

# NHS Orkney

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared by Audit Scotland

June 2022

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# Key messages

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## 2021/22 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 The audited part of the remuneration and staff report, performance report and governance statement are all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.
- 3 Significant adjustments were made to the accounts for the accounting for contributions to the Orkney Integration Joint Board and income received for services commissioned by the IJB. The total adjustments were £5.7 million and did not impact on the overall financial position of NHS Orkney.

## Financial management and sustainability

- 4 NHS Orkney met all its financial targets and operated within its revised Revenue Resource Limit.
- 5 Budget setting and monitoring processes were revised to reflect the additional expenditure of £11.1 million related to Covid-19. These costs were fully met by the Scottish Government.
- 6 The board had appropriate financial management arrangements in place and have maintained standards for the prevention and detection of fraud and error.
- 7 In line with Scottish Government direction the board developed a three year financial recovery plan. NHS Orkney's three year plan identifies a cumulative financial gap of £11.2 million.
- 8 NHS Orkney's reliance on non-recurring savings to bridge its financial gap presents a risk to the longer-term financial sustainability of services.

## Governance, transparency, and value for money

- 9 NHS Orkney has appropriate governance arrangements in place that support scrutiny of decisions made by the board.
- 10 The Governance Statement included within the annual report and accounts should be reviewed to improve the clarity and transparency of disclosures.

- 11** NHS Orkney's remobilisation plan has a series of actions designed to address backlogs caused by the Covid-19 pandemic and restore performance levels. Staffing issues and increased service demand mean progress with recovery is slower than desired.
- 12** Covid-19 has significantly impacted upon the board's activity and waiting times performance during 2021/22 and contributed to a large increase in demand for acute services. Tackling this backlog of patient demand will continue to present a major challenge to the board in 2022/23 and beyond.
- 13** NHS Orkney should consider evaluation of its Best Value Framework following the implementation of new strategies.

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# Introduction

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1. This report summarises the findings from our 2021/22 audit of Orkney Health Board, commonly known as NHS Orkney. The scope of our audit was set out in our Annual Audit Plan presented to the March 2022 meeting of the Audit and Risk Committee. This report comprises the findings from:

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

2. The main elements of our audit work in 2021/22 have been:

- an audit of NHS Orkney's 2021/22 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- a review of NHS Orkney's key financial systems
- consideration of the four audit dimensions.

3. During 2021/22 NHS Orkney continued to manage the operational and financial impact of the coronavirus pandemic and there remains significant challenges for the board across a range of areas. Risks related to the pandemic were included in our Annual Audit Plan.

## Adding value through the audit

4. We add value to NHS Orkney through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides.

5. We aim to help NHS Orkney promote improved standards of governance, better management, and decision-making and more effective use of resources.

## Responsibilities and reporting

6. NHS Orkney has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers.

7. NHS Orkney is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.
8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the audit dimensions that frame the wider scope of public sector audit namely, financial management including the financial position and arrangements for securing financial sustainability, the suitability and effectiveness of corporate governance arrangements and the appropriateness and effectiveness of the performance management arrangements. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
9. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
10. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation. It also includes actions from last year and the progress that has been made.

## Auditor Independence

11. Auditors appointed by the Accounts Commission or Auditor General must comply with the [Code of Audit Practice 2016](#) and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.
12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £75,080, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
13. This report is addressed to the board and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

## Audit appointment from 2022/23

14. The Auditor General for Scotland is responsible for the appointment of external auditors to Scottish health bodies. External auditors are usually appointed for a five year term either from Audit Scotland's Audit Services Group or private firms of accountants. The financial year 2021/22 was a one year extension and is the last year of the current audit appointment round.

**15.** The procurement process for the new round of audit appointments was completed in May 2022. From next year (2022/23) KPMG will be the appointed auditor for NHS Orkney. We will work closely with the new auditors to ensure a well-managed transition.

**16.** A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

**17.** There are several significant changes introduced by the new Code, namely the integration of Best Value work into wider scope audit work and the audit of Best Value across the Integration Joint Boards.

## Acknowledgments

**18.** We would like to thank board members, audit committee members, executive directors, and other staff, particularly those in finance, for their co-operation and assistance over the last six years.

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# 1. Audit of 2021/22 annual report and accounts

The principal means of accounting for the stewardship of resources and performance.

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## Main judgements

Our audit opinions on the annual accounts are unmodified.

The audited part of the remuneration and staff report, performance report and governance statement are all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Significant adjustments were made to the accounts for the accounting for contributions to the Orkney Integration Joint Board and income received for services commissioned by the IJB. The total adjustments were £8.4 million and did not impact on the overall financial position of NHS Orkney.

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## Our audit opinions on the annual report and accounts are unmodified

**19.** The board approved the annual report and accounts for the year ended 31 March 2022 on 23 June 2022. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## Reporting deadlines have returned to pre-covid timetables

**20.** The Scottish Government has returned the deadline for the submission of health board audited annual report and accounts back to 30 June 2022.

**21.** The unaudited annual report and accounts were received in line with our agreed audit timetable on 9 May 2022. The working papers provided to support the accounts were of an acceptable standard although we noted that

there was a higher incidence of presentational and disclosure issues than in previous years.

**22.** We are aware that during 2021/22 there were departures of key members of the finance team. Recruitment for the vacant posts was completed prior to the year end and we are satisfied that financial capacity is appropriate for 2022/23.

## Overall materiality was revised on receipt of the unaudited annual report and accounts to £1.3 million

**23.** Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#). The materiality levels which have been applied to the group and single entity are the same.

**24.** The revised materiality levels did not require a change in our audit approach as it did not change the assessment of material account areas.

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### Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£1.3 million
Performance materiality	£0.98 million
Reporting threshold	£40 thousand

Source: Audit Scotland

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## Significant findings from the audit of the annual report and accounts

**25.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

**26.** The significant findings are summarised in [Exhibit 2](#). Our audit also identified other minor presentation and disclosure issues which were discussed with management and adjusted appropriately.

**Exhibit 2****Significant findings from the audit of the financial statements**

Issue	Resolution
<p><b>1. Estimation and judgement disclosures</b></p> <p>Disclosure of accounting judgements and estimation uncertainty are fundamental to understanding the financial statements. IAS 1 differentiates between judgements and estimates and in our view, they should be separately identified with in the notes to the accounts.</p> <p>NHS Orkney has included key sources of judgement and estimation uncertainty as one note within the accounting policies and there is no clear distinction between management’s judgements and sources of estimation uncertainty.</p>	<p>We accepted the disclosures in 2021/22 as they provide sufficient information on material balances and meet minimum disclosure requirements</p> <p><b>Recommendation 1</b> (refer <a href="#">Appendix 1</a>, action plan)</p>
<p><b>2. Remuneration report</b></p> <p>The remuneration report in the draft accounts contained a number of errors and in one instance disclosures did not agree to underlying records from the payroll system.</p>	<p>Management have reviewed the disclosures within the remuneration report and have updated disclosures to reflect current staffing arrangements and underlying payroll information.</p> <p>We are satisfied that the revised remuneration report reflects appropriate information for all listed individuals.</p>
<p><b>3. Staff costs</b></p> <p>Staff costs reported in the annual report and accounts are driven by the costs from the payroll system. In order to verify the amounts reported in the financial statements we selected a sample of employees to verify their salaries.</p> <p>Four of the sample did not have a contract on file. NHS Orkney has informed us that those employees were as a result of an internal transfer in which case they would not expect a contract on file and rather there should be an internal transfer letter. We have not been provided with the required letters as evidence of this process.</p>	<p>We have confirmed salary information to agenda for change records to verify the accuracy of the salary information on the payroll system. We have also verified existence of employees through discussions with budget holders and line managers.</p> <p>We are satisfied we have sufficient evidence to support disclosures in the accounts, but we would recommend NHS Orkney put in place arrangements to ensure all employees have appropriate documentation on file.</p> <p><b>Recommendation 2</b> (refer <a href="#">Appendix 1</a>, action plan)</p>
<p><b>4. Late adjustments related to IJB balances</b></p> <p>In late May NHS Orkney were informed of an additional cost of £0.41 million at the IJB following the identification of additional Covid-19 spend relating to Orkney Islands Council staffing costs. It was anticipated this would impact on the reserves</p>	<p>We are satisfied the NHS Orkney accounts appropriately reflect transactions with the IJB.</p>

Issue	Resolution
<p>held by the IJB which are recognised in NHS Orkney's group accounts.</p> <p>In year Orkney Islands Council also carried forward earmarked reserves of £0.45 million which mitigated the impact of the increased costs within the IJB accounts. Consequently, the reserves recognised in NHS Orkney's accounts did not change significantly.</p> <p>The movement in funds at the IJB relating to the Council has an impact on the NHS Orkney group account. The late nature of the adjustments resulted in additional pressure on the finance team and audit team to establish the correct accounting treatment.</p>	

Source: Audit Scotland

**27.** We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our Annual Audit Plan audit. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3

#### Identified Significant risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Management override of controls</b></p> <p>As stated in International Standard on Auditing 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise, are operating effectively.</p>	<p>Assess the design and implementation of controls over journal entry processing.</p> <p>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Test journals at the year-end and post-closing entries and focus on significant risk areas.</p> <p>Consider the need to test journal entries and other</p>	<p>We have not identified any indication of management override in the year leading to material misstatement or significant concern.</p> <p>We have reviewed the board's accounting records and obtained evidence to ensure that transactions outside normal processes were accounted for correctly.</p> <p>We have also reviewed management estimates and the journal entries posted in the period and around the year end. We did not identify any areas of bias in key</p>

Audit risk	Assurance procedure	Results and conclusions
	<p>adjustments during the period.</p> <p>Evaluate significant transactions outside the normal course of business.</p> <p>Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Undertake focussed testing of accounting accruals and prepayments.</p>	<p>judgements made by management.</p>
<p><b>2. Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist assumptions and estimates, and changes in these can result in material changes to valuations.</p> <p>Values may also change between full valuations; it is important that the financial statements accurately reflect the value of the land and buildings.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Review of indexations and valuations to ensure carrying values are not materially different to current value.</p>	<p>NHS Orkney conducted an indexation exercise in year.</p> <p>We reviewed the assumptions used by the valuer and compared the indexation rate applied to other boards across Scotland.</p> <p>We gained appropriate assurance over the competence, capability and objectivity of the valuer.</p> <p>We reviewed estimates and judgements in other areas including impairments and asset life assumptions and did not identify any issues.</p> <p>We consider the valuation of assets in year to be appropriate.</p>

## Other areas of audit focus

**28.** In addition, as part of our 2021/22 Annual Audit, we identified other areas where we considered there to be risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of these risks, we did not however consider these to represent significant risks. These areas of specific audit focus were:

- Payments to primary care contractors. These are a material and complex account area with payments totalling around £10 million each year. There was a qualification in the service auditor report in 2020/21,

however we worked with NHS Orkney to gain assurance over the reported figures in the financial statements. We will review the service auditor reports in 2021/22 and carry out testing to provide us with our required assurance.

**29.** We have reviewed the service auditor reports covering the financial ledger, IT and practitioner services division and confirmed the 2021/22 reports are unqualified. We have documented our conclusions within the financial management section of this report.

### Identified restatements of £5.7 million were adjusted

**30.** In the past two years there has been a substantial increase in the funding flowing from the NHS Board to the IJB. Due to timing of funding received a significant amount was unspent at the year end and the IJB reported a significant surplus. It is important that the NHS Board accounts reflect the surplus appropriately and that there is consistency with IJB accounts. Consequently, we have requested an amendment to the NHS Statement of Comprehensive Net Expenditure which reduces both the income from services commissioned by the IJB and other healthcare expenditure by £5.7million. This adjustment did not impact the surplus position reported in the annual report and accounts.

**31.** The adjustments reflect contributions to the IJB and income from the IJB being overstated by the amount brought forward from the prior year (£2.3 million). In addition, we found that income received from the IJB and other operating expenditure had been overstated in recognition of additional funding received from the Scottish Government for Covid-19 which had not been utilised by the IJB and was carried forward as a reserve (£3.4 million).

**32.** NHS Orkney has correctly identified an accrual for the amount carried forward in the IJB reserves but the entries through the Statement of Comprehensive Net Expenditure were incorrect.

**33.** The treatment was consistent with the prior year and consequently prior year adjustments of £0.3 million and £2.0 million were required in relation to amounts incorrectly brought forward and the creation of a Covid-19 reserve respectively. This did not impact on the surplus reported in 2020/21.

**34.** We are satisfied the adjustments have been appropriately processed in the revised financial statements and we have concluded that the misstatements arose from issues that have been isolated and identified in their entirety and do not indicate further systematic error.

**35.** Restatements, totalling £0.3 million were identified that have not been adjusted by management in the accounts, as the amounts involved were not considered to be material. There would have been no impact on the net expenditure position had the accounts been adjusted ([Appendix 2](#)).

**36.** The nature of the errors did not impact on our planned audit approach and no additional audit procedures were conducted.

**37.** We identified some disclosure and presentational amendments during our audit which have been reflected in the final set of accounts. The adjustments included disclosures relating to our audit fee.

**38.** It is our responsibility to request that all misstatements, other than those below the reporting threshold are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. There were no unadjusted misstatements above our reporting threshold identified from our audit.

### **Progress was made on prior year recommendations**

**39.** NHS Orkney has fully implemented five of our prior year recommendations and is processing the remaining eight recommendations. We are pleased to report that medium term workforce strategy and clinical strategy are close to completion and a focus on developing savings options is in place.

**40.** For actions not complete, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

## 2. Financial management

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

### Main judgements

NHS Orkney met all its financial targets and operated within its revised Revenue Resource Limit.

Budget setting and monitoring processes were revised to reflect the additional expenditure of £11.1 million related to Covid-19. These costs were fully met by the Scottish Government.

The board had appropriate financial management arrangements in place and have maintained standards for the prevention and detection of fraud and error.

### NHS Orkney operated within its Revenue Resource Limit (RRL)

**41.** The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within.

**42.** The Scottish Government paused the normal financial planning arrangements under the Scottish Government's Health and Social Care Medium Term Financial Framework, due to the pandemic, and announced that all health boards would be fully funded in 2021/22. Throughout the year, additional non-recurring funding allocations of £11.1 million were provided based on the estimated financial impacts of the pandemic on the board.

**43.** [Exhibit 4](#) shows that the Board operated within its limits during 2021/22 and actual expenditure was lower than forecast. As a result, NHS Orkney reported a small underspend.

### Exhibit 4

#### Performance against resource limits in 2021/22

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	79.61	79.54	0.07
Non-core revenue resource limit	2.59	2.59	0
<b>Total revenue resource limit</b>	<b>82.20</b>	<b>82.13</b>	<b>0.07</b>

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core capital resource limit	2.19	2.19	0
Cash requirement	772.34	772.34	0

Source: NHS Orkney Annual Report and Accounts 2021/22

## The financial impact of Covid-19 was mitigated by additional Scottish Government funding in 2021/22

44. In March 2021 NHS Orkney's draft annual operating plan set an overall budget for 2021/22 of £68.5 million. As part of the NHS re-mobilisation exercise, boards estimated the financial impact of the pandemic. This included estimated increased costs of £5.2 million for Covid-19 related activity related to the health board and the IJB. The annual operating plan also recognised the ability of the board to meet its savings targets due to Covid-19.

NHS Orkney tracked direct Covid-19 related expenditure using specific account codes in the general ledger and provided updates to the Finance and Performance Committee on the projected costs for the year. The final spend on Covid-19 split between NHS Orkney and Orkney Integration Joint Board is set out in [Exhibit 5](#) below. The main element of the health board Covid-19 costs was the operation of an additional bed model to maintain capacity and test and trace programmes.

45. We are satisfied that NHS Orkney had appropriate arrangements in place to monitor and report on Covid-19 expenditure and funding.

### Exhibit 5

#### Covid-19 Costs compared to additional funding allocations

	Covid-19 costs (£m)	Under-achievement of savings (£m)	Offsetting savings (£m)	Total funding received (£m)
NHS Board	3.43	2.61	(0.54)	5.50
Health & Social Care	3.79	1.80	0	5.59

Source: NHS Orkney annual report and accounts

## NHS Orkney's overall contribution to the Integration Joint Boards was £4 million greater in 2021/22 than in the prior year, with unspent funds retained in the IJBs reserves

**46.** NHS Orkney delegates responsibility for a specified range of health and social care services to Orkney IJB and passes the budgets associated with these services to the IJB. The budget is amended throughout the year to reflect additional funding received by the board for IJB services. Under the integration financial guidance, any funding unspent at the year-end belongs to the IJBs and is retained by them to be held in reserves for use in future years.

**47.** NHS Orkney's total contribution to IJBs increased by £2.2 million from £41.9 million in 2020/21 to £44.1 million in 2021/22. This reflected the anticipated additional costs and demand. In the final quarter of 2021/22, the Scottish Government announced extra funding, for health and social care services in the wake of the Covid-19 pandemic. As actual activity was less than projected the IJBs have retained underspends totalling £6.1 million in reserves.

## NHS Orkney failed to achieve savings targets in year

**48.** NHS Orkney's achievement of a breakeven position in 2021/22 was dependent upon the delivery of efficiency savings of £6.3 million across the health board and the IJB to close the financial gap.

**49.** As shown in [Exhibit 6](#) the board was significantly below the savings target in year achieving only £1.9 million (30 per cent) of the required savings. In February 2022 the Scottish Government confirmed it would fund unachieved savings in 2021/22.

### Exhibit 6 Savings against target



**50.** Over the past five years NHS Orkney has relied heavily on non-recurring measures and only 58 per cent of savings in 2021/22 were on a recurring basis. The reliance on non-recurring savings can result in ongoing financial gaps and we have noted that savings requirements have risen sharply over the last two years and continues to be high in 2022/23. We have considered NHS Orkney's approach to bridging the funding gap as part of our work on financial sustainability.

## Financial systems of internal control are operating effectively

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

**52.** Our 2021/22 work covered a high level review of key financial systems including payroll, general ledger, family health services, accounts payable and accounts receivable.

**53.** Our review of the systems identified no changes in the design of controls since 2020/21 and therefore in accordance with ISA 330 we took reliance from audit evidence obtained in the prior year. We concluded that controls put in place by management were satisfactory and operating effectively with only minor points for improvement. The audit recommendations raised in 2020/21 have been followed up in [Appendix 1](#).

## Assurances in respect of shared systems

**54.** NHS Orkney, and other territorial health boards in Scotland use a number of shared services and frameworks to process transactions and facilitate other activity.

**55.** Each year the NHS in Scotland procures several service audits for shared systems: NHS National Services Scotland (NHS NSS) procures service audits covering primary care payments and the national IT contract; and NHS Ayrshire & Arran procure a service audit of the National Single Instance financials service.

**56.** The NHS NSS service auditor's assurance report in relation to primary care payments was qualified in 2020/21 due to issues with documentary evidence. In 2021/22 all of the service auditor reports were unqualified, however there was an emphasis of matter in both the IT contract service and primary care payments audits.

**57.** The emphasis of matter paragraphs highlight that in providing their opinion the auditor considered issues in relation to manual maintenance of user lists and changes in the IT contract service and the suspension of post payment verification services in relation to primary care payments. These issues did not result in a qualification reflecting a material weakness in the systems.

**58.** As your external auditor we have considered the content of these service auditor reports and there are no significant findings to draw to your attention.

## Internal audit

**59.** NHS Orkney's internal audit function is carried out by Azets. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**60.** Azets has concluded their 2021/22 audit work and presented their Annual Audit Report, which included the annual internal audit opinion, to the May 2022 Audit and Risk Committee.

**61.** The overall conclusion of internal audit is that NHS Orkney has a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework and management of key risks.

**62.** We are satisfied that there is appropriate disclosure of areas which are deemed high risk in the governance statement.

## Standards of conduct for prevention and detection of fraud and error are appropriate

**63.** There are appropriate arrangements for the prevention and detection of fraud, error, and irregularities, bribery, and corruption and for standards of conduct. NHS Orkney is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

**64.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. It uses computerised techniques to compare information about individuals held by different public bodies and on different financial systems to identify matches that might suggest fraud or irregularity.

**65.** As part of our 2021/22 audit, we reviewed NHS Orkney's participation in the current NFI exercise and we concluded that there were satisfactory arrangements in place for investigating matches and reporting outcomes.

## Arrangements to prevent fraud in the procurement function

**66.** In 2021/22 we carried out a review of the procurement function at the board. NHS Orkney operated throughout most of 2021/22 with only one officer responsible for procurement, however, in the latter part of the year greater structure was introduced to the team and two part time assistants were added. At the time of our audit training was still to be delivered to the new members of the team.

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## Recommendation 3

We recommend that members of the procurement team receive appropriate training at the earliest opportunity.

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**67.** NHS Orkney operate a 'No Purchase Order, No Payment' policy. This policy was implemented with the roll out of PECOS in 2020 and regular reminders are sent to staff that payments will not be made without a purchase order. All suppliers outwith the national contract need to be checked by the procurement function prior to being added to PECOS and this control helps ensure no unauthorised suppliers are used. All national contract are reviewed before being added to PECOS.

**68.** We are satisfied there are appropriate controls in place at NHS Orkney to prevent and detect fraud within the procurement function.

## 3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services.

### Main judgements

NHS boards across Scotland face significant financial challenges that have been exacerbated by the impact of the Covid-19 pandemic.

In line with Scottish Government direction the board developed a three year financial recovery plan. NHS Orkney's three year plan identifies a cumulative financial gap of £11.2 million.

NHS Orkney's reliance on non-recurring savings to bridge its financial gap presents a risk to the longer-term financial sustainability of services.

### Audit work has addressed the wider scope risks identified in our Annual Audit Plan

69. [Exhibit 7](#) sets out the significant risks of material misstatement we identified in our 2021/22 audit, our assurance procedures and the results and conclusions from our work. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and informed where the efforts of the team were directed.

### Exhibit 7

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

Audit risk	Assurance procedure	Results and conclusions
<p><b>Financial Sustainability</b></p> <p>NHS Orkney's provisional medium term financial plans identified a cumulative savings gap of £14.2 million over the three year period to 2023/24. This included £4.7 million relating to 2021/22 which the board has been unable to achieve. Funding is currently expected to be</p>	<p>Monitor the board's financial position as reported to the board / relevant committees, including progress against the Financial Improvement Programme.</p> <p>Review any assessment of the board's future financial position (including medium term financial plan when available) and consider</p>	<p>We confirmed NHS Orkney's achievement of its financial targets as part of our work on financial management.</p> <p>We considered how NHS Orkney balances the management of its medium and longer term financial position with demand and performance targets. We assessed the development of</p>

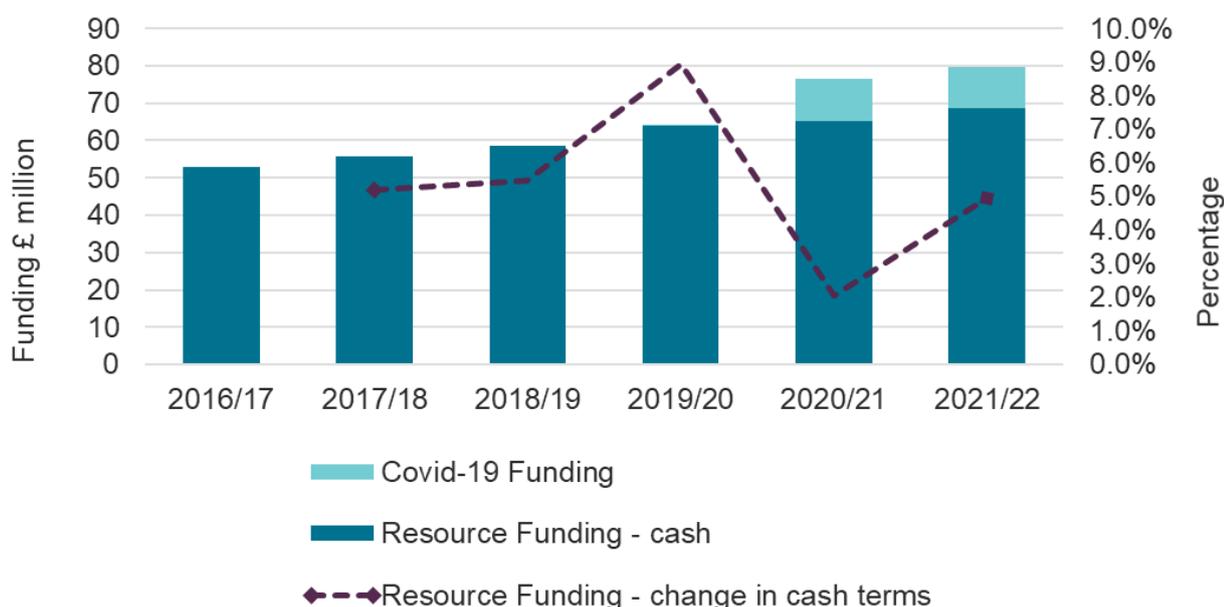
Audit risk	Assurance procedure	Results and conclusions
<p>received to cover the current year unachieved savings; however this is not expected to occur in future years.</p> <p>Risk – The Board cannot deliver services required over the medium term within the required budgets</p>	<p>whether appropriate arrangements are in place to address the underlying recurring deficit.</p> <p>Attendance and observe at board and relevant committee meetings.</p>	<p>financially sustainable operating plans to support the delivery of the Board’s statutory functions and strategic objectives. This work highlighted that achieving financial balance while maintaining performance will be increasingly challenging.</p> <p>Our detailed findings on NHS Orkney’s framework for achieving financial sustainability over the medium term is set out below.</p>

### Covid-19 funding has led to a 4.9 per cent increase in revenue funding in cash terms

**70.** The revenue funding to NHS Orkney in 2021/22 from the Scottish Government has grown by 4.9 per cent in cash terms compared to 2020/21 ([Exhibit 8](#)). This includes additional funding of £11.1 million received in year for Covid-19 which was lower than Covid-19 funding received in 2020/21 (£11.8 million). When this is excluded the growth in revenue funding was 4.2 per cent in cash terms.

#### Exhibit 8

Cash and real term core funding to NHS Orkney has risen



Source: NHS Orkney annual report and accounts/ Audit Scotland

**71.** The Scottish Government budget for 2022/23 includes a rise in baseline funding of 4.5 per cent to £57.1 million.

**72.** In contrast to the 2021/22 budget the Scottish Government has not announced any additional funding for Covid-19 in 2022/23. There is, however, a commitment of £559 million for NHS Boards to aid in the delivery of front line services and £232 million to address waiting times and supporting national treatment centres. It is not known at this stage what level of additional funding will be allocated to NHS Orkney.

### **NHS Orkney's three year Financial Recovery Plan identified a financial gap of £6.9 million in 2022/23**

**73.** NHS boards generally work within a three year financial framework. However, the requirement to produce three year financial plans as part of the medium term financial framework was paused by the Scottish Government due to the pandemic and NHS Boards were asked to complete a one year plan from 2021/22.

**74.** In October 2021 the Scottish Government wrote to NHS Orkney directing them to create a financial recovery plan that demonstrates how the board will return to financial balance.

**75.** NHS Orkney presented an updated financial recovery plan covering the period to 2024/25 to the Finance and Performance Committee in March 2022. The forecasts in the financial plan are based on a number of assumptions including inflationary costs and pay growth, and the expected costs of known local and national commitments.

**76.** The plan identified a savings gap of £6.9 million in 2022/23 and this does not include the potential impact of Covid-19. An estimate of additional costs of £4.1 million relating to Covid-19 has been separately identified in the financial plan.

### **Achieving efficiency savings will continue to be a challenge for NHS Orkney**

**77.** [Exhibit 6](#) highlights that in recent years NHS Orkney has struggled to achieve its savings targets and prior to this there was a reliance on non-recurring funding to bridge the financial gap.

**78.** The financial recovery plan has identified a cumulative funding gap of £11.2 million in the three years to 2024/25. This is split between savings to meet recurring pressures: £5.3 million and non-recurring pressures; £6.0 million. NHS Orkney plans to only use non-recurring savings to cover the non-recurring pressures and aims to meet the recurring funding gap through recurring savings initiatives.

**79.** As [Exhibit 9](#) shows NHS Orkney has identified 100 per cent of the non-recurring savings in each year but will carry forward unachieved savings in both 2022/23 and 2023/24. In both 2023/24 and 2024/25 NHS Orkney will be required to deliver savings in excess of the annual savings target to achieve a breakeven position over the medium term.

## Exhibit 9

### Savings

	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)
<b>Savings target</b>	<b>6.9</b>	<b>2.1</b>	<b>2.2</b>
<b>Savings identified</b>			
Recurring	2.0	1.9	1.4
Non-recurring	2.9	1.5	1.6
<b>Unidentified savings</b>	<b>2.0</b>	<b>0.8</b>	<b>0</b>

Source: NHS Orkney financial recovery plan

**80.** The Scottish Government has requested that as a minimum the board identifies at least 50% of the 2022/23 savings target. NHS Orkney has managed to achieve this in the first year of the plan and has created a medium term plan to achieve financial balance over the three years to 2024/25.

**81.** In order to ensure savings targets are met, NHS Orkney has created a Financial Sustainability Office which is dedicated to working with staff at a departmental level to develop savings plans and agree on deliverable actions.

**82.** Progress in achieving the savings targets is monitored by the Finance and Performance Committee and in May 2022 it was reported that £0.7 million recurring savings and £1.5 million non-recurring savings had been achieved or were on track.

**83.** The level of detail included in the monitoring reports has significantly increased and gives members an appropriate level of detail to provide scrutiny and challenge.

**84.** NHS Orkney recognise there is a significant risk that the savings target is not met in the current year and that the cumulative funding gap increases, resulting in an overall deficit in the period to 2024/25.

**85.** We have concluded the actions taken in 2021/22 to bridge the savings gap were appropriate.

## Workforce management

**86.** NHS Orkney has historic issues in relation to the recruitment and retention of staff and over the past five years there has been an increase in agency staff costs (an increase of 87 per cent since 2016/17).

**87.** In 2021/22 there was a slight reduction in agency costs of £0.7 million compared to the prior year. NHS Orkney has been working on developing a new medical model and decreasing reliance on locums.

**88.** Following the publication of the National Workforce Strategy for Health and Care in March 2022 the Scottish Government issued guidance requiring all boards to develop three year workforce plans by 31 July 2022.

**89.** NHS Orkney has commenced work on its workforce strategy and has involved human resources, finance, quality and improvement and departmental budget holders to ensure a wholistic approach.

**90.** In developing the workforce plan NHS Orkney has considered the ongoing issues in relation to the senior management team and they are considering actions to create leadership capacity going forward.

**91.** Actions to create a sustainable workforce are monitored by the Staff Governance Committee and will continue to be an area of focus in 2022/23.

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# 4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information.

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## Main judgements

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

The Governance Statement included within the annual report and accounts should be reviewed to improve the clarity and transparency of disclosures.

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## Governance arrangements are appropriate

**92.** We reported in our 2020/21 annual report on the revised governance arrangements introduced by NHS Orkney due to Covid-19. Following the emergence of the Omicron variant in 2021/22 the Board approved temporary revised governance arrangements in December 2021 and January 2022. All non-essential meetings were stood down and the Board moved to fortnightly meetings of the Agile Board.

**93.** From February 2022 meetings returned to the previous timetable and continued to meet virtually to allow social distancing.

**94.** We have concluded that the governance arrangements in place at NHS Orkney in 2021/22 were appropriate and supported scrutiny of decisions made in year.

**95.** The ongoing impact of Covid-19 on the governance arrangements at NHS Orkney has been appropriately set out in the Governance Statement in the annual report and accounts.

## The governance statement could be revised to improve clarity and transparency

**96.** Our review of the governance statement included in NHS Orkney's 2021/22 annual report and accounts considered whether it was consistent with the financial statements and auditor knowledge and whether it had been prepared in accordance with the accounts direction and guidance.

**97.** We reported in part one of this report that we were providing an unmodified opinion on the governance statement. In addition to our opinion we also consider the qualitative aspects of the governance statement.

**98.** The governance statement should provide users of the financial statements with a clear understanding of the board's internal control structure and its management of resources. We have noted that NHS Orkney's governance statement contains superfluous information.

**99.** We understand the board needs to comply with the requirements of the Scottish Public Finance Manual and there is a difficult balance to meet these requirements and to disclose a clear, concise and transparent assessment of the governance arrangements.

**100.** The inclusion of immaterial or irrelevant information can make it more difficult for users of the financial statements to understand key messages. Due to the time and effort involved in preparing the governance statement reducing immaterial disclosures can create efficiencies for the finance team.

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## Recommendation 4

We recommend that NHS Orkney review the governance statement to improve clarity and transparency of disclosures.

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### Openness and transparency

**101.** NHS Orkney currently convene all meetings virtually and these are not open to the general public. The Board invites local media to all meetings and publishes meeting papers on the website in advance of each Board meeting.

**102.** NHS Orkney publishes agendas and minutes for the Board's supporting Committees on their website. Our 2020/21 review found that some committee papers were not published timeously. We have confirmed in 2021/22 that all agendas and minutes were up to date.

**103.** We have concluded that the current arrangements are appropriate given the ongoing impact of the Covid-19 pandemic.

### Integration scheme review

**104.** The Public Bodies (Joint Working) (Scotland) Act 2014 required a review of the integration schemes by March 2021. NHS Orkney, the IJB and Orkney Islands Council conducted an interim review which identified no high priority actions for 2020/21, however, it was agreed that a more detailed review would take place in 2021/22.

**105.** Following the full review there was only one substantial change to the delegated functions. Maternity services were moved back into services provided by NHS Orkney rather than being delegated to the IJB. The reason for this was the linkage between maternity services and gynaecology and obstetrics.

**106.** As a result of audit recommendations in 2019/20 the revised scheme was also updated to ensure there was a shared understanding between partners that it is undesirable to cut subsequent years' funding allocations by

the current year additional funding as this would compound any funding gaps identified by the IJB.

**107.** The revised scheme was submitted to the Scottish Government for comments and feedback before being approved by the Board and partner bodies in winter 2021.

## Information governance

**108.** In 2020, NHS National Service Scotland (NHS NSS) performed an independent assessment of NHS Orkney's information governance approach and procedures following three data handling incidents.

**109.** The review highlighted a number of control weaknesses and a significant risk of failure with regards to information governance.

**110.** An action plan was developed with NSS including 13 actions to be completed over a three year period. The Audit and Risk Committee received updates on the action plan and it was highlighted that a number of key actions had been completed including the appointment of a Data Protection Officer and Deputy Data Protection Officer.

**111.** Internal audit conducted a follow up review in 2021/22 and noted that progress had been slower than anticipated. At the time of the review nine actions were due to be completed and of those due 33 per cent were not yet completed. Internal audit has recommended that the information governance action plan is further developed and the process for monitoring, reporting and updating the status of actions should be clarified.

**112.** It is the responsibility of the Information Governance Committee to oversee the implementation of the audit actions and the action plan is a standing item on the agenda. The action plan is also brought to the Audit and Risk Committee and provides sufficient detail on progress to allow effective scrutiny and challenge.

**113.** The Annual Report of the Information Governance Committee highlighted ongoing issues in regard to attendance of members. This issue was raised in our 2019/20 Annual Audit Report and is an outstanding recommendation in [Appendix 1](#).

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# 5. Value for money

Using resources effectively and continually improving services.

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## Main judgements

NHS Orkney's remobilisation plan has a series of actions designed to address backlogs caused by the Covid-19 pandemic and restore performance levels. Staffing issues and increased service demand mean progress with recovery is slower than desired.

Covid-19 has significantly impacted upon the board's activity and waiting times performance during 2021/22 and contributed to a large increase in demand for acute services. Tackling this backlog of patient demand will continue to present a major challenge to the board in 2022/23 and beyond.

NHS Orkney should consider evaluation of its Best Value Framework following the implementation of new strategies.

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## NHS Orkney's progress with the remobilisation plan is slower than planned

**114.** Due to the ongoing pandemic, the Scottish Government requested that NHS Boards replace Annual Operational Plans with remobilisation plans for the restoration of normal health services.

**115.** NHS Orkney's updated remobilisation plan was approved by the Board and the Scottish Government in April 2021. The plan built on work already underway to address the impact of Covid-19 and aimed to align NHS Orkney's corporate objectives with the national strategy.

**116.** The remobilisation plan outlined 164 deliverables to be achieved by March 2022. There was monitoring of progress throughout the year by the Executive Management Team. At the year-end, 56 per cent of the actions were completed or were on track with 29 per cent reporting minor delays and 15 per cent significantly delayed.

**117.** The key reasons for the delay are staffing pressures resulting from absence and vacancies, increased service demand and increased complexity in the health needs of the population.

**118.** NHS Orkney has used the information collated as part of the monitoring of remobilisation to prioritise actions and develop its 2022/23 Annual Delivery Plan.

## NHS Orkney has adapted performance monitoring and reporting to reflect the Clinical Prioritisation Framework.

**119.** In November 2020, the Scottish Government published the Framework for Clinical Prioritisation providing guidance for prioritising elective care whilst ensuring appropriate Covid-19 safety and priority measures are in place. While the duties under the Patient Rights (Scotland) Act 2011 still apply, it is expected that the framework is the primary tool for monitoring service performance during the pandemic.

**120.** NHS Orkney has adapted its internal performance reporting to reflect this, and performance reports are submitted to the Scottish Government in line with requirements. Although the Chief Executive and Medical Director are sighted on all submissions this data is not publicly reported or presented to those charged with governance.

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## Recommendation 5

In order to improve transparency over performance the monitoring information on the clinical prioritisation framework should be periodically presented to the appropriate committee.

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## NHS Boards are required to submit a three-year integrated plan, covering the period 2022-25, to the Scottish Government by the end of July 2022

**121.** The Scottish Government has confirmed that for the period 2022-25, the Annual Operational Plans / Remobilisation Plans will be replaced with a three-year integrated plan (currently named Medium Term Plan). This is intended to enable a more strategic approach to planning and support programmes of service transformation, aligned with the NHS Recovery Plan and the Care and Wellbeing Portfolio. These plans will be high level narratives setting out board's key priorities for recovery and transformation within this period, and how these contribute to national priorities.

**122.** These three-year plans will be underpinned by an Annual Delivery Plan and boards will be required to provide quarterly updates on these plans to the Scottish Government. The three-year plans are required to be submitted to the Scottish Government by the end of July 2022. Discussions are underway nationally to attempt to integrate this process with workforce and financial planning processes and further detail is awaited from the Scottish Government.

**123.** NHS Orkney has been working on a clinical strategy since 2021/22 after progress paused due to Covid-19. The development of the clinical strategy has been aligned with the development of a three year workforce and financial plan and will be presented to the Board in June 2022. The strategies developed by the board will be used to inform the Annual Delivery Plan and will be presented to the Scottish Government in line with required timescales.

## Service performance against national waiting time standards

**124.** The 2021/22 annual report and accounts include the position at the end of March 2022 on the board's performance against its national waiting time standards. These indicators are reported as a key element of NHS Orkney's performance management framework and they provide context for the scale of the impact of the pandemic on the delivery of health services.

**125.** [Exhibit 10](#) demonstrates how activity and waiting times have been impacted by Covid-19 and [Exhibit 11](#) provides a comparison of current waiting times compared to prior years.

**126.** The trend analysis at [Exhibit 10](#) shows that, in general, demand has risen as we emerged from the Covid-19 lockdown in winter 2020. The number of patients waiting has remained fairly stable following the initial spike after lockdown.

**127.** While activity has risen following the easing of restrictions it has not kept pace with demand. The length of wait trend analysis reflects that currently the level of demand is higher than the activity delivered.

**128.** The national waiting time standards targets reflect mixed performance at NHS Orkney with performance in three areas decreasing compared to prior year and there are three areas which are significantly behind the national target.

**129.** The decrease in performance was expected due to the ongoing Covid-19 pandemic and will be similar across all health boards in Scotland. As highlighted earlier in this report NHS Orkney's remobilisation plan sets out how NHS Orkney will address backlogs caused by Covid-19.

## Exhibit 10

### Trends in demand and activity per acute services

Demand		% change
Number waiting for diagnostic tests	Monthly Dec 2020 to Dec 2021	29
	139	379.3%
Number of patients waiting for an inpatient or day case admission	Dec 2020 to Dec 2021	163
	326	100.0%
Number of patients waiting for a new outpatient appointment	Quarterly Dec 2020 to Dec 2021	1,052
	1,215	15.5%
Activity		
Number of scheduled elective operations in theatre system	Monthly Dec 2020 to Mar 2022	232
	323	39.2%
Number of inpatient and day case admissions	Quarterly Dec 2020 to Dec 2021	144
	175	21.5%
Number of new outpatient appointments	Quarterly Dec 2020 to Dec 2021	781
	1,043	33.5%
Length of waits		
Number waiting longer than 6 weeks for diagnostic tests	Monthly Dec 2020 to Dec 2021	5
	101	1920.0%
Number of patients waiting longer than 12 weeks for an inpatient or day case admission	Dec 2020 to Dec 2021	50
	147	194.0%
Number of patients waiting longer than 12 weeks for a new outpatient appointment	Quarterly Dec 2020 to Dec 2021	483
	534	10.6%

Source: Public Health Scotland website

## Exhibit 11

### Impact of Covid-19 on national waiting time standards

Target/standard	Performance at March 2020	Performance at March 2021	Performance at March 2022 <sup>1</sup>
<b>Cancer 62 Day RTT</b> Proportion of patients that started treatment within 62 days of referral	100%	85.7%	72%
<b>18 Weeks RTT</b> Proportion of patients that started treatment within 18 weeks of referral	93.6%	93.7%	91%
<b>Patient Treatment Time Guarantee (TTG)</b> Proportion of inpatients or day case that were seen within 12 weeks	85%	68.7%	67%
<b>Outpatients waiting less than 12 weeks</b> Proportion of patients on the waiting list at month end who have been waiting less than 12 months since referral at month end	81.7%	52.9%	56%
<b>A &amp; E attendees</b> Proportion of A & E attendees who were admitted, transferred, or discharged within 4 hours	95.2%	92.5%	96%
<b>Cancer 31 Days RTT</b> Proportion of patients who started treatment within 31 days of decision to treat	100%	100%	100%
<b>Drug and Alcohol 21 days</b> Proportion of drug and alcohol patients that started treatment within 21 days	100%	97.1%	100%
<b>CAMHS Waiting Times</b> Proportion of patients seen within 18 weeks of referral	75%	90%	100%

Note. 1: Figures still to be validated by NHS Information Services Division.

Source: NHS Orkney annual report and accounts and performance management reports

## NHS Orkney is developing arrangements to secure Best Value

**130.** [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

**131.** The development of key strategic documents and appropriate performance reporting supports the achievement of Best Value. We are aware arrangements to demonstrate Best Value were not fully in place in 2021/22 as NHS Orkney has been operating without a clinical or workforce strategy in place.

**132.** We are aware NHS Orkney will be finalising key strategic documents in early 2022/23.

**133.** NHS Orkney has not conducted a self-assessment over Best Value and therefore there is no explicit and comprehensive assurance on the seven best value characteristics. It would be beneficial for NHS Orkney to evaluate its Best Value framework following implementation of the strategies to ensure arrangements are in place to secure Best Value.

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## Recommendation 6

We recommend that a formal review of the BV assurance framework and an assessment of the board's BV arrangements should be progressed as soon as practicable.

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## Equality and diversity

**134.** As part of our work on Best Value we conducted a detailed review of fairness and equality in 2019/20.

**135.** Public bodies have a range of legal duties and responsibilities with regard to equality. In 2019/20 we concluded, overall, that NHS Orkney had appropriate arrangements in place to demonstrate compliance with the Equality Act 2010 and the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012 and for the advancement of equalities. We identified a small number of areas for improvement which we followed up as part of our work in 2021/22:

- In 2019/20 we identified that the Mainstreaming Report did not summarise how well the management of equality and diversity is progressing overall, and it did not distinguish priorities for further improvement. From review of the Mainstreaming Report published in April 2021 the issue is ongoing and has not been addressed.
- Only seven impact assessments are publicly available on the NHS Orkney website: four from 2018 and three from 2019. This has not been updated since 2019/20. It is therefore difficult to assess the value

added by conducting the impact assessments. It is important that this information is accessible so that stakeholders can be assured that people with protected characteristics have been taken into account in the development of a policy or procedure.

- NHS Orkney publish an Equal Pay Report and in 2019/20 the overall gender pay gap was not published within the report as is required by the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012. While the report published in June 2021 contained equal pay information split by staff group there was no overall assessment of the gender pay gap. From the information presented, in appendices, we have calculated that, on average, women earn 37% less than men in NHS Orkney. An employer is required to include supporting narrative to help a reader understand why there is a gender pay gap and what the employer is doing to close that gap.

**136.** We are advised that actions have not been addressed due to prioritisation of other activities and changes within the equality and diversity team. It is important that actions are progressed to ensure NHS Orkney demonstrates compliance and continuous improvement in this area.

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## Recommendation 7

We recommend that NHS Orkney takes action to address recommendations included in our 2019/20 report on equalities.

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### National performance audit reports

**137.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2021/22 several reports were published which may be of direct interest to the board and are highlighted in [Appendix 3](#).

**138.** The NHS in Scotland Report on the 2021/22 audits will include a review of the impact of the Covid-19 pandemic on the treatment of patients and NHS boards' plans to address any backlogs in the treatment of patients. The report will also cover the deliverability of NHS recovery plans, including a review of performance against the Clinical Prioritisation Framework, and report on financial performance during the year. The report is scheduled to be published early in 2023.

# Appendix 1. Action plan 2021/22

## 2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Estimates and Judgements</b></p> <p>The disclosures around accounting estimates and judgements are not clear. There is no clear distinction between management judgement and estimation uncertainty. There are material areas which are not covered specifically but are included elsewhere in the accounts.</p> <p>Risk – There is a risk that the user of the accounts does not fully understand the judgements made by management or the degree of uncertainty associated with figures.</p>	<p>NHS Orkney should refer to good practice guidance on the disclosure of judgements and estimates and make use of cross referencing where disclosures are included in other areas of the accounts.</p> <p><a href="#">Paragraph 26.</a></p>	<p>Disclosure will be reviewed for 2022/23 year end.</p> <p><b>Responsible officer:</b> Head of Finance and Procurement.</p> <p><b>Agreed Date:</b> 31/03/23</p>
<p><b>2. Audit evidence</b></p> <p>Our sample testing of payroll contracts identified four individuals where no contract was held on file. From discussion with human resources the individuals were an internal transfer, and a letter should be on file. We have not received the letter</p> <p>Risk – There is a risk insufficient information is held on employee files.</p>	<p>NHS Orkney should ensure that all employee files hold the correct information relating to the current role.</p> <p><a href="#">Paragraph 26.</a></p>	<p>Agreed</p> <p><b>Responsible officer:</b> Interim Director of Human Resources</p> <p><b>Agreed date:</b> 31/12/22</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>3. Procurement function training</b></p> <p>At the time of our review of the procurement function there were new members of the team who had not yet received training.</p> <p>Risk – There is a risk that proper procurement procedures are not followed due to lack of training.</p>	<p>NHS Orkney should ensure staff members received appropriate training on a timeous basis when starting a new role</p> <p><a href="#">Paragraph 66.</a></p>	<p>At the time of the audit review staff were undergoing training.</p> <p><b>Responsible Officer:</b> Head of Finance and Procurement</p> <p><b>Agreed date:</b> On-Going</p>
<p><b>4. Governance statement</b></p> <p>Our review of the governance statement found that it was very long and contained immaterial and irrelevant information.</p> <p>Risk – There is a risk that users of the financial statements do not understand key messages due to superfluous information.</p>	<p>NHS Orkney should review the governance statement against best practice principles to improve clarity and transparency.</p> <p><a href="#">Paragraph 100.</a></p>	<p>We discussed the report with External Audit. All parties involved will consider these points during the 22/23 audit.</p> <p><b>Responsible Officer:</b> Director of Finance</p> <p><b>Agreed date:</b> 31/03/23</p>
<p><b>5. Clinical Prioritisation Framework monitoring</b></p> <p>The Scottish Government Clinical Prioritisation Framework performance is monitored through returns to the Scottish Government. Those charged with governance do not regularly see the returns.</p> <p>Risk – There is a risk that key performance issues are not subject to appropriate scrutiny.</p>	<p>In order to improve transparency over performance the monitoring information on the clinical prioritisation framework should be periodically presented to the appropriate committee.</p> <p><a href="#">Paragraph 120.</a></p>	<p>Monitoring information on the clinical prioritisation framework will continue to be included in the Performance report to the NHSO Board.</p> <p><b>Responsible Office:</b> Medical Director.</p> <p><b>Agreed date:</b> Ongoing</p>
<p><b>6. Best value</b></p> <p>NHS Orkney has not conducted a formal review over Best Value and therefore there is no explicit and comprehensive assurance over the seven Best Value characteristics.</p>	<p>NHS Orkney should undertake a formal review of the BV assurance framework and an assessment of the board's BV arrangements should be progressed as soon as practicable.</p> <p><a href="#">Paragraph 133.</a></p>	<p>A review will conducted during the financial year 22/23.</p> <p><b>Responsible officer:</b> Planning / Performance and Risk Manager.</p> <p><b>Agreed date:</b> 31/12/22</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk – The board cannot demonstrate it is delivering on its Best Value responsibilities.</p>		
<p><b>7. Follow up of actions on equalities</b></p> <p>In 2019/20 we conducted a review of NHS Orkney’s compliance with the Equality Act 2010 and associated regulations. We identified three areas for improvement covering:</p> <ul style="list-style-type: none"> <li>• Overall conclusions and priorities within the Mainstreaming Report</li> <li>• Publication of Equality Impact Assessments</li> <li>• Clarity of reporting the overall gender pay gap in the Equal Pay Report.</li> </ul> <p>Risk – There is a risk that the reporting on equalities is not clear to stakeholders.</p>	<p>NHS Orkney should take action to address recommendations included in our 2019/20 report on equalities.</p> <p><a href="#">Paragraph 136.</a></p>	<p>Agreed</p> <p><b>Responsible officer:</b> Interim Director of Human Resources</p> <p><b>Agreed date:</b> 31/12/22</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Updated management action 2022
<p><b>8. Efficiency savings</b></p> <p>For 2021/22 the board is required to deliver £5.47 million of savings. The board has yet to identify £4.22 million of the savings required for next year.</p>	<p>The board should ensure that saving plans are developed identifying how the £4.22 million of savings in 2021/22 will be made.</p>	<p><b>Ongoing</b></p> <p>NHS Orkney has identified a savings target of £6.9 million in 2022/23 and to date has identified £4.9 million of savings.</p> <p><b>Responsible officer:</b> Director of Finance</p> <p><b>Agreed date:</b> On-Going</p>
<p><b>9. Medium term savings</b></p> <p>Provisional medium term financial plans identified a cumulative savings gap of</p>	<p>NHS Orkney should develop a transformational plan for the redesign of services</p>	<p><b>Ongoing</b></p> <p>Included as part of response to point 8</p>

Issue/risk	Recommendation	Updated management action 2022
£14.2 million over the three year period to 2023/24.	which is aligned to the clinical and workforce strategies.	
<p><b>10. Service Level Agreements</b></p> <p>Sample testing revealed that services provided by NHS Orkney to Orkney Islands Council for speech and language therapy were under an out of date SLA. We also identified that the SLA with NHS Grampian for mental health services had not been finalised.</p>	<p>NHS Orkney should conduct a review of services provided under SLAs to ensure they are up to date and reflect the current arrangements.</p>	<p><b>Ongoing</b></p> <p>NHS Orkney has created an SLA register, however, this does not include details of what services are provided or the dates covered by the SLA. There is an ongoing risk that SLAs are out of date and not revised. We would recommend that the SLA register is enhanced with key details.</p> <p><b>Responsible officer:</b></p> <p>Planning / Performance / Risk Manager</p> <p><b>Agreed date:</b> 31/12/22</p>
<p><b>11. Workforce planning</b></p> <p>The workforce strategy covers the period 2017-19. A revised workforce strategy is therefore required to cover the medium term</p>	<p>It is critical NHS Orkney has up to date, robust workforce plans to ensure they maintain a sustainable workforce with the right skills and capacity over the medium to long term.</p>	<p><b>Ongoing</b></p> <p>Workforce planning is underway and will be presented to the Scottish Government in line with the 31 July 2022 deadline.</p> <p><b>Responsible officer:</b></p> <p>Interim Director of Human Resources</p> <p><b>Agreed date:</b> 31/07/2022</p>
<p><b>12. Development activities have been put on hold due to Covid-19</b></p> <p>The Board identified the need to improve risk management and develop a clinical strategy, however, the activities had limited progress due to the Covid-19 pandemic.</p>	<p>NHS Orkney should work to progress development activities which were put on hold due to the Covid-19 pandemic.</p>	<p><b>Ongoing</b></p> <p>The Clinical Strategy will be presented to the Board in June 2022.</p> <p><b>Responsible officer:</b></p> <p>Medical Director</p> <p><b>Agreed date:</b> 30/06/2022</p>
<p><b>13. Changes in senior management</b></p>	<p>NHS Orkney should consider how they can create leadership capacity and ensure minimal disruption</p>	<p><b>Ongoing</b></p> <p>From discussion with HR succession planning is being</p>

Issue/risk	Recommendation	Updated management action 2022
<p>NHS Orkney saw significant leadership changes over the later part of 2019/20 with a new Chair of the Board and the retirement of the Chief Executive. It is crucial that appropriate steps are taken to preserve knowledge and support the new leadership team.</p>	<p>during the recruitment and appointment of a permanent Chief Executive.</p>	<p>developed as part of the workforce strategy. The plans include linkages with national development programmes and local leadership and management programmes.</p> <p>Agreed</p> <p><b>Responsible officer:</b></p> <p>Interim Director of Human Resources</p> <p><b>Agreed date:</b> 31/12/22</p>
<p><b>14. Information Governance Group effectiveness</b></p> <p>NHS Orkney use an Information Governance Group to support the Audit and Risk Committee. There was poor attendance at the group in 2019/20 and a planned review of effectiveness has not been conducted.</p>	<p>NHS Orkney should ensure sufficient consideration is given to the effectiveness of sub-groups to ensure they are functioning as intended and have sufficient impact on the organisation.</p>	<p><b>Ongoing</b></p> <p>Our review of the Information Governance Committee identified ongoing issues with attendance.</p> <p><b>Action:</b> We have raised this at a Board level and will continue to review and monitor attendance</p> <p><b>Responsible officer:</b></p> <p>Director of Finance</p> <p><b>Agreed date:</b> On-Going</p>
<p><b>15. Performance management information</b></p> <p>The Performance Management information is out of date for 26 per cent of the indicators regularly reported to the Finance and Performance Committee.</p>	<p>NHS Orkney should consider the performance management information produced to align to the Annual Operational Plan and ensure the indicators reported on are useful and current.</p>	<p><b>Ongoing</b></p> <p>The information provided to the Finance and Performance Committee was found to be up to date with the exception of Access to CAMHS which is still in development.</p> <p><b>Action:</b> Action is being taken to address the lateness of the CAMH information.</p> <p><b>Responsible officer:</b></p> <p>Planning / Performance and Risk Manager</p> <p><b>Agreed date:</b> 30/09/22</p>
<p><b>16. Authorisation of journals</b></p>	<p>We recommend that journals are authorised on a timely basis.</p>	<p><b>Complete</b></p> <p>We have reviewed journals in year and we have not</p>

Issue/risk	Recommendation	Updated management action 2022
We sampled authorisation controls over 30 journals and found 6 which were authorised over 2 months after the journal was posted.		identified any issues in relation to the timing of approval.
<p><b>17. Registers of interest</b></p> <p>Registers of interest maintained by NHS Orkney do not include the interests of close family members as required by IAS 24.</p>	NHS Orkney should update guidance to require close family members interests to be disclosed	<p><b>Complete</b></p> <p>We are satisfied appropriate changes to procedures to ensure members are directed to include interests of close family members.</p>
<p><b>18. Publication of committee papers</b></p> <p>The agendas and minutes for the sub-committees of the Board are not up to date on the web-site.</p>	NHS Orkney should put procedures in place to ensure the website is kept up to date.	<p><b>Complete</b></p> <p>We are satisfied that at the time of our audit, committee papers are up to date on the website.</p>
<p><b>19. Audit and Risk Committee Terms of Reference</b></p> <p>We considered the Terms of Reference for the Audit and Risk Committee and concluded that it is not clear what role the committee has in relation to risk.</p>	The Terms of Reference for the Audit and Risk Committee should make it clear what the role of the Audit and Risk Committee is in relation to risk.	<p><b>Complete</b></p> <p>The terms of reference were updated to reflect the committee's role in relation to risk in March 2022.</p>
<p><b>20. Documentation of NFI results</b></p> <p>NHS Orkney has investigated a significant number of the 321 NFI matches but only 90 have been marked as completed.</p>	The NFI Portal should be used to record the outcomes of the NFI review.	<p><b>Complete</b></p> <p>We are satisfied outcomes are being appropriately recorded within the NFI portal.</p>

# Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £40 thousand.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

Account areas	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
	Dr £000	Cr £000	Dr £000	Cr £000
1. Other operating expenditure	338			
Other operating income		(338)		
<b>Net impact</b>	338	(338)		

#### Notes:

The uncorrected misstatement relates to lateral flow tests which were donated by the UK Government to NHS Orkney. NHS Orkney were notified of the value late in the audit process and elected not to adjust on grounds of materiality.

# Appendix 3. Summary of 2021/22 national performance reports and briefing papers

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## May

[Local government in Scotland Overview 2021](#)

## June

[Covid 19: Personal protective equipment](#)

## July

[Community justice: Sustainable alternatives to custody](#)

## September

[Covid 19: Vaccination programme](#)

## January

[Planning for skills](#)

[Social care briefing](#)

## February

[NHS in Scotland 2021](#)

## March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

# NHS Orkney

## 2021/22 Annual Audit Report

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