	-	-	400	H
Creation of acute receiving and minor injuries unit	-	250	300	-	-	550	H
Staffing review of acute services in a new building	-	-	-	300	300	600	H
Pharmacy service redesign	250	-	250	-	-	500	M
Total	400	600	900	450	300	2,650	

Financial management (continued)

Management demonstrates good practice through risk assessment of each scheme, but the financial plan could be enhanced by quantifying the specific areas of high risk. The current plan considers each high level scheme, but elements of each scheme may be lower risk and clarification of the risk profile would assist in routine monitoring and reporting of progress during each financial year.

The acute service redesign proposals are predicated on increasing efficiency and making the best use of a hospital care setting where this is the appropriate setting for the patient. This includes reduction in staff duplication across the hospital's four wards, increasing flexibility in the staffing model, and development of an acute receiving unit to facilitate patient assessment prior to admission to a hospital bed, which aims to reduce the number of patients automatically admitted to the hospital.

The focus of these proposals was considered during previous service redesign initiatives - *Creating Sustainable Services Programme* and subsequently *Shaping Up*. Management believes that the key to success of *Shaping the future of services in Orkney* is clinical engagement, and through this, an enthusiasm for change. Management has been working closely with the area clinical forum during preparation of the clinical strategy and supporting five year financial plan. Individual service redesign proposals will have a nominated clinical lead, who will work with the relevant executive director throughout the change process.

The plan includes other recurring and non-recurring savings plans, as summarised below.

£'000	2009-10	2010-11	2011-12	2012-13	2013-14	Total	Risk
Recurring savings plans (excluding CRES)	772	100	200	-	-	1,072	L
Cash-releasing efficiency savings	550	550	564	550	550	2,764	M
Non-recurring savings	800	450	450	450	450	2,600	M
Total	2,122	1,100	1,214	1,000	1,000	6,436	

Recurring savings plans include savings anticipated from reviews of management costs and estates / hotel services provision and savings in superannuation costs. £2.8 million is expected to be released through non-specific cash-releasing efficiency savings. Management considers the risk of non-achievement of this element of the target to be medium risk, but, in our view and based on our experience, this is a very challenging target and the risk of non-achievement is high. Our high risk assessment is based on the absence of identified schemes prior to the start of the financial year and the absence of fully embedded specific in-year monitoring and reporting procedures. In line with good practice, the 2% target has been removed from individual budgets at the start of the year. However, the probability of success would be increased by:

- identification of individual schemes prior to the start of the financial year, which should mitigate the risk of slippage due to the time required to implement some schemes before savings can be realised; and
- implementation of a framework for monitoring and reporting progress against individual schemes to mitigate the risk that budgets are achieved through non-recurring measures, such as vacancy management, one-off gains or lower than anticipated activity, but assumed to be delivering recurring efficiency savings. Consequently, additional recurring efficiency savings would need to be identified and delivered in subsequent years (in addition to increasing in-year targets).

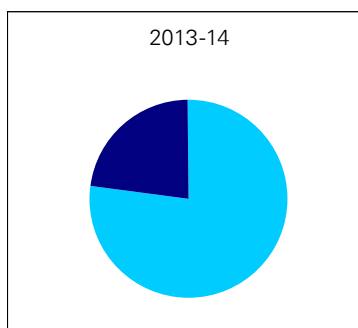
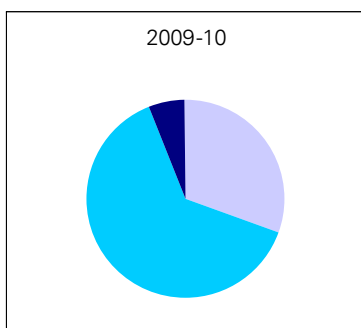
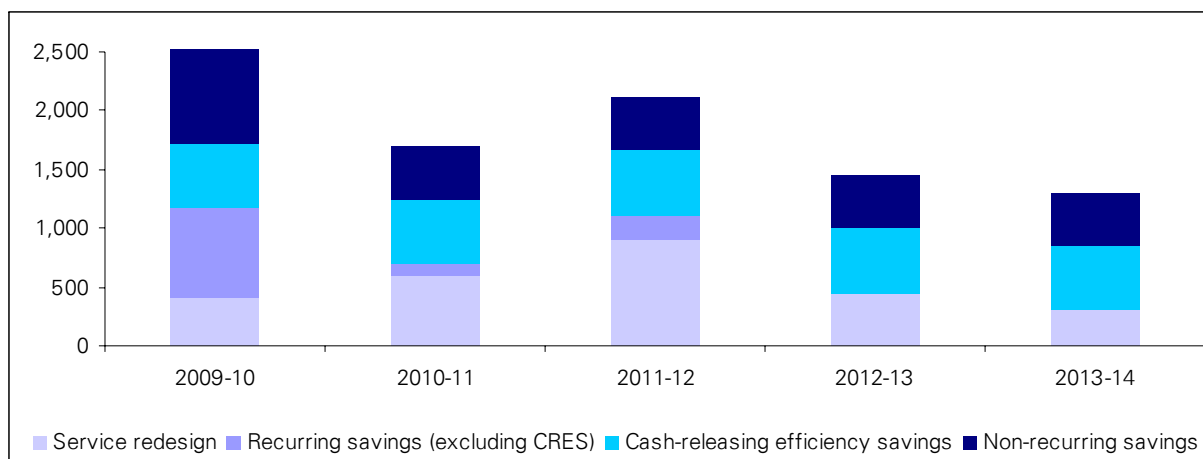
In addition to recurring savings, the five-year financial plan recognises the requirement to cover £4 million of pay and inflation rises, together with £2.3 million to cover emerging and known cost pressures.

Financial management (continued)

Overall, the financial plan assumes achievement of £9 million of efficiency savings over the five years, which is summarised as follows:

£'000	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Service redesign	400	600	900	450	300	2,650
Recurring savings plans (excluding CRES)	772	100	200	-	-	1,072
Cash-releasing efficiency savings	550	550	564	550	550	2,764
Non-recurring savings	800	450	450	450	450	2,600
Total	2,522	1,700	2,114	1,450	1,300	9,086

This chart summarises the profile of efficiency savings plans over the five-year financial planning period. It highlights that, while the financial plan includes a significant element of savings to be realised through service redesign, a significant percentage of savings are planned to be achieved through non-specific cash-releasing efficiency savings and non-recurring savings, starting at 54% (£1.4 million) in 2009-10 and rising to 77% (£1 million) in 2013-14.



Management has assessed the majority of savings plans as medium risk, but the proportion of high risk savings increases during the five-year financial planning period, as shown on the left.

Risk assessment of service redesign proposals is based on the clinical strategy, which demonstrates consideration of best practice by outlining the local and national drivers for change, including shifting the balance of care, where appropriate, from a hospital setting to the community, and combines the need for increasing patient safety and high quality patient services with the need to achieve HEAT targets.

Financial management (continued)

It is important that the framework to be established for monitoring progress against individual savings schemes, recurring and non-recurring, incorporates re-assessment of risk on a regular basis throughout the financial year. This should mitigate the risk of late 'surprises' and non-achievement of targets. Where progress is not in line with plan or the risk profile increases, a formal framework in which this is considered by management should allow for contingency plans to be implemented where required.

Summary

Overall, management has made significant progress in preparing a sustainable clinical strategy that is supported by a five-year financial plan, which focuses on achieving recurring financial balance rather than short-term achievement of in-year financial targets. Nevertheless, the Board continues to face significant challenges and achievement of the clinical strategy and financial plan will require robust implementation and monitoring of new processes and financial results. The table below summarises the good practice demonstrated during this process, together with some areas for continued development.

Good practice	Areas for development
<ul style="list-style-type: none"> • Implementation of financial budgeting and reporting processes. • Development of capital planning and approval protocol. • Risk assessment of savings targets and financial planning assumptions. • Profiling of efficiency savings across the five-year planning period. • Linking of the clinical strategy and financial plan. • Clinical engagement and support for service redesign and change. 	<ul style="list-style-type: none"> • Identification of specific and recurring cash-releasing efficiency savings prior to the start of the financial year. • Implementation of a routine monitoring process to assess progress against all efficiency savings plans, including re-assessment of risk – management has design a financial forecasting and monitoring process, but consideration needs to be explicitly given to achievement of efficiency savings rather than only achievement of budget.

Recommendation one

Workforce management

The main way in which workforce planning is linked to service planning is through the business planning approach, which informs the local delivery plan. Individual departments submit an annual plan that highlights both financial and workforce pressures. Medium to long-term workforce planning is integrated with ongoing development of the clinical strategy and consequently the five-year financial plan.

Management established a vacancy control committee during 2008-09, which is led by the human resources director and aims to:

- consider all proposals to fill vacant posts, and decide whether the post is essential, desirable or no longer necessary;
- help the Board meet its employer responsibilities in respect of staff redeployment; and
- consider service delivery and financial implications of filling vacancies.

We considered workforce planning arrangements and key drivers of staff numbers during our audit planning and audit of the financial statements. We identified a number of areas of continued financial risk, including:

- There has been an increase in both headcount and whole time equivalent staff numbers during the year, particularly in areas that are not supported by ring-fenced funding, such as administration, clerical and unqualified nursing staff.
- There has also been a significant rise (50%) in the cost of agency staff to £467,000 (2007-08: £312,000). This is a key area for management control during 2009-10 and future years and plays a key role in service redesign plans, which aim to achieve savings of £2.2 million over five years through changes to staff mix and reduced use of locums to provide general medical services.
- One of the primary care service redesign proposals intends to reduce the number of practicing general practitioners. This was previously included in the *Shaping Up* initiative and was met by resistance. Clinical engagement should increase the likelihood of success in this area going forward, combined with a number of existing general practitioners retiring during the next five years. However, making and implementing such decisions will remain a key challenge in the Board's service redesign programme.

It is important that management continues to consider workforce planning on an equal basis with financial and clinical plans to mitigate the risk of additional cost pressures.

HEAT targets included reducing staff absence to 4% by 31 March 2009. However, the annual rate was 5.4% (2008: 5.01%), which is significantly higher than the national average of 4.95% (2008: 5.24%). The high level of staff absence is a key driver of continued use of bank and agency staff. Management has taken steps to address staff absence, including consideration, at a local level, of the individual reasons for prolonged absence. Following a period of high absence rates during the winter period, where up to 8.7% of staff were absent from work, staff absence in March 2009 reduced to 5.7%.

Agenda for change

The Scottish Government Health Directorate HEAT target for 2008-09 required all employees to have an agreed knowledge and skills framework personal development plan by 31 March 2009, although the target has been extended to 31 May 2009. A report was presented to the staff governance committee in March 2009 that raised concerns that some managers were not paying sufficient attention to achieving this national target, which is evident in that only 40% of staff had an approved knowledge and skills framework personal development plan at 31 March 2009. It was agreed that the interim chief executive and human resources director would progress matters to meet the extended deadline.

Staff governance

Staff governance is the third component of governance, combining with financial and clinical governance to complete the governance framework within which Scottish NHS boards are required to operate. The performance and accountability framework for NHS Scotland will ensure that boards are equally accountable for how they behave as employers as well as their existing accountability for finance and clinical matters. Boards are expected to demonstrate that they are exemplar employers. The staff governance standard sets out the minimum standard that each NHSScotland employer must continuously achieve in their management of staff. Implicit in the standard is that all legal obligations are met and that all policies and agreements are fully implemented.

In April 2009 we reviewed the Board's process for completing the staff governance action plan and reported that:

- the Board had a clear and structured process for the preparation of its staff governance action plan, including a detailed plan with key delivery dates;
- the human resources department actively encouraged staff to participate in the staff survey, sending regular bulletins via email highlighting the importance of the survey, and also implemented innovative methods for staff to complete the survey, such as installing computer terminals in communal areas; and
- implementation of a staff governance framework and revised terms of reference for the staff governance committee during 2008-09 should improve the effectiveness of the committee in monitoring the staff governance action plan going forward.

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. As at 31 March 2009, NHS bodies in Scotland had received some 12,500 claims for backdated pay increases arising from this requirement and referred them to the NHS Central Legal Office. It is possible that these claims represent a current liability for NHS boards. The NHS Central Legal Office has recorded one claim against the Board.

The NHS Central Legal Office has co-ordinated the response to all claims and advises that, until named comparators are identified, a view cannot be taken either about the likely success, or otherwise, of the claims or the value of them. Further information is, therefore, required about the claims and there are fundamental legal issues that require to be tested to allow any assessment of financial risk to be included in the financial statements. On the basis of this position, and following discussions with the Scottish Government Health Directorate and the NHS Central Legal Office, the Board has recognised its potential financial exposure by way of a contingent liability in its financial statements.

We strongly encourage management, working with the Scottish Government Health Directorate and other NHS boards, to progress resolution of this matter.

Recommendation two

Asset management

The clinical strategy includes a number of capital projects, most notably the re-development of the Balfour hospital. Management intend to prepare the outline business case for the hospital re-development by December 2009, followed by submission to the Scottish Government's capital investment group in the spring of 2010. The five-year draft capital plan forecasts spend of £3.8 million in 2009-10, rising to £6 million in 2011-12. The redevelopment would reflect national direction, including the requirement for single room accommodation. Other planned capital projects at the Board over the next five years include refurbishment of Kirkwall health centre and rebuilding Kirkwall dental centre.

The Board was not required to participate in Audit Scotland's review of asset management in the NHS. However, management has considered the report and its recommendations. Subsequent discussion with Audit Scotland includes consideration of how national data can or should be used to benchmark local performance and inform future planning.

Energy efficiency

The 2009-10 local delivery plan includes a HEAT target to reduce energy consumption by 2% by 31 March 2010. Management recognises that there are significant risks to achievement of this target, and future energy efficiency targets, such as the increasing requirements to use energy intensive medical and IT equipment, due primarily to the age of the existing estate. However, there are currently no specific plans to address these risks, although ongoing estates projects and the proposed re-development of the Balfour hospital will assist in these areas. Based on our experience elsewhere, management should consider initial steps such as installing software to automatically switch off active computers at night, or rewiring existing servers to increase capacity and efficiency, thereby reducing the requirement for electricity and air conditioning.

Recommendation three

Procurement

Management presented a revised capital planning protocol to the finance and performance committee in June 2009. It sets out the processes for managing procurement in relation to medical equipment, estates and eHealth. With the exception of estates and works schemes, all schemes over £5,000 will need to be supported by a business case, which will be considered for approval by the capital planning team. Implementation of these procedures demonstrate commitment to improving broader financial management processes. During the year the Board appointed a joint head of procurement in association with Orkney Islands Council. This strengthens partnership arrangements and will potentially allow for more joint purchasing, with the aim of reducing costs, between the Council and the Board.

Governance and accountability

The Board has strengthened corporate governance arrangements during the year, including a revised code of corporate governance, clarification of the corporate governance cycle and the role of committees, consideration of the board's effectiveness, and significant progress has been made by the remuneration committee in increasing its challenge and scrutiny role. A number of interim arrangements remain in the senior management team, but permanent appointments to the posts of director of finance and medical director were made in early 2009-10.

Internal audit provided 'significant assurance' over the system of internal control, but highlighted significant weaknesses in information governance arrangements. Management has implemented a formal system to monitor and report action in response to previous external audit recommendations. The statement on internal control summarises developments in arrangements during the year, but also highlights weaknesses in reporting following an outbreak of hospital acquired infections during 2008-09.

Arrangements for participating in NFI are adequate and we did not identify any errors in our testing of a sample of management's investigations into data matches.

The clinical strategy underpins the Board's future direction and objectives. The draft strategy was approved by the board on 25 June 2009 and defines the 'six dimensions of quality' and the key principles of service redesign. Management continues to develop reporting arrangements through the quality and improvement committee.

The Board continues to work with Orkney Islands Council and NHS Grampian on developing and improving partnership working arrangements. Establishment of a shadow community health and social care partnership during 2008-09 is the first step towards creating a substantive partnership from 1 April 2010, but risks remain over the agreement of joint funding with Orkney Islands Council.

Arrangements to demonstrate consideration of, and local responses to, Audit Scotland's national reports need to be enhanced in 2009-10.

Recommendations

The action plan includes recommendations to improve the following areas.

Area for development	Action plan reference
Clinical and operational risk management arrangements require continued development to ensure that they are appropriately designed to support revised corporate governance arrangements.	Four
Continued uncertainty over the future provision of internal audit services should be resolved.	Five
Clear and robust financial plans for the shadow, and subsequently substantive, community health and social care partnership should be implemented to mitigate the risk of undue fluctuations in financial commitments or a detrimental impact on patient services.	Six
A formal mechanism to consider and respond to Audit Scotland's national reports should be implemented.	Seven

Corporate governance arrangements

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:

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

Governance framework

Our audit plan overview identified a key risk area in relation to the governance arrangements, which is summarised below.

Key risk area	Conclusions
Corporate governance arrangements	During 2007-08, we reported a number of areas for improvement in the corporate governance framework, including the requirement to update and approve policies and procedures. In addition, we highlighted potential risks associated with the number of staff in acting or interim roles and the role of the board in fulfilling its scrutiny role. The Board has strengthened corporate governance arrangements in a number of areas during 2008-09. This included establishing a short-life working group to consider minimum standards on governance.

There have been delays in obtaining board approval of the code of corporate governance, primarily due to ongoing changes in senior management. The board considered and approved a revised version of this code in April 2009. The code will be subject to rolling review and continuous development through 2009-10 and future years to ensure that it fully complies with the wider NHSScotland governance and control regime and reflects recent changes in the corporate governance framework. Existence of an approved code reduces the previously reported risks, but it is important that momentum is maintained and that the code is revised and further approved during 2009-10.

The Board is receiving external support in respect of its governance arrangements from the Scottish Government Health Directorate and, in addition, has appointed an interim chief operating officer on a one-year secondment from NHS Grampian. While a secondment offers the opportunity for the board and senior management to benefit from experience and good practice elsewhere, it is important that internal capacity and stability are sufficient to reduce the risk of deterioration in performance at the end of the secondment.

Similar to previous years, there continues to be significant changes in personnel and roles at a senior level. This includes a variety of interim arrangements to cover the chief executive’s absence since mid-February 2009, culminating in the appointment of an acting interim chief executive in March 2009. It is anticipated that this temporary appointment will continue until at least September 2009. In 2007-08 we recommended that the remuneration committee should consider the additional costs associated with secondments. The human resources director reported to this committee in March 2009 that the costs of the interim director of finance and medical director in 2007-08, in addition to their salaries, totalled £79,800.

Corporate governance arrangements (continued)

However, progress has been made in stabilising the executive team through appointment of a director of finance and medical director, both on a permanent basis. It is expected that the two new directors, both coming from positions within NHSScotland, will take up post during the summer of 2009.

The Board's short-life working group, established to secure focused improvements to the governance framework and ensure minimum standards were set, has so far focused on three areas, which are summarised below.

Objective	Results
Strengthening arrangements around the 12 month board cycle	<ul style="list-style-type: none"> • There is a clear structure for board and committee meetings. • Board papers must be submitted by the specified deadlines. • Verbal updates are no longer accepted.
Reviewing the effectiveness of the board	<ul style="list-style-type: none"> • Board effectiveness reviews have been carried out on both a formal and informal basis. • There are discussions at the end of each board meeting on performance and a board away day looked in detail at the responsibilities and performance of the board. • Board committees report to the board on an annual basis, summarising performance during the year.
Roles and responsibilities of the board's committees	<ul style="list-style-type: none"> • Management has worked with non-executive directors to raise awareness of the work and role of committees. • Establishment of a finance and performance review committee to focus on monitoring performance on a routine basis. • Committees, including the staff governance and remuneration committees, have developed and clarified their own role in the governance framework.

Remuneration committee

We have repeatedly raised concerns over the structure and role of the remuneration committee and the lack of progress in establishing an appropriate framework to ensure required consideration of areas such as appointment, remuneration and performance appraisal of executive directors, and ex-gratia payments to members of staff.

The committee, supported by the human resources director, has made significant progress during the year. This progress is based on an initial training needs assessment and clarification of the roles and objectives of individual members together with the aims of the committee as a whole. Specific achievements during the year include:

- agreement of a business plan that identifies key dates in the annual cycle;
- agreement of all executive cohort positions by the national evaluation committee;
- robustly challenging the objectives and goals of the executive management team; and
- resolving the backlog of issues that arose during previous years – this process focussed on the control weaknesses that did not prevent or detect these weaknesses and how to strengthen these processes going forward, rather than individual circumstances.

Corporate governance arrangements (continued)

It is expected that the committee will return to performing its routine functions during 2009-10 following conclusion of a number of critical incident reviews during 2008-09. It is important that members ensure appropriate oversight of the controls and frameworks implemented as a result of these reviews to ensure that the revised arrangements are fit for purpose and effective at mitigating the risk of fraud or error.

Other areas for continued improvement include:

- Robust challenge and review of executive directors' objectives for 2008-09 meant that these were not approved until March 2009. We understand that the committee planned to approve objectives for the 2009-10 financial year in June 2009. Going forward, objectives should be agreed as close as possible to the beginning of the year to which they relate.
- Appointment of the interim chief operating officer and interim director of finance during the year were outwith the required recruitment process as secondments were agreed through discussion between management, the Scottish Government Health Directorate and the NHS boards where the two individuals are employed on a permanent basis. However, in light of the high public and political profile of both positions, the remuneration committee requested that curriculum vitae for both preferred candidates were provided and reviewed by the committee before the individuals took up post. In future it is anticipated that reduced reliance on interim and acting appointments will reduce the need for management to circumvent procedures to minimise the time required to fill positions.

Risk management

The quality and improvement committee, established in 2007-08, is responsible for monitoring risk management arrangements and considering risk management reports on a monthly basis. Operational, divisional and corporate registers are used to identify and manage risk. The results of an internal review, reported to the board in February 2009, confirmed that 59% of departments had an up-to-date risk register with controls and review dates in place. In 2007-08, we reported concerns over the lack of regular risk management reporting to the board. Arrangements have strengthened in this area, including, for example, approval of an updated corporate risk register by the board in April 2009.

The corporate management team has also spent considerable time reviewing risk management procedures and has received external input from the Scottish Government Health Directorate. The corporate risk register has been updated and identifies responsible officers and mitigating controls. Management recognises that risk management is currently a manual process and could be improved by investment in the risk management module for the Datix reporting system, which is commonly used across NHSScotland. There is ongoing consideration of options to manage improvement on an ongoing basis, including recruiting a full time Datix manager, outsourcing the service to another NHS board or implementing an in-house system.

While progress has been made in developing robust risk management arrangements, this has been at a comparatively slower pace compared to other corporate governance developments. It is important that risk management is given appropriate focus during 2009-10, and on an ongoing basis, to establish a robust system that compliments the evolving corporate governance framework. There is a risk that, without significant progress in developing risk management arrangements in 2009-10, achievements made in developing the corporate governance framework may not deliver the required results and will not be effective in managing the change and service redesign process without improvement in clinical and financial risk management.

Recommendation four

Internal audit

Internal audit delivered its plan for the year, but a significant amount of the work was completed in the final quarter of the year; limiting the areas in which we could take account of their findings.

On 12 June 2009, the Board received internal audit's annual report, which concluded that "*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, internal audit highlighted significant weaknesses in information governance arrangements, which have been reflected in the statement on internal control.

In 2008-09, management sought and considered competitive tenders for the provision of internal audit services for the 2009-10 financial year. It is important that the audit committee ensure that realistic and robust plans are established to ensure timely and appropriate coverage by internal audit during 2009-10. Subject to evaluation of the service provided to the Board, we would intend to rely on the work of the Board's new internal auditors. To minimise the risk of duplication, and maximise the benefit of the combined audit resource, we would welcome discussion with internal audit around the timing of their work.

The internal audit appointment is for 12 months to 31 March 2010, which is based on management's intention that the Board will join a consortium approach to obtaining internal audit services from 1 April 2010 onwards. It is important that the future direction and provision of services is agreed in a timely manner to mitigate the risk of gaps in coverage or non-compliance with tendering rules.

Recommendation five

Internal controls

Our testing of the design and operation of controls over significant risk points confirms that, with the exception of some weaknesses in controls over stock, payroll and expenditure, controls are designed appropriately and operating effectively.

Progress against external audit recommendations

We reported¹ management's progress in actioning previous external audit recommendations. During 2008-09 the interim director of finance reviewed all outstanding recommendations – 109 in total – and reported progress in implementing required procedures and processes to the audit committee. Implementation of a formal process and increased focus on strengthening existing arrangements has resulted in a decrease in the number of recommendations outstanding.

The progress report at 3 June 2009 stated that most had been completed. However, detailed consideration of a sample of 'grade one' recommendations indicated that, while management had reasonably completed actions appropriate at that date, further progress was still required. Management accepted our suggestion that such actions are categorised as 'ongoing' to distinguish them from actions where management has yet to fully implement, which are reported as 'partially implemented'. This should be reflected in the rolling action update presented to the audit committee.

¹ Interim management report (31 March 2009)

Corporate governance arrangements (continued)

Equality and diversity

The Board has not been subject to a review by the Equality Commission. There are clear policies on race, gender and disability equality which are up-to-date and available on the Board's website.

Statement on internal control

The statement for 2008-09 provides details of the processes and controls and management highlight that the organisation is committed to a process of continuous development and improvement, developing systems in response to any relevant reviews and developments in best practice. The statement highlights developments during the year, including:

- establishment of a governance working group to develop and improve the assurance framework;
- engagement of a management consultant to support the Board in preparing a sustainable five-year financial plan;
- revisions to the Board's mission, values, strategic aims and corporate objectives;
- introduction of administrative support to the board and its committees; and
- agreement to work with Orkney Islands Council towards establishment of a community health and social care partnership by 1 April 2010.

The statement also highlights that *"during 2008-09 the Board experienced an outbreak of hospital acquired infection. As a result of this weaknesses in the systems of reporting were highlighted. Significant efforts have and continue to be made to address this including full review of policies and procedures in this area."*

Beyond this the statement concludes that *"I [chief executive] am not aware of any further material internal control issues or significant problems that need to be disclosed in the annual report or accounts"*.

The statement on internal control provides details of the purpose of the system of internal control, the risk and control framework and the effectiveness of this framework. The statement complies with the Scottish Government Health Department's guidance.

Prevention and detection of fraud and irregularity

The Board has a detailed fraud policy. The fraud policy documents the importance of following the public service values of accountability, probity and openness. It also outlines the roles and responsibilities of key members of staff such as the director of finance, the chief internal auditor and the head of human resources in respect of dealing with fraud.

The fraud policy also details the response plan should a suspected fraud be reported including managing the investigation, disciplinary/dismissal procedures, gathering evidence, interviewing procedures, disclosing loss from fraud, police involvement and press releases.

The fraud policy states that the Board will refer all incidence of fraud to the police. Further guidance is provided to staff as to where they can find more information relating to the response to fraud and a flow chart is included to provide guidance to staff on the actions to take when reporting a suspected fraud.

National Fraud Initiative ("NFI")

Health bodies took part in the 2008-09 NFI exercise for the second time. Payroll information remains the main dataset for health bodies. Creditors' payment history and standing data have been added to the 2008-09 exercise for health bodies as a 'risk-based' dataset.

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. During 2008-09 appropriate arrangements were implemented and our sample testing of management's action in response to individual data matches did not identify any significant errors. A summary of the Board's activity is shown below.

	Total matches	Number investigated	Volume of fraud identified	Value of fraud identified
2007	54	54	-	-
2009 ¹	48	48	-	-

¹ As at 5 June 2009. Management sent two cases to other organisations for review in line with the NFI protocol.

Patient safety and clinical governance

The draft clinical strategy was presented to the board for approval on 25 June 2009. The strategy is designed to reflect national strategies, while adapting them to meet local requirements. The Board recognises the clear priority driving service redesign and related financial plans is the need to deliver high quality health care services. The strategy defines 'the six dimensions' of quality as patient centred, safe, effective, efficient, equitable and timely.

The clinical strategy identifies a number of key principles, such as services above all being clinically safe and being based on robust health and epidemiological data. Based on these principles, the strategy considers what needs to be done in practice, highlighting that it is patient safety that underpins all clinical practice. In planning this, the Board has been involved in the Scottish Patient Safety Programme and is adopting a number of new practices and initiatives.

Since February 2009 the board receives regular updates on clinical governance, clinical effectiveness, risk management and the Scottish Patient Safety Programme. More detailed reports are also provided to the quality and improvement committee, which highlights high risk areas for discussion by the board.

Between December 2008 and January 2009, 16 patients contracted a hospital acquired infection in the Balfour hospital or other community healthcare sites. Following the outbreak, it became apparent that there had been failures in the Board's response and a lack of timely reporting to the Cabinet Secretary for Health and Wellbeing. The Scottish Government Health Directorate requested an immediate review of infection control processes and systems by Health Protection Scotland, which reported that the Board had not taken sufficient steps to inform the public openly and transparently.

The director of nursing and allied health professions is the lead executive director responsible for prevention of healthcare associated infections and performs the role of infection control manager. It is clear that there are many challenges facing the Board in this area, not least limited capacity and 'on-island' specialist knowledge. Management is working hard to address this significant risk area and reduce levels of healthcare associated infections.

Partnership arrangements with Orkney Island Council

The Board works closely with the Council to provide a number of services, such as mental health and learning disability services. However management of both organisations recognise that there are clear benefits to taking this joint working forward in a more clear and structured way. This is the primary purpose of the community health and social care partnership.

Community health and social care partnership

From 1 April 2009, the Board established a shadow community health and social care partnership (“CHSCP”) with the Council, which is designed to support and further develop joint working arrangements. During the first quarter, the CHSCP:

- appointed a joint director to develop, manage and lead developments during the shadow period to 31 March 2010;
- established a shadow CHSCP board, including four non-executives directors of the Board;
- put in place interim management arrangements to support and lead the development of the CHSCP; and
- established a CHSCP committee.

Some of the programmes to be included in the CHSCP are existing services and areas of social work, such as children’s services. A development plan will be prepared with a long-term view of developing a substantive CHSCP from 1 April 2010. The two organisations are in the process of developing an aligned budget to support the work of the CHSCP. Funding, in the first instance, will be provided for the joint director on an equal basis. It is important that the Board incorporates the financial implications of the CHSCP in its 2009-10 and longer term financial planning and that there is clear communication with the Council regarding future funding requirements and expectations.

During 2008-09, plans for an integrated health and social facility with the Council were challenged as a result of a difference of opinion on how funding of up to £0.85 million would be used. The Board had understood that the funding would support care home places and community based resources to reduce hospital admissions. However, we understand that the Council planned to use the funding for care home beds only. Agreement was subsequently reached and resource transfer agreements and other funding plans are in the process of being agreed. However, in light of the existing financial pressures, there is a risk that some of the projects as part of CHSCP will place too great a financial obligation on the Board. It is vital that there is a detailed and ongoing planning process to facilitate clear and formal plans on how funding will be provided, used and reported.

Recommendation six

Partnership arrangements with other NHS bodies

The clinical strategy sets out a number of other partnership arrangements that the Board seeks to develop. Continued provision of high quality services to residents of and visitors to Orkney depend on timely and successful development of such arrangements.

NHS Grampian

The Board already receives support from NHS Grampian through a reciprocal arrangement that allows board members to attend board meetings at NHS Grampian to gain insight into how the governance framework operates within another NHS board. The Board is also receiving support in completing the quality outcomes framework assessment. The chief operating officer is on secondment from NHS Grampian for 12 months. Going forward, management plans to work closely with colleagues at NHS Grampian to develop public health services, infection control and laboratory services.

NHS Highland

Management has identified some areas for development of partnership arrangements with NHS Highland, including increased use of ophthalmic services and strengthening arrangements with NHS Highland to support out of hours staffing and the nurse bank in Orkney.

NHS 24

The Board is planning to work with NHS 24 in delivering a local out of hours nurse triage service. Management is considering how the Board can benefit from technology to support services, such as through text messaging to remind patients about appointments and the development of web-based appointment systems.

Audit Scotland national reports

Audit Scotland periodically undertakes national studies on topics relevant to the performance of NHS Scotland. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at board level.

Management had not established procedures to consider the individual reports. Subsequently, management presented a number of reports to the April 2009 audit committee meeting, where it was decided that it would be appropriate to forward through e-links a number of these reports to both the quality and improvement committee and finance and performance committee.

We submitted short returns to Audit Scotland in February, with a second due in July 2009, on the Board's responses.

Report topic (issue date)	Discussed by a committee	Noted by a committee	Self-assessment performed	Local action plan prepared	Plans to feed back to a committee	Frequency of feedback
New general medical services contract (July 2008)	x	✓	x	x	x	n/a
Palliative care (August 2008)	x	✓	x	x	x	n/a
Diagnostic services (November 2008)	x	✓	x	x	x	n/a
Day surgery (September 2008)	x	✓	x	x	x	n/a
Major capital projects (June 2008)	x	✓	x	x	x	n/a
Asset management in the NHS (January 2009)	x	✓	x	x	x	n/a
Drugs and alcohol services in Scotland (March 2009)	x	✓	x	x	x	n/a
Managing the use of medicines in hospital (April 2009)	x	✓	x	x	x	n/a

Management should ensure that all national reports are discussed by an appropriate board committee and that appropriate timetables are agreed to feedback on local actions.

Recommendation seven

Management continues to develop performance management arrangements and a finance and performance committee was established during the year. Systems would be enhanced by inclusion of local key performance indicators and timely capture and reporting of performance against targets.

The Board obtained assurance from the service auditors' report on NHS Ayrshire and Arran's financial ledger consortium service.

Recommendations

The action plan includes a recommendation to improve the following area.

Area for development	Action plan reference
Performance measurement and management should be enhanced by including local key performance indicators and timely capture and reporting of performance against targets.	Eight

Performance management

Performance management arrangements

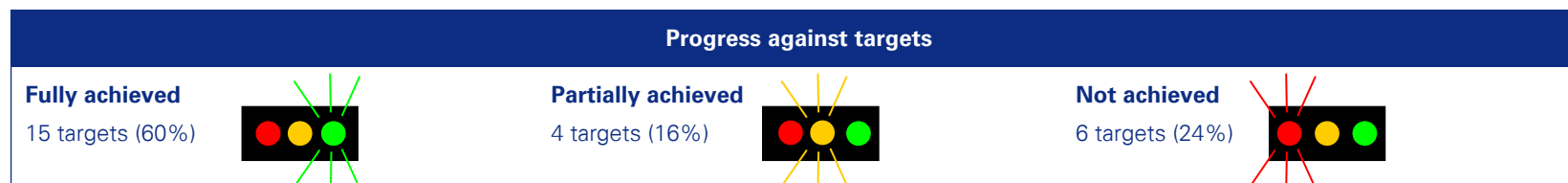
Management is working to embed performance management arrangements into routine operations. An action plan has been developed for the 2009-10 local delivery plan, which details interim HEAT targets. The board considered management's proposals for enhanced performance management arrangements during its meeting on 25 June 2009. Key elements of the revised arrangements include using a balanced scorecard to match targets with the Board's strategic aims and objectives. This will be supported by department scorecards and individual staff objectives to embed the process organisation-wide. The revised strategy outlines the responsibility and reporting lines of the corporate management team, finance and performance committee and the board, and considers the role of information management and reporting in ensuring that robust information is available in a timely manner. The proposals also outlined how management will incorporate the single outcome agreement into routine monitoring and reporting systems.

Performance against targets in 2008-09

The main performance indicators used by the Board are those in relation to HEAT targets. At the time of our report, and preparation of the financial statements, the majority of performance information was only available to 31 January 2009. While we recognise that there can be a time delay for obtaining some data that feeds into HEAT targets, there is a risk that performance is not being reported in a timely manner to the board and that where there is significant under-performance, this is not being subject to timely challenge or review. We recommend the Board considers ways of ensuring that performance is captured and reported in a timely manner.

Recommendation eight

From the data available to 31 January 2009, we have summarised the Board's progress:



Management were unable to provide data to demonstrate performance against a further four targets.

Targets were not achieved in relation to reducing sickness absence, knowledge and skills frameworks were not in place for all relevant employees, achieving an agreed level of cash-releasing efficiency savings, improving performance against clinical governance and risk management standards, reducing use of anti-depressants, reducing hospital acquired infections (including MRSA).

Public performance reporting

The Board has a up-to-date and easy to use internet site which contains patient information and publications on activities and performance. The website includes the results of the annual review, local delivery plan, and board meeting agendas, minutes and papers. There is also an annual report issued by the Board each year, which contains details of performance against HEAT targets.

Stakeholder engagement and consultation

Management's commitment to involving the public ensures that patients needs are considered in planning the Board's services. This is completed through various public focus groups including those considering disabilities and patient focus.

National shared support services

Our audit plan overview identified a key risk area in relation to the governance arrangements. We have concluded our work in this area and summarise the results below:

National shared ledger services

The Board joined the shared ledger consortium headed by NHS Ayrshire and Arran and went 'live' with the system in December 2008. There is a service level agreement which details the roles and responsibilities of each party and who is accountable for certain eventualities. We identified a potential risk around the transfer of the ledger itself and also the capacity at the Board to manage the new system when it was implemented. The transition seems to have been relatively effective, with time spent to ensure a smooth transfer. There was also external support to manage the change. However a number of finance staff have experienced difficulties using the new system and there appears to have been a number of problems operating the new system.

The Board entered into agreement with NHS Ayrshire and Arran for the provision of managed technical services and application support services, which took effect from December 2008. This agreement is part of the Board's participation in NHS Scotland's shared support services programme. NHS Ayrshire and Arran leads one of five consortia set up as part of the programme.

The Board received a SAS 70 service auditor report in respect of the financial ledger shared service, which concludes that:

"In our opinion, the description of the aforementioned controls as set out in Section 4 of the attached Report presents fairly, in all material aspects, the relevant aspects of NHS Ayrshire & Arran eFinancial controls that had been placed in operation as at 31 March 2009. Also in our opinion, the controls, as described, are designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily."

Appendix one – action plan

Priority rating for recommendations

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.

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.

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.

No.	Issue and recommendation	Management response	Officer and due date
1	<p>To mitigate the risk of non-achievement of financial targets and minimise unnecessary fluctuations in financial outturn, arrangements to deliver efficiency savings should be enhanced by implementing processes to:</p> <ul style="list-style-type: none"> identify specific and recurring cash-releasing efficiency savings prior to the start of the financial year; and monitor progress against all efficiency savings plans on a routine basis during the financial year, <p>Management has designed a financial forecasting and monitoring process, but consideration needs to be explicitly given to delivery of efficiency savings, particularly when they relate to recurring schemes, rather than focusing solely on achievement of budget.</p> <p><i>(Grade two)</i></p>	<p>The criteria established when developing the plan includes a focus on limiting the savings schemes arising from non-specific cash-releasing efficiency savings to a minimum. As a result of the recent anticipated reduction to allocation uplifts the Board has included a 2% target in this area year on year. The board must now challenge the service redesign programme to deliver further recurring savings over the planning timeframe.</p> <p>The financial reporting process will be developed to explicitly address the delivery of service redesign and efficiency savings targets.</p>	<p>Director of finance 31 March 2010</p> <p>Director of finance 30 September 2009</p>
2	<p>We strongly encourage management, working with the Scottish Government Health Directorate and other NHS boards, to progress resolution of equal pay matter.</p> <p><i>(Grade two)</i></p>	<p>Agreed.</p>	<p>Director of finance 31 March 2010</p>

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No.	Issue and recommendation	Management response	Officer and due date
3	<p>There are currently no specific plans to address risks in achieving energy efficiency targets in 2009-10.</p> <p>Management should implement a formal plan to outline the mechanism by which these targets will be achieved. Based on our experience elsewhere, management should consider initial steps such as installing software to automatically switch off active computers at night, or rewiring existing servers to increase capacity and efficiency, thereby reducing the requirement for electricity and air conditioning.</p> <p>(Grade two)</p>	<p>Agreed. This will be progressed as a matter of priority during 2009-10.</p>	<p>Director of finance 30 September 2009</p>
4	<p>Development of robust risk management arrangements has not progressed in line with other corporate governance developments. It is important that risk management is given appropriate focus during 2009-10, and on an ongoing basis, to establish a robust system that compliments the evolving corporate governance framework.</p> <p>There is a risk that, without significant progress in developing risk management arrangements in 2009-10, achievements made in developing the corporate governance framework may not deliver the required results and will not be effective in managing the change and service redesign process without improvement in clinical and financial risk management.</p> <p>(Grade one)</p>	<p>Agreed. Development of this area will be recognised as a priority during 2009-10.</p>	<p>Medical director 31 October 2009</p>
5	<p>The internal audit appointment is for 12 months to 31 March 2010, which is based on management's intention that the Board will join a consortium approach to obtaining internal audit services from 1 April 2010 onwards. It is important that the future direction and provision of services is agreed in a timely manner to mitigate the risks of gaps in coverage or non-compliance with tendering rules.</p> <p>(Grade two)</p>	<p>Agreed. Discussions are underway with the financial services consortium and the expectation would be to commence the consortium tender process during the third quarter of 2009-10.</p>	<p>Director of finance 31 December 2009</p>

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No.	Issue and recommendation	Management response	Officer and due date
6	<p>During 2008-09, plans for an integrated health and social facility with the Council were challenged as a result of a difference of opinion on how funding of up to £0.85 million would be used.</p> <p>Agreement has now been reached, but, in light of the existing financial pressures, there is a risk that some of the projects as part of CHSCP will place too great a financial obligation on the Board. It is vital that there is a detailed and joined planning process to facilitate clear and formal plans on how funding will be provided, used and reported.</p> <p><i>(Grade one)</i></p>	<p>We accept that the partnership requires detailed joint planning, however management consider that significant progress has been made in this area during the last six months. The Board will continue to review and risk assess the opportunities for joint working and joint service delivery over the coming months.</p>	<p>Director of finance 31 March 2010</p>
7	<p>Management should ensure that all national reports issued by Audit Scotland are discussed by an appropriate board committee and that appropriate timetables are agreed to feedback on local actions.</p> <p><i>(Grade two)</i></p>	<p>Agreed. This will be embedded in the audit committee business cycle from October 2009.</p>	<p>Director of finance 31 October 2009</p>
8	<p>At the time of our report, and preparation of the financial statements, the majority of performance information was only available to 31 January 2009. While we recognise that there can be a time delay in obtaining some data that feeds into HEAT targets, there is a risk that performance is not being reported in a timely manner to the board and that where there is significant under-performance, this is not being subject to timely challenge or review. We would recommend the Board considers ways of ensuring that performance is captured and reported in a timely manner.</p> <p><i>(Grade one)</i></p>	<p>Agreed. This is recognised as a proprietary development area and a revised framework for performance management arrangements were reviewed at the June 2009 board meeting. Thereafter clear action plans require to be put in place to deliver and continuously develop this area.</p>	<p>Director of nursing and allied health professions 31 March 2010</p>