KPMG

External Audit Plan for the year ended 31 March 2026

NHS Orkney

27 March 2026

Key contacts

Your key contacts in connection with this report are:

Rashpal Khangura
Director
Tel: 07876 392195
Rashpal.khangura@kpmg.co.uk

Taimoor Alam
Senior Manager
Tel: 07731 348596
taimoor.alam@kpmg.co.uk

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Introduction

To the Audit and Risk Committee of NHS Orkney

We are pleased to have the opportunity to meet with you on 26 May 2026 to discuss our audit of the consolidated financial statements of the Orkney Health Board ('the Board'), as at and for the year ending 31 March 2026.

This report outlines our risk assessment and planned audit approach. On pages 15 to 21 we include our Wider Scope risk assessment, as required by the Code of Audit Practice, which at this stage, highlights a potential risk of significant weakness in your arrangements in regard to financial management and sustainability.

Our planning activities are still ongoing and we will communicate any significant changes to the planned audit approach subsequently.

We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

The engagement team

Rashpal Khangura is the engagement lead on the audit. He has over 20 years of NHS audit experience.

Taimoor Alam will be the senior manager responsible for the audit and will be responsible for overseeing the delivery of our audit.

Other key members of the engagement team include Michelle Ho who will be the in-charge for the audit and coordinate our on-site fieldwork.

Yours sincerely,

Rashpal Khangura

March 2026

Introduction (continued)

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- **Executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls**; and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity**, **independence**, **ethics** and **integrity**.

We depend on well planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner

Restrictions on distribution

This report is intended solely for the information of those charged with governance of NHS Orkney and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

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 auditing *Code*").

This report is for the benefit of NHS Orkney and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone. 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 scoping and purpose section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Rashpal Khangura, who is the engagement leader for our services to NHS Orkney, telephone 07876 392195 email: Rashpal.Khangura@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Tim Cutler, our lead for our work for Audit Scotland, either by writing to him at 1, St Peter's Square, Manchester M2 3AE or by telephoning 0161 246 4774 or email to tim.cutler@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Owen Smith, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

NHS Orkney

Audit summary

Key : ▲ Increased ▼ Decreased ★ New ◆ Unchanged

Financial Statement Audit

We have commenced our audit planning and risk assessment procedures and have identified the following risks on which we will focus our work.

As our planning and risk assessment continues, these may be updated.

Description	Movement	Page
Significant Risks		
Fraud risk - expenditure recognition	◆	7
Management override of controls	◆	8
Fraud risk - revenue recognition rebuttal	◆	9
Other Focus Area		
Valuation of Land & Buildings	◆	10

Wider Scope risk assessment

Our audit risk assessment is an iterative and dynamic process, our current assessment of risks outlined in this plan may change as more information and evidence becomes available during the audit. Where such changes occur, we will advise management and report to those charged with governance. We have to date identified possible significant risks in relation to the following wider scope areas:

- Financial management; and
- Financial sustainability.

Materiality

Total expenditure (2024/25)*

£141m

Materiality

£2.7m

1.92% of expenditure

(2024/25: £2.5m, 1.78% of expenditure)

*** Benchmark used was actual total expenditure for prior year.**

£135k

Misstatements reported to the Audit and Risk Committee (2024/25: £125k)

£2.02m

Procedure designed to detect individual errors at this level (2024/25: £1.62m)

£2.7m

Materiality for the financial statements as a whole (2024/25: £2.5m)

Our materiality levels

We determined materiality for the consolidated financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of expenditure which we consider to be appropriate as it reflects the scale of the Board's services and we consider this most clearly reflects the interests of users of the Board's accounts. To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of performance materiality £2.02m. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons.

Group materiality vs other metrics

	2025/26	2024/25
Total assets	2.5%	2.4%

Prior period errors

There are no unadjusted audit differences from the previous year audit.

Audit risks and our audit approach

Fraud risk from expenditure recognition - completeness

Significant audit risk

Risk: Liabilities and related expenses for purchases of goods or services are not completely recorded or not recorded in the correct accounting period

As achieving a breakeven position along with target savings against the Board's Core Revenue Resource Limit (RRL) is a key target, there is a risk that non-pay expenditure, may be manipulated in order to report that the target position has been met.

The Board set a deficit plan for 2025/26, therefore whilst it was not aiming to breakeven it was measuring performance against a deficit plan which included savings to be achieved to meet that plan. During there year the Board has been experiencing year to date pressures to achieve the planned deficit.

The setting of a savings target can create an incentive/ pressure for the management to understate the level of non-pay expenditure compared to that which has been incurred.

We consider this would be most likely to occur through understating accruals at the year end, for example to push back expenditure to 2026-27 to mitigate financial pressures.

Planned response

We would plan to include the following types of procedures to address this risk:

- We will evaluate the design and implementation of the controls in place for manual expenditure accruals;
- We will inspect a sample of invoices of expenditure, in the period around 31 March 2026, to determine whether expenditure has been recognised in the correct accounting period;
- We will select a sample of year end accruals and inspect evidence of the actual amount paid after year end in order to assess whether the accrual had been completely recorded;
- We will inspect journals posted as part of the year end close procedures that decrease the level of expenditure recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence;
- We will perform a retrospective review of prior year accruals in order to assess the completeness with which accruals had been recorded at 31 March 2025 and consider the impact on our assessment of the accruals at 31 March 2026. We will also compare the items that were accrued at 31 March 2025 to those accrued at 31 March 2026 in order to assess whether any items of expenditure not accrued for as at 31 March 2026 have been done so appropriately; and
- We will carry out unrecorded liability testing to ensure that recorded liabilities including the corresponding expense are complete.

Audit risks and our audit approach

Management override of controls

Significant audit risk

The risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

Planned response

Our audit methodology incorporates the risk of management override as a default significant risk.

- In line with our methodology, we will evaluate the design and implementation and, where appropriate, test the operating effectiveness of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate. We will follow up on prior year control recommendation in relation to segregation of duties with respect to processing of journals;
- We will analyse all journals through the year and focus our testing on those with a higher risk.
- We will assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- We will review the appropriateness of the accounting for significant transactions that are outside the Board's normal course of business, or are otherwise unusual.

Audit risks and our audit approach

Revenue – Rebuttal of Signficant Risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Due to the nature of the revenue within the Board, we have rebutted this significant risk. We have set out the rationale for the rebuttal of key types of income in the table below.

Description of Income	Nature of Income	Rationale for Rebuttal
Income from services commissioned by Integrated Joint Board	This is the main block contract from the Integration Joint Board. This income is accounted for alongside the payments to the Integrated Joint Board relating to the delivery of patient care.	The income is agreed in the contract, with simple recognition criteria linked to patient services delivered. The values are supported by the Agreement of contract budgets and agreements with the IJB with limited incentive or opportunities to manipulate the value recognised.
Scottish government Funding drawn down	The Health Board are allocated a funding envelope by Scottish Government, this funding is drawn down in cash to facilitate payments that are required.	The income is drawn down in cash, this is recognised on receipt and confirmation at year end leaves limited incentive or opportunities to manipulate the value recognised.
Other Income	Mix of income streams including: other income from Scottish Government, other NHS bodies, donations, and other income.	The various other income streams are high volume, low value sales, with simple recognition criteria. There is a mixture of NHS and Non-NHS income, however we do not deem there to be any incentive or opportunity to manipulate the income and note there would need to be a significant volume of transactions misstated to create a material error. We will further revisit and review this assessment at the year end.

Audit risks and our audit approach

Valuation of land and buildings

Other Focus Area

Risk: The carrying amount of revalued Land & Buildings differs materially from the fair value

Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'.

The value of the Board's land and buildings at 31 March 2025 was £91.8 million out of which £80 million relates to Balfour Hospital.

All land and buildings underwent full revaluation by an independent valuer, Gerald Eve, as at 31 March 2023 on the basis of fair value (market value or depreciated replacement costs where appropriate). The net impact was an increase of £20.737 million.

Planned response

We will perform the following procedures designed to specifically address the risk associated with the valuation:

- We will critically assess the independence, objectivity and expertise of the valuers used in developing the valuation of the Board's properties at 31 March 2026;
- We will inspect the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the Government Financial Reporting Manual (FReM);
- We will compare the accuracy of the data provided by the valuers for the development of the valuation to underlying information, such as floor plans, and to previous valuations, challenging management where variances are identified;
- We will challenge the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed, as part of our judgement;
- We will perform inquiries of the valuers in order to verify the methodology that was used in preparing the valuation and whether it was consistent with the requirements of the RICS Red Book and the FReM;
- We will agree the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the FReM;

Audit risks and our audit approach

Valuation of land and buildings (continued)

Other Focus Area

Risk: The carrying amount of revalued Land & Buildings differs materially from the fair value (cont)

Planned response (cont)

- We will review the valuation report prepared by the Board's valuers to confirm the appropriateness of the methodology utilised; and
- Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Group audit scope

We understand that the Orkney Health Board Endowment Funds are consolidated into the Group financial statements and the Orkney Integrated Joint Board are accounted for on an equity basis in the Group Financial statements

The table below shows the entities within scope of the Group audit and the extent of procedures we are planning to undertake in order to provide our Group audit opinion.

Entity	Financially Significant	Exposed to Group Significant Risks
NHS Orkney (parent)	✓	✓
Orkney Health Board Endowment Funds (Subsidiary)	-	-
Orkney Integrated Joint Board (Joint Venture)	-	-

We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Other significant matters relating to our audit approach

Disclosure of significant estimates and judgements

We have included here the disclosures of significant estimates and judgements from the prior year annual report and the assessment of the level of optimism included within the valuation as well as the assessment of the quality of disclosure made about the estimation uncertainty within the estimate:

Estimates and judgements	Balance £ million	Assessment of balance	Assessment of disclosure	Further comments
Valuation of land and Buildings (estimate)	92.02	Neutral	Neutral	The last full revaluation of Land and Buildings was performed in 2023 therefore the Board will apply indexation to the land and buildings provided by the external valuer until the next full revaluation which is due in 2028.

Other estimates

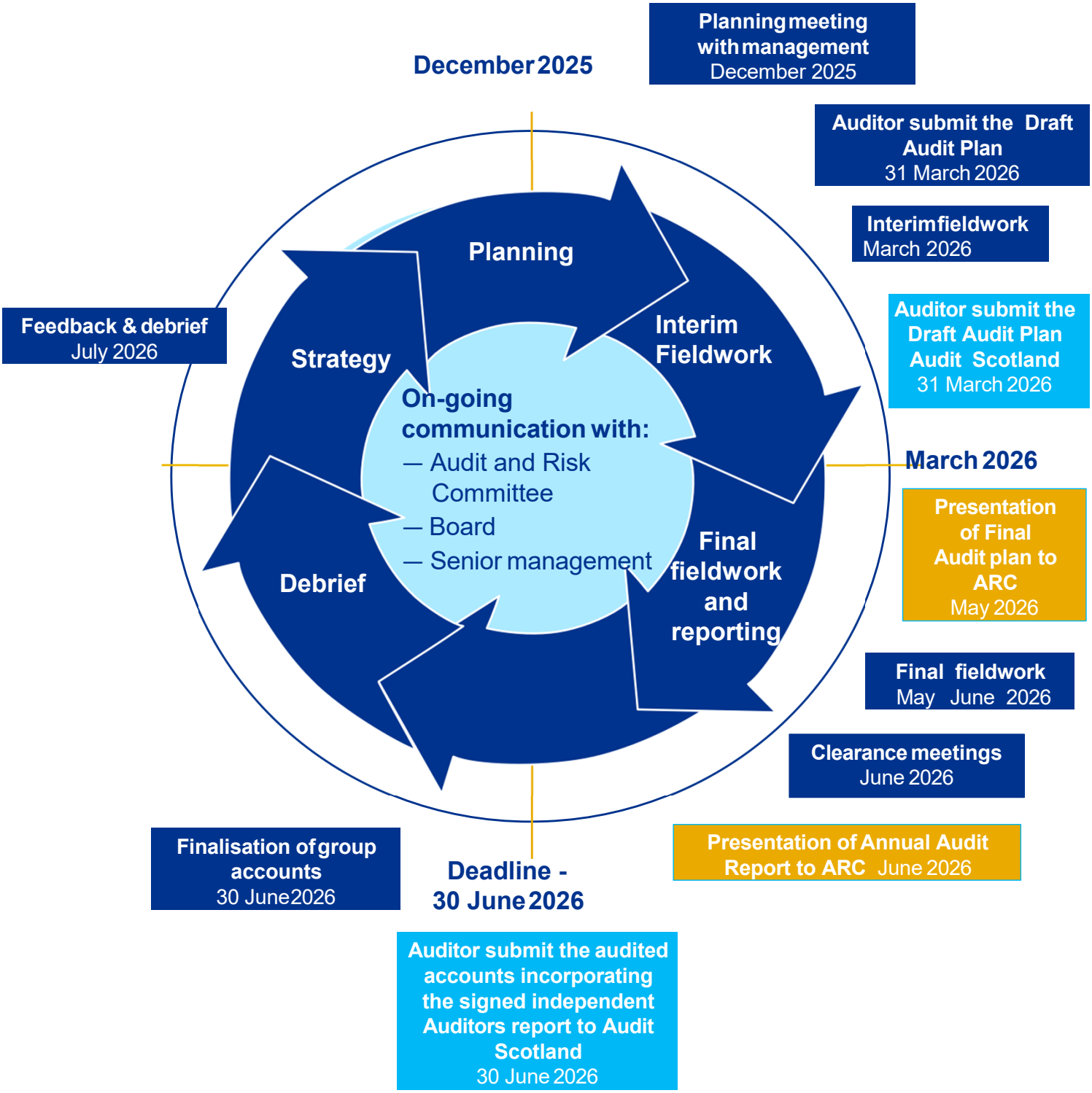
We will also review the following estimates as part of our audit work

- Depreciation
- Clinical and Medical Negligence Provision

NHS Orkney

Audit cycle and timetable

Our 2025/26 schedule



- Key Events
- Audit Scotland communications
- Audit and Risk Committee communications

Source: KPMG

KPMG

Wider Scope and Best Value

Wider Scope

Appointed auditors are required to consider the areas defined in the Code of Audit Practice ('the Code') as wider-scope audit.
Auditors should consider these additional requirements when:
• identifying significant audit risks at the planning stage
• reporting the work done to form conclusions on those risks
•making recommendations for improvement and, where appropriate, setting out conclusions on the audited body's performance.

The Code of Audit Practice sets out four areas that constitute the wider scope of public audit in Scotland. These are summarised along with the corresponding area of focus and our risk assessment as follows:.
• Financial Management – Page 17;
• Financial Sustainability – Page 18;
• Vision, Leadership and Governance – Page 19; and
• Use of Resources to Improve Outcomes – Page 20.

Source: Code of Audit Practice

Reporting within the Annual Audit Report

We will report on the four wider scope areas and Best Value within the Annual Audit Report, and we are required to provide commentary on the effectiveness and appropriateness of the arrangements in place based on the work that they have done. Where significant risks are identified we will make recommendations for improvement. The Annual audit reports will include commentary which is retrospective in nature, comment on progress in implementing previous recommendations and on forward plans within aspects of the wider scope and best value requirements.

Wider Scope arrangements

Financial Management

Scope

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

Areas of Focus

- the arrangements to ensure effective systems of internal control, to ensure public money is applied within the relevant financial rules;
- the effectiveness of the budget control system to communicate accurate and timely financial performance to meet the needs of the user;
- the accuracy and embeddedness of financial forecasting within financial management and financial reporting arrangements, including achievement of financial targets;
- the arrangements taken to link budget setting, savings plans to the priorities and risks of the Board; and
- the capacity and skills of the Board's finance team

Risk Assessment

As part of 2024/25 audit we noted that the Board's financial monitoring and reporting arrangements were in place as an accurate financial position had been identified and reported during the year. However, there was a significant weakness in achieving the in year balance without the additional financial support received from Scottish Government, which points to arrangements to successfully managing the financial position not operating effectively during the year.

This has also been an issue in previous years. The Board had implemented changes to its arrangements regarding financial management with the support provided from it being escalated to level three of the NHS Scotland Support and Intervention Framework. We noted that the Board needed to embed those arrangements taking appropriate actions where arrangements are not delivering the desired outcome in a timely manner.

During 2025/26, the financial position has been on an adverse trajectory. The Board has revised its forecasted year-end deficit (before transitional funding) from to £2.2m to £3.6m. The undelivered savings programme is driving adverse forecast out-turn for 2025/26.

We further noted that the Board had recognised capacity issues within the finance team and implemented a review. It needs to continue implement actions to address the findings.

Based on above there is a possible risk in relation to the effectiveness of arrangements at the Board to develop and deliver appropriate savings plans and achieve financial balance in the short-term.

Wider Scope arrangements

Financial sustainability

Scope	Areas of Focus	Risk Assessment
Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.	• the arrangements in place to balance any short-term financial challenges and cashflow requirements and longer-term financial sustainability; • the arrangements to ensure any recovery plan is fully integrated to deliver the Boards priorities; • the arrangements put in place to address any identified funding gaps / savings plans and organisational restructures, including clarity of the impact on services to the public; and • the degree to which medium to longer term capital financial plans include clear links to how capital investment will be used to deliver organisational priorities, including revenue consequences of the capital expenditure.	Based on historical performance the Board has had significant weaknesses in its arrangements to achieve financial sustainability. As part of 24/25 audit we noted the implementation of the identified savings as well as development of un-identified savings plan represents a significant challenge. The Board will receive transitional funding over a four-year period, conditional on certain criteria on financial performance being met. Despite there being schemes planned for 2025/26 there is a potential risk that the planned savings will not be achieved due to the current pressures faced by the Board, and that the conditions for transitional funding will not be met. The Board had set its saving target for 2025/26 at £3.8m, however only circa £2.0m is forecasted to be delivered. The undelivered savings programme is driving adverse forecast out-turn for 2025/26. Based on above there may be a risk in relation to the effectiveness of arrangements at the Board to achieve financial sustainability over medium to long term.

Wider Scope arrangements

Vision, Leadership and Governance

Scope	Areas of Focus	Risk Assessment
Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.	• the vision and strategy of the Board, to ensure it includes a clear set of priorities which reflects the pace and depth of improvement that is needed to realise the Board's priorities and long-term sustainability of services to meet the needs of the citizens; • that governance arrangements are appropriate and operating; • the level of involvement of the local communities, including seldom heard groups, and health inequalities in identifying and agreeing the Board's priorities; • the evidence that demonstrates leaders are adaptive to the changing environment; and • the culture of the Board and how it operates with partners to understand their roles and responsibilities to help deliver the priorities of all partners, including where delivered through ALEO's.	At this time, we have not identified any significant risks relating to vision, leadership and governance.

Wider Scope arrangements

Use of Resources to Improve Outcomes

Scope

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

Areas of Focus

- the arrangements in place to demonstrate that there is a clear link between money spent and outputs and the outcomes delivered;
- the arrangements in place to assess whether outcomes are improving based on the trend and relative to pace of change in comparable organisations, and appropriate to the risk and challenges facing the Board;
- the arrangements in place to consider cost of delivery of current services and whether alternative models of service delivery have been considered.
- the arrangements to evaluate service delivery and quality and whether the views of users and are included in any such evaluation.

Risk Assessment

At this time, we have not identified any significant risks relating to use of resources to improve outcomes.

Best value

Background

Local government bodies have a duty under the Local Government in Scotland Act 2003 to make arrangements which secure Best Value.

Best Value is continuous improvement in the performance of the body's functions, having regard to efficiency, effectiveness, economy and the need to meet equal opportunity requirements.

Paragraph 60 of the Code of Audit Practice (2021) extends this responsibility to other sectors and requires auditors to consider the arrangements put in place by Accountable Officers to meet their Best Value obligations.

For Central Government and NHS bodies, auditors should consider the arrangements put in place by Accountable Officers to meet their Best Value obligations as part of the wider-scope audit work. Auditors should report findings in annual audit reports as appropriate.

The Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Auditors should confirm that there are organisational arrangements in place in this regard when planning and reporting on the wider scope areas. Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

Auditors may also carry out specific audit work covering the seven Best Value characteristics set out in the SPFM. The nature and extent of this work will be generally determined by the annual risk assessment carried out by auditors. However, there is an expectation that equalities will be advanced through the audit process, and auditors are advised to carry out work on the Fairness and Equality characteristic at least once during the audit appointment.

2025-26 Audit :

We will consider the arrangements put in place by Accountable Officers to meet their Best Value obligations as part of the wider-scope audit work.

Reporting:

We will report our findings in the annual audit report as appropriate.

Appendices

Mandatory communications

Type	Statement
Management's responsibilities (and, where appropriate, those charged with governance)	The Code outlines the responsibilities of Management in respect of the following: Audited bodies are responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective governance of their activities. Audited bodies are responsible for maintaining: • strong corporate governance arrangements; • a financial position that is soundly based; • preparing accounts for audit, comprising financial statements and related reports; • sound systems of internal control; • standards of conduct for prevention and detection of fraud and other irregularities; and • internal audit.
Management's responsibilities (Financial statements and related reports)	The Code highlights that: Management must prepare annual accounts comprising financial statements and other related reports. They have responsibility for: • preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their accounts and related reports disclosures • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority • preparing and publishing, along with their financial statements, related reports such as an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements • ensuring that the management commentary (or equivalent) is fair, balanced and understandable.

Mandatory communications

Type	Statement
Auditor's responsibilities	The Code outlines the responsibilities of Auditors. Auditors appointed by the Auditor General undertake the audit of accounts including the wider-scope responsibilities. Once appointed, auditors act independently in carrying out their responsibilities and in exercising professional judgement. The appointed auditor reports to the audited body and others on the results of audit work. Appointed auditor responsibilities are derived from statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, the Code and guidance from Audit Scotland. More detail on the auditor's responsibilities for auditing accounts and their wider-scope responsibilities are set out in this document. Weaknesses or risks, including fraud and other irregularities, identified by auditors are only those which come to their attention during their normal audit work in accordance with the Code and may not be all that exist.
Auditor's responsibilities	The appointed auditors' statutory duties are derived from appointment by the Auditor General under the Public Finance and Accountability (Scotland) Act 2000. Appointed auditors' reports (ie, the independent auditor's report in relation to the accounts) must set out the auditor's findings on: • whether the expenditure and receipts shown in the accounts were incurred or applied in accordance with any enactment by virtue of which the expenditure was incurred or the income received in line with the Budget Act(s) for the financial year, or any part of the financial year, to which the accounts relate to Sections 4-7 of the 2000 Act, relating to the Scottish Consolidated Fund (the Fund) • where sums have been paid out of the Fund for the purpose of meeting such expenditure, whether the sums were applied in accordance with Section 65 of the Scotland Act 1998 • whether the expenditure and receipts shown in the accounts were incurred or applied in accordance with any applicable guidance (whether as to propriety or otherwise) issued by the Scottish ministers • whether the accounts comply with any applicable direction by virtue of any enactment.

Mandatory communications

Type	Statement
Auditor's responsibilities - Fraud	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
Auditor's responsibilities – Other information	The Code communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
Auditor's responsibilities – Consolidation Schedules	This "Whole of Government Accounts" requirement is fulfilled when we check your summarisation schedules are consistent with your annual accounts.
Independence	Our independence confirmation on page 28 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff.

Audit team and Rotation

Your audit team has been drawn from our specialist healthcare audit department and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit partner and firm.

Rashpal is the director responsible for our audit. He will lead our audit work, attend the Audit and Risk Committee and be responsible for the opinions that we issue.

Taimoor Alam is the senior manager responsible for our audit. He will co-ordinate our audit work, attend the Audit and Risk Committee and ensure we are co-ordinated across our accounts and use of funds work.

Michelle Ho is the in-charge responsible for our audit. She will be responsible for our on-site fieldwork. She will complete work on more complex section of the audit.

To comply with professional standard we need to ensure that you appropriately rotate your external audit partner. There are no other members of your team which we will need to consider this requirement for:

This will be Rashpal's 4th year as your engagement lead. He can therefore complete further 6 years before rotation.

Appendix three

Fees

Audit Scotland has completed a review of funding and fee setting arrangements for 2025-26. An expected fee is calculated by Audit Scotland to each entity within its remit. This expected fee is made up of four elements:

- Auditor remuneration (** average of Tender values)
- Audit Scotland Pooled costs
- Contribution to PABV costs
- Audit Scotland sectoral cap adjustment

The expected fee for each body assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for the audit.

Entity	2025/26	2024/25
Auditor Remuneration	£118,370	£114,040
Pooled Costs	£12,950	£11,820
Contribution to PABV costs	-	-
Sectoral Cap Adjustment	-£28,200	-£27,030
TOTAL AUDIT FEES (Incl VAT)	**£103,120**	**£98,830**

Source: Audit Scotland

Billing arrangements
Fees will be billed by Audit Scotland in accordance with a billing schedule as outlined in correspondence with management.

Basis of fee information

In line with our standard terms and conditions the fee is based on the following assumptions:

- The Group's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this);
- Draft statutory accounts are presented to us for audit subject to audit and tax adjustments;
- Supporting schedules to figures in the accounts are supplied; A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-forms as necessary. Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

If there are any variations to the above plan, we will discuss them with you and agree any additional fees before costs are incurred wherever possible.

Appendix four

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the director and audit staff is not impaired.

To the Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of the NHS Orkney Board

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard.

As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Confirmation of Independence (continued)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

We are not providing any non audit services

Summary of fees

We have considered the fees charged by us to the Board for professional services provided by us during the reporting period. The total fees charged by us can be analysed as follows:

	2025/26	2024/25
	£	£
Audit of Board	103,120	98,830
Total audit	103,120	**98,830**
Other Assurance Services	-	-
Total non-audit services	-	-
Total Fees	103,120	**98,830**

Source: Audit Scotland

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Ris Committee.

Application of the FRC Ethical Standard 2019

We communicated to you previously the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

We confirm that as at 15 March 2020 we were not providing any non-auditor additional services that required to be grandfathered.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Compliance Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Responsibility in relation to fraud

We are required to consider fraud and the impact that this has on our audit approach. We will update our risk assessment throughout the audit process and adapt our approach accordingly.

Management responsibilities

Adopt sound accounting policies.

With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.

Establish proper tone/culture/ethics.

Require periodic confirmation by employees of their responsibilities.

Take appropriate action in response to actual, suspected or alleged fraud.

Disclose to Audit Committee and auditors:

- Any significant deficiencies in internal controls; and
- Any fraud involving those with a significant role in internal controls

KPMG's response to identified fraud risk factors

Accounting policy assessment.

Evaluate design of mitigating controls.

Test effectiveness of controls.

Address management override of controls.

Perform substantive audit procedures.

Evaluate all audit evidence.

Communicate to Audit [and Risk] Committee and management.

KPMG's identification of fraud risk factors

Review of accounting policies.

Results of analytical procedures.

Procedures to identify fraud risk factors.

Discussion amongst engagement personnel.

Enquiries of management, Audit and Risk Committee, and others.

Evaluate broad programmes and controls that prevent, deter, and detect fraud.

KPMG's identified fraud risk factors

—Whilst we consider the risk of fraud at the financial statement level to be low for the Board, we will monitor the following areas throughout the year and adaptour audit approach accordingly:

—Income recognition;

—Cash;

—Procurement;

—Management control override; and

—Assessment of the impact of identified fraud.

Source: KPMG

Appendix six

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Association with the right entities
- Select entities within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Performance of effective & efficient audits
- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

Clear standards & robust audit tools
- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

Commitment to technical excellence & quality service delivery
- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

Recruitment, development & assignment of appropriately qualified personnel
- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

Source: KPMG

Appendix seven

Newly effective accounting standards

Standards	Effective for years beginning on or after		
	1 Jan 2025	1 Jan 2026	1 Jan 2026
Lack of exchangeability (Amendments to IAS 21) *The Effects of Changes in Foreign Exchange Rates*	✓		
Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures***		✓	
Annual Improvements to IFRS Accounting Standards – Amendments to: • IFRS 1 *First-time Adoption of International Financial Reporting Standards;* • IFRS 7 *Financial Instruments: Disclosures and it's accompanying Guidance on implementing IFRS 7*; • IFRS 9 *Financial Instruments*; • IFRS 10 *Consolidated Financial Statements*; and • IAS 7 *Statement of Cash flows*		✓	
IFRS 18 *Presentation and Disclosure in Financial Statements***			✓
IFRS 19 *Subsidiaries without Public Accountability: Disclosures***			✓
Contracts Referencing Nature-dependent Electricity - Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures		✓	
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*) *	TBD*		

* The effective date for these amendments was deferred indefinitely. Early adoption continues to be permitted.
** Not yet endorsed by the UK Endorsement Board

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