

NHS Orkney

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for NHS Orkney
December 2019

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


Adding value


3. We aim to add value to NHS Orkney through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help NHS Orkney promote improved standards of governance, better management and decision making and more effective use of resources.


Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for NHS Orkney. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over income and expenditure</p> <p>NHS Orkney receives income from several sources, in addition to Scottish Government funding. The extent and complexity of income</p>	<p>Effective budget monitoring by management.</p> <p>Regular monitoring of national fraud reports.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>

 Audit Risk	Source of assurance	Planned audit work
<p>means that, in accordance with ISA240, there is an inherent risk of fraud. The Code of Audit Practice expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure, for public sector bodies which have an overall net expenditure position.</p>	<p>Counter Fraud Policy and Whistleblowing Policy in place.</p> <p>Clear procedures in place for staff.</p> <p>Financial authorisation limits in place for authorising and approving expenditure.</p> <p>Budget monitoring and review with significant variances investigated and discussed with budget holders.</p>	<p>Liaise with the External Auditor of the Endowment Fund.</p> <p>Audit work on the National Fraud Initiative matches.</p> <p>Assessing the high level key controls in areas of significant expenditure.</p> <p>Focused substantive testing of expenditure.</p>
<p>3 Senior Finance Capacity</p> <p>As the Director of Finance has been appointed on a part-time temporary basis there is a risk that there is insufficient finance capacity at a senior level.</p> <p>The Head of Finance left at the end of October 2019 and a new Head of Finance is due to take up post from January 2020. Until then the Finance division is operating below capacity.</p>	<p>Interim arrangements have been put in place, with Director of Finance responsibilities having been allocated to the Chief Executive and Head of Finance. The NHS board is currently exploring options for filling the Director of Finance role.</p>	<p>Monitor arrangements for filling the Director of Finance role.</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Use of an expert for Property Valuations.</p> <p>Regular reporting to the health board.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Focused substantive testing of key areas including the Balfour hospital and vacant buildings.</p>
<p>Wider dimension risks</p>		
<p>5 Financial management</p> <p>The health board's latest financial position to September 2019 shows that the health board is currently in a deficit position of £1 million. The outturn position is forecast to be a deficit of £1.8 million by the year end. The 2019/20 budget was predicated on the delivery of a recurring cost efficiency programme of £0.75 million, and funding for additional hospital medical staffing of £2.0 million, neither of which are guaranteed. Each year, finding new savings becomes increasingly more difficult. Due to the rural nature of NHS Orkney and the lack of options, challenges remain in controlling locum spend and delivering the</p>	<p>We are working with the Scottish government and internally to deliver a break even position in 2019/20.</p>	<p>We will monitor the health board's financial position through continuing discussion with officers; reviewing finance reports to the Finance and Performance Committee and the health board; and reviewing the minutes of these meetings.</p>

	Audit Risk	Source of assurance	Planned audit work
	<p>required savings. In the event that the health board is unable to meet its financial targets, an explanatory paragraph would be included in the independent auditors' report.</p>		
6	<p>Financial sustainability</p> <p>NHS Orkney has a three year summary financial plan as required by Scottish Government. The health board is required to achieve efficiency savings of 1.3% of baseline RRL in 2019/20 (£0.750 million). All of this is on a recurring basis and has been identified (although not assured).</p> <p>In subsequent years of the plan NHS Orkney is required to achieve efficiency savings of 6.3% in 2020/21 and 2.2% in 2021/22. All the savings required are on a recurring basis, and most of the savings required in 2020/21 and beyond have yet to be identified although a range of savings options are being considered.</p>	<p>The Value and Sustainability Delivery Group meets regularly and is tasked with identifying the required savings through service redesign. The Board is committed to achieving the required savings.</p>	<p>We will monitor the health board's financial position through continuing discussion with officers; reviewing finance reports to the Finance and Performance Committee and the health board; and reviewing the minutes of these meetings we will include comment as appropriate in our Annual Audit Report.</p>
7	<p>Governance and transparency</p> <p>Workforce Management</p> <p>NHS Orkney continues to face several workforce challenges. Currently around 20% of the workforce is aged 55 or over and eligible for retirement.</p> <p>There will be a loss of experience as the older workforce retires and the health board could experience difficulties in attracting experienced new staff.</p> <p>Whilst there remains uncertainty about the implications of Brexit, the risk in relation to workforce is captured on the Brexit Risk Register, monitored by the Brexit Steering Group and is low.</p>	<p>The Staff Governance Committee is monitoring implementation of the workforce strategy including approaches to succession planning to ensure a sustainable workforce with the right skills and capacity.</p>	<p>Review minutes of Staff Governance Committee meetings and report any issues in our interim management report.</p>
8	<p>Governance and transparency</p> <p>Information Security</p> <p>The health board should ensure it has an up to date, fully tested IT disaster recovery plan.</p>	<p>Board achievement of Cyber Security essentials stage 1 reported through Information Governance Committee.</p>	<p>Review Cyber Securities certification.</p> <p>Review disaster recovery plan.</p>

Reporting arrangements

5. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

7. We will provide an independent auditor's report to NHS Orkney, and the Auditor General for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will provide NHS Orkney and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

8. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the audited resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end i.e. 31 December. NHS Orkney is required to submit their audited financial statements by 30 June to meet the consolidation timetable.

Exhibit 2

2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	22 November 2019	3 December 2019
Management Report	27 March 2020	5 May 2020
Independent Auditor's Report	25 June 2020	25 June 2020
Annual Audit Report	11 June 2020	25 June 2020

Source: Audit Scotland

Audit fee

9. The proposed audit fee for the 2019/20 audit of NHS Orkney is £ TBC [2018/19 fee £70,700]. In determining the audit fee we have taken account of the risk exposure of NHS Orkney, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 4 May 2020.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

11. Audited bodies have primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

12. The audit of the annual accounts does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.

Appointed auditor

13. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

14. Auditors in the public sector give an independent opinion on the financial statements and other specified information within the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

15. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of NHS Orkney and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how NHS Orkney will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

16. We will give an opinion on whether the financial statements:

- give a true and fair view of the state of affairs of NHS Orkney and its group
- the expenditure and income for the year were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers
- the accounts have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made by Scottish Ministers.

Statutory other information in the annual accounts

17. We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

18. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

19. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.



characteristics



responsibilities



principal activities



risks



governance arrangements

20. We calculate materiality at different levels as described below. The calculated materiality values for NHS Orkney are set out in [Exhibit 3](#).

Exhibit 3 Materiality values



Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2020 based on the latest audited accounts for 2018/19.	£0.630 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£0.475 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2.5% of planning materiality.	£15 thousand

Source: Audit Scotland

Timetable

21. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#)

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited financial statements with complete working papers package	4 May 2020
Latest date for final clearance meeting with Director of Finance	29 May 2020
Consideration of unaudited financial statements by those charged with governance	4 June 2020
Issue of letter of representation and proposed independent auditor's report	11 June 2020
Agreement of audited unsigned financial statements	25 June 2020
Issue of Annual Audit Report to those charged with governance	25 June 2020
Independent auditor's report signed	26 June 2020
Submission of Minimum Dataset	28 June 2020

Internal audit

22. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the

work of internal audit, provided by Scott-Moncrieff wherever possible and as part of our planning process we carry out an assessment of the internal audit function.

23. We are currently undertaking a formal review of internal audit to ensure that Scott-Moncrieff, operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place. We concluded in 2018/19 that this was the case.

Service auditor assurances for shared systems and functions

24. In order to provide efficiencies and avoid duplication of effort, we will draw assurances from service auditor reports for the following national shared systems and functions:

- Practitioner Services Division (host NHS National Services Scotland and service auditor currently KPMG)
- National IT Services Contract (host NHS National Services Scotland and service auditor currently KPMG)
- National Single Instance (host NHS Ayrshire and Arran and service auditor currently BDO UK LLP)
- NHS payroll system (NHS Tayside host. While there is no formal service auditor arrangement for payroll, assurances on the system are provided by NHS Tayside's internal auditor.)

Audit dimensions

25. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

26. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

Financial sustainability

27. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding decisions.

Financial management

28. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how NHS Orkney has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

Governance and transparency

29. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether NHS Orkney can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with others)
- whether there is effective scrutiny, challenge and transparency of decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

30. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether NHS Orkney can demonstrate:

- value for money in the use of resources
- a clear link between money spent, output and outcomes delivered.
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Best Value

31. The Accountable Officer of NHS Orkney has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements including the health board's compliance with the Equality Act 2010.

Independence and objectivity

32. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

33. The engagement lead (i.e. appointed auditor) for NHS Orkney is Gillian Woolman, Audit Director. Auditing and ethical standards require the appointed auditor Gillian Woolman to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of NHS Orkney.

Quality control

34. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

35. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

36. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

NHS Orkney

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If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

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