



External Audit Plan for the yearended 31 March 2024

NHS Orkney

5 March 2024

Key contacts

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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 05 March 2024 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 2024.

This report outlines our risk assessment and planned audit approach. At page 15 we include our Wider Scope risk assessment as required by the Code of Audit Practice.

Our audit plan incorporates key elements of both International Auditing Standard (ISA) UK 315: Identifying and assessing the risks of material misstatement and ISA 240: The auditors responsibilities relating to Fraud.

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

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

Yours sincerely,

Rashpal Khangura

March 2024

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 that is also important.

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**.

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 0113 231 3396 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 Fiona Kordiak, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH39DN.

Audit summary

Key : ▲ Increased ▼ Decreased ★ New ◆ Unchanged

Financial Statement Audit			
	Significant risks	Movement	Page
<p>We have commenced our audit planning and risk assessment procedures and have identified the following risks on which we will focus our work</p> <p>As our planning and risk assessment continues, these may be updated.</p>	Valuation of Land & Buildings	◆	7
	Fraud risk - expenditure recognition	◆	9
	Fraud risk - revenue recognition rebuttal	◆	10
	Management override of controls	◆	11

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 significant risks in relation to the following wider scope areas:

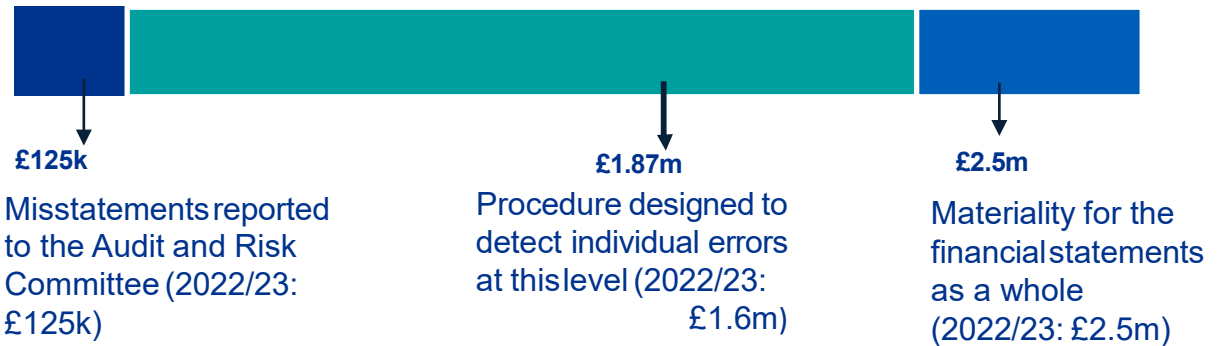
- Financial management
- Financial sustainability; and
- Use of resources to improve outcomes.

NHS Orkney Materiality

**Total expenditure
(2022/23)
£123m**
(2021/22: £127m)



**Materiality
£2.5m**
2% of expenditure
(2022/23: £2.5m, 2% of expenditure)



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 £1.87m. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons.

Prior period errors

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

Group materiality vs other metrics		
	2023/24	2022/23
Total assets	2.5%	3%

Audit risks and our audit approach

Valuation of land and buildings

Significant audit risk

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 2023 was £86.1 million.

All land and buildings were revalued 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 significant risk associated with the valuation:

- We will critically assess the independence, objectivity and expertise of Valuation Office Agency, the valuers used in developing the valuation of the Board's properties at 31 March 2024;
- 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 (FRM);
- We will compare the accuracy of the data provided to 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 evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- 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 FRM;
- 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 FRM;

Audit risks and our audit approach

Valuation of land and buildings (continued)

Significant audit risk

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.

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 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 2024-25 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 2024, 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 2023 and consider the impact on our assessment of the accruals at 31 March 2024. We will also compare the items that were accrued at 31 March 2023 to those accrued at 31 March 2024 in order to assess whether any items of expenditure not accrued for as at 31 March 2024 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

Revenue – Rebuttal of Significant 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

Management override of controls

Significant audit risk

Planned response

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.

- 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 analyse all journals through the year using data and analytics 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.
- We will assess the controls in place for the identification of related party relationships and test the completeness of the related parties identified. We will verify that these have been appropriately disclosed within the financial statements.

Group auditscope

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

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)	86.1	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.

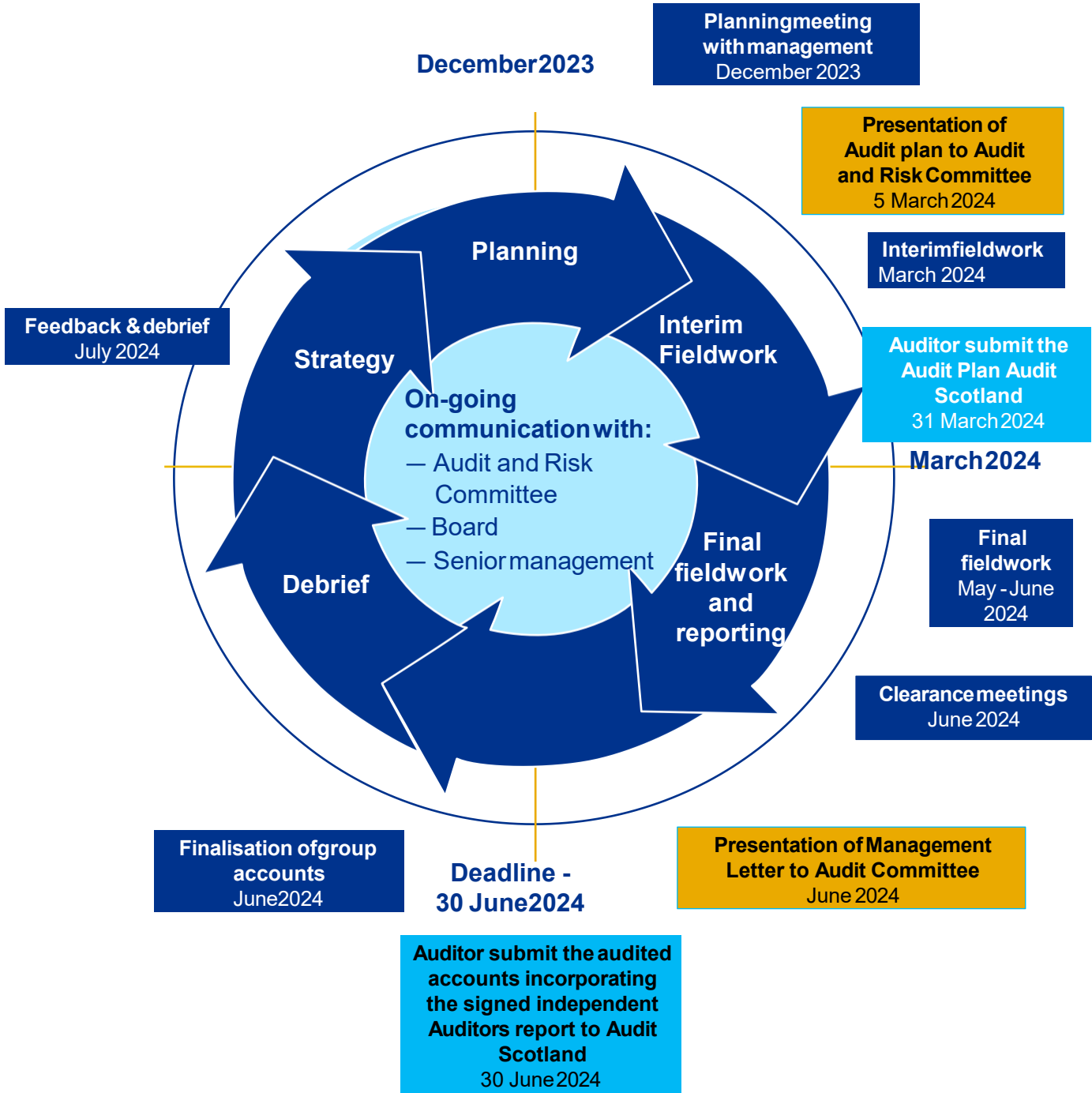
Other estimates

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

- Depreciation
- Clinical and Medical Negligence Provision

Audit cycle and timetable

Our 2023/24 schedule



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

Source: KPMG



Wider Scope and Best Value

WiderScope

Appointed auditors are required to consider the areas defined in the Code of Audit Practice (2021) ('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 new Code has refreshed the areas used to define the wider audit scope. The previous 2016 edition set out four areas (described as audit dimensions), i.e. financial management, financial sustainability, governance and transparency, and value for money.

The new Code no longer uses the term audit dimensions, but it retains the areas of financial management and financial sustainability (though redefines each area) and replaces the other two as follows:

- governance and transparency dimension has been replaced with vision, leadership and governance area
- value for money dimension has been replaced with use of resources to improve outcomes.

The four wider-scope areas are briefly defined and the areas of focus and current position with the Risk Assessment work.

- 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 clear judgements and conclusions 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 conclusions which are 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

On 27 November 2023, NHS Orkney was informed that the Board was being moved from level one to three of the NHS Scotland Support and Intervention Framework, which is the first stage of formal escalation, due to significant deviation from the organisation's Financial Plan for 2023/24. NHS Orkney are forecasting a full year deficit in 2023/24 of £6.245 million as compared to the financial plan submitted to Scottish Government in March 2023 with a full year expected deficit of £3.106 million. Being moved from level one to level three means NHS Orkney will receive enhanced national monitoring and support.

There is a risk in relation to the effectiveness of arrangements at the Board to develop and deliver appropriate savings plans.

Wider Scope arrangements

Financial sustainability

Scope

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.

Areas of Focus

- 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 Board's 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.

Risk Assessment

NHS Orkney's five-year financial recovery plan highlighted a significant funding gap for 2023/24 of £6.8m. The financial recovery plan described 2023/24 as a year to stabilise the financial position where it highlighted the need for Executive Leads and budget holders to bring their operational budgets back into financial balance as well as highlighting £3.7m of savings schemes to be delivered in the year. As noted earlier this has not been able to be realized leading to escalation of the Board from level one to level three in the NHS Scotland Support and Intervention Framework.

There is a risk in relation to the effectiveness of arrangements at the Board to develop and deliver the recovery plan and appropriate measures to address gaps.

Wider Scope arrangements

Vision, Leadership and Governance

<p>Scope 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.</p>	<p>Areas of Focus</p> <ul style="list-style-type: none"> • 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. 	<p>Risk Assessment</p> <p>At this time we have not identified any significant risks relating to vision, leadership and governance.</p>
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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

As part of our previous year audit work we recommended that:

Clear SMART targets are identified to measure achievement of the outcomes of the Board's Plan on a Page; and

Performance indicators need to be aligned to the SMART targets to allow the Board to monitor achievement of the outcomes.

We understand that the Board is currently in the process of developing a long term corporate strategy extending over a period of 5 years from 2024 to 2028. We will review the Board's progress at implementing arrangements that demonstrate there is a clear link between the money spent and outcomes. We will also review the progress at developing arrangements that measure the achievement of the Board's priorities and how progress is being monitored and measured.

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.

2023-24 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

Mandatorycommunications

Type	Statement
Management's responsibilities (and, where appropriate, those charged with governance)	<p>The Code outlines the responsibilities of Management in respect of the following:</p> <p>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:</p> <ul style="list-style-type: none"> • 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)	<p>The Code highlights that: Management must prepare annual accounts comprising financial statements and other related reports. They have responsibility for:</p> <ul style="list-style-type: none"> • 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.

Mandatorycommunications

Type	Statement
Auditor's responsibilities	<p>The Code outlines the responsibilities of Auditors.</p> <p>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 auditwork.</p> <p>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.</p> <p>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.</p>
Auditor's responsibilities	<p>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:</p> <ul style="list-style-type: none"> • 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 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.

Alex Greenwood is the in-charge responsible for our audit. He will be responsible for our on-site fieldwork. He will complete work on more complex sections 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 2nd year as your engagement lead. He can therefore complete a further 8 years before rotation.

Fees

Audit Scotland has completed a review of funding and fee setting arrangements for 2023-24. 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
- Audit Scotland Audit Support 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	2023/24	2022/23
Auditor Remuneration **	£109,440	£103,250
Pooled Costs	£13,230	£9,340
Audit Support Costs	-	£4,040
Sectoral Cap Adjustment	-£25,730	-£25,210
TOTAL AUDIT FEES (Incl VAT)	£96,940	£91,420

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.

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 Partner 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.

The conclusion of the audit engagement partner as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate.

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

The total fees charged by us can be analysed as follows:

	2023/24	2022/23
	£	£
Audit of Board	96,940	91,420
Total audit	96,940	91,420
Other Assurance Services	-	-
Total non-audit services	-	-
Total Fees	96,940	91,420

Source: Audit Scotland

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 adapt our audit approach accordingly:

- Income recognition;
- Cash;
- Procurement;
- Management control override; and
- Assessment of the impact of identified fraud.

Source: KPMG

KPMG's 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. 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.

- 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

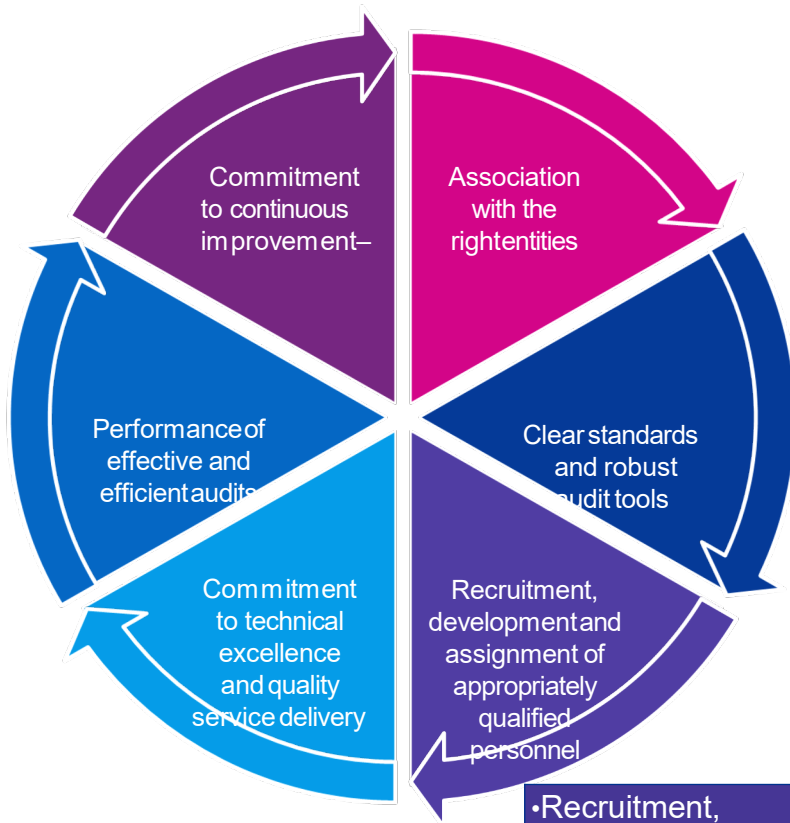
- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

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

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

- 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



ISA (UK) 315 Revised: Overview

Summary

In the prior period, ISA (UK) 315 Revised “Identifying and assessing the risks of material misstatement” was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after 15 December 2021.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to

- (i) promoting consistency in effective risk identification and assessment,
- (ii) modernising the standard by increasing the focus on IT,
- (iii) enhancing the standard’s scalability through a principle based approach, and
- (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Implementing year 1 findings into the subsequent audit plan

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT.

In year 2 the audit team will apply their enhanced learning and insight into providing a targeted audit approach reflective of the specific scenarios of each entity’s audit.

A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period. Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

Source: KPMG

ISA (UK) 315 Revised: Overview (continued)

What will this mean for our on-going audits?

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Subsequent year auditor observations on whether entity actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the entity control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

ISA (UK) 240 Revised: changes embedded in our practices

Summary and background

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) The auditor’s responsibilities relating to fraud in an audit of financial statements included revisions introduced to clarify the auditor’s obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management’s process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Area	Our approach following the revision
<p>Risk assessment procedures and related activities</p>	<p>1 Increased focus on applying professional scepticism – the key areas affected are:</p> <ul style="list-style-type: none"> • the need for auditors not to bias their approach towards obtaining evidence that is corroborative in nature or excluding contradictory evidence, • remaining alert for indications of inauthenticity in documents and records, and • investigating inconsistent or implausible responses to inquiries performed. <p>2 Requirements to perform inquiries with individuals at the entity are expanded to include, amongst others, those who deal with allegations of fraud.</p> <p>3 We will determine whether to involve technical specialists (including forensics) to aid in identifying and responding to risks of material misstatement due to fraud.</p>
<p>Internal discussions and challenge</p>	<p>We will have internal discussions among the audit team to identify and assess the risk of fraud in the audit, including determining the need for additional meetings to consider the findings from earlier stages of the audit and their impact on our assessment of the risk of fraud.</p>

Newly effective standards

Standards	Effective for years beginning on or after	
	1 Jan 2023	1 Jan 2024
IFRS 17 Insurance Contracts, including amendments Initial Application of IFRS 17 and IFRS 9 – Comparative Information (not adopted into the FREM, this will apply from 2025 onwards for NHS entities)		
Definition of Accounting Estimates – Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	✓	
Disclosure Initiative: Accounting Policies – Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements	✓	
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes	✓	
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	✓	
IFRS16 implementation over PFI	✓	
Classification of liabilities as Current or Non-Current and Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements)		

BEPS (Base erosion and profit shifting) – also called global minimum tax, is an OECD agreement to implement to global tax framework which ensures that a minimum amount of tax is paid around the world.

UK tax law implementing the OECD treaty expected to be issued later in 2023 with an effective date of 1st January 2024. IASB issued ED IAS 12 International Tax Reform – Pillar Two Model Rules – Proposed amendments to IAS 12 income taxes to provide a temporary exception from the recognition of deferred taxes arising from BEPS – Pillar two as well as proposes additional disclosures. Currently we would only expect qualitative disclosures about the impact of BEPS on the group and the progress the group has made in identifying any quantitative effects.

Establishing best practice for risk management and internal controls: Principle O of the UK Code requires the board to establish the company's risk management procedures

Board's responsibilities for risk management and internal control

The board has responsibility for an organisation's overall approach to risk management and internal control by

- ensuring the design and implementation of appropriate risk management and internal control systems that identify the risks facing the company and enable the board to make a robust assessment of the principal risks;
- determining the nature and extent of the principal risks faced and those risks which the organisation is willing to take in achieving its strategic objectives (determining its "risk appetite");
- ensuring that appropriate culture and reward systems have been embedded throughout the organisation;
- agreeing how the principal risks should be managed or mitigated to reduce the likelihood of their incidence or their impact;
- monitoring and reviewing the risk management and internal control systems, and management's process of monitoring and reviewing, and satisfying itself that they are functioning effectively and that corrective action is being taken where necessary; and
- ensuring sound internal and external information and communication processes and taking responsibility for external communication on risk management and internal control.

Establishment of the risk management and internal control systems

The risk management and internal control systems encompass the policies, culture, organisation, behaviours, processes, systems and other aspects of a company that, taken together:

- facilitate its effective and efficient operation by enabling it to assess current and emerging risks, respond appropriately to risks and significant control failures and to safeguard its assets;
- help to reduce the likelihood and impact of poor judgement in decision-making; risk-taking that exceeds the levels agreed by the board; human error; or control processes being deliberately circumvented;
- help ensure the quality of internal and external reporting; and
- help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business.

A company's systems of risk management and internal control will include: risk assessment; management or mitigation of risks, including the use of control processes; information and communication systems; and processes for monitoring and reviewing their continuing effectiveness.

Source: KPMG

Establishing best practice for risk management and internal controls: Principle O of the UK Code requires the board to establish the company's risk management procedures (continued)

Monitoring and review of those systems

The board should define the processes to be adopted for its on-going monitoring and review, including specifying the requirements, scope and frequency for reporting and assurance. Regular reports to the board should provide a balanced assessment of the risks and the effectiveness of the systems of risk management and internal control in managing those risks.

The board should form its own view on effectiveness, based on the evidence it obtains, exercising the standard of care generally applicable to directors in the exercise of their duties. Annual review should consider:

- the company's willingness to take on risk (its "risk appetite"), the desired culture within the company and whether this culture has been embedded;
- the operation of the risk management and internal control systems, covering the design, implementation, monitoring and review and identification of risks and determination of those which are principal to the company;
- the integration of risk management and internal controls with considerations of strategy and business model, and with business planning processes;
- the changes in the nature, likelihood and impact of principal risks, and the company's ability to respond to changes in its business and the external environment;
- the extent, frequency and quality of the communication of the results of management's monitoring to the board with an assessment of the effectiveness of controls.

Board's related financial and business reporting responsibilities

The process of monitoring and review is intended to allow the board to conclude whether the systems are properly aligned with strategic objectives; and satisfy itself that the systems address the company's risks and are being developed, applied and maintained appropriately. Effective monitoring and reviewing the risk management and internal control systems by the board should be articulated within the annual report. The required disclosures are:

- reporting on the principal risks facing the company and how they are managed or mitigated (as required by the Companies Act 2006 (the "Companies Act") and the UK Corporate Governance Code 2018 ("UK Code"): Provision 28);
- reporting on whether the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due (as required by the UK Code: Provision 31);
- reporting on the going concern basis of accounting (as required by accounting standards and the UK Code: Provision 30); and
- reporting on the review of the risk management and internal control system (as required by the UK Code: Provision 29), and the main features of the company's risk management and internal control system in relation to the financial reporting process (as required under the UK Listing Authority's Disclosure and Transparency Rules: 7.2.5).

Source: KPMG



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