



# NHS Orkney Board

**Annual Audit Report to the Board and the Auditor General  
for Scotland**

24 August 2023

## Key contacts

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# Introduction

## To the Audit Committee of NHS Orkney Board

We are pleased to have the opportunity to meet with you on 24 August 2023 to discuss the results of our audit of the consolidated financial statements of NHS Orkney Board (the 'Board'), as at and for the year ended 31 March 2023.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 02 May 2023. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is complete. There have been no significant changes to our audit plan and strategy. Subject to your approval of the financial statements, we expect to be in a position to sign our audit opinion on 24 August 2023, provided that the outstanding matters noted on page 4 of this report are satisfactorily resolved.

We have issued an unmodified Auditor's Report on the financial statements and have identified a number of weaknesses in relation to our Wider Scope work (see pages 15-25) .

We draw your attention to the important notice on page 4 of this report, which explains:

- The purpose of this report;
- Limitations on work performed; and
- Restrictions on distribution of this report.

Yours sincerely,

Rashpal Khangura

24 August 2023



## How we have delivered 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**.

Audit Scotland (AS) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Board.

External auditors do not act as a substitute for the Board's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

# Important notice

## Purpose of this report

This report has been prepared in connection with our audit of the consolidated financial statements of NHS Orkney Board (the 'Board'), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted by the Annual Accounts Manual, as at and for the year ended 31 March 2023. This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you.

## Limitations on work performed

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 Board 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.

## Status of our audit

Our audit is complete.

# Materiality Group and Board

**Total gross expenditure**  
£123m



**Group materiality**  
£2.6m  
2.1% of gross expenditure

**Board materiality**  
£2.5m  
2.1% of gross expenditure



**Group: £130k**  
**Board: £125k**

Misstatements reported to the Audit and Risk Committee

**Group: £1.69m**  
**Board: £1.625m**

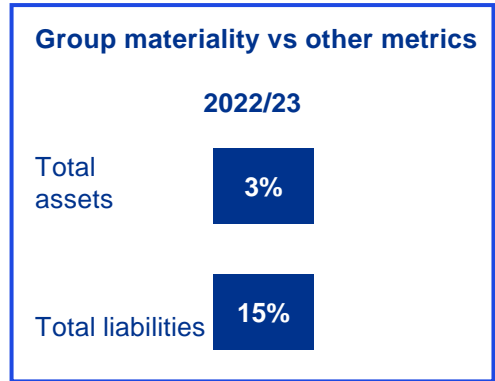
Procedure designed to detect individual errors at this level

**Group: £2.6m**  
**Board: £2.5m**

Materiality for the financial statements as a whole

## 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 gross 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 £1.69m. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons.



# Our audit findings

Significant audit risks	Risk Change	Findings (Pages 8-11)
Valuation of Land & Buildings	No Change	We have reviewed the data, assumptions and methodology involved in managements' valuation of land and buildings. We have identified that there was not a Management Review Control (MRC) to address the significant audit risk.
Fraud risk from expenditure recognition	No Change	We did not identify any issues in relation to fraud risk from expenditure recognition. However we have identified that there was not a MRC to address the significant audit risk.
Management override of controls	No Change	We have not identified any instances of management override of controls.
Key accounting estimates	Judgement	Findings (Page 12)
Valuation of Land & Buildings	Neutral	We have reviewed the data, assumptions and methodology involved in managements' valuation of land and buildings. We have assessed the estimated valuation to be balanced..

## Key audit matters

Of the significant audit risks above we also consider key audit matters, in this case, valuation of land & buildings. The reason, response and related disclosures are summarised within the detail of this report.

## Wider scope (Pages 15-25)

Under the Code of Audit Practice we are required to consider the areas defined in the Code of Audit Practice (2021) as wider-scope audit. We are required to provide clear judgements and conclusions on the effectiveness and appropriateness of the arrangements in place based on the work that we have done. Where significant risks are identified we will make recommendations for improvement.

## Consolidation schedules (Page 14)

We intend to issue an unqualified Group Audit Assurance Certificate to Audit Scotland regarding the Consolidation schedules submission, made through the submission of the summarisation schedules to Scottish Government.

# Our audit findings

<b>Uncorrected Audit Misstatements</b>	<b>Page 33</b>
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No uncorrected Audit Misstatements to report

<b>Corrected Audit Misstatements</b>	<b>Pages 33</b>
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The corrected audit misstatement was a classification within the creditors note and had no impact to the main financial statements

<b>Number of Control Recommendations</b>	<b>Pages 29-32</b>
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Priority one control recommendations	1
Other control recommendations	4
Prior year control recommendations remediated	14

# 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 £86m, of which £84.7m are valued as specialised assets at depreciated replacement cost.

The Board undertook a full revaluation of its land and buildings in year. The last full revaluation took place on 31 March 2018.

#### **Our response**

We performed the following procedures designed to specifically address the significant risk associated with the valuation:

##### **Control design:**

- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;

##### **Assessing the valuer's credentials:**

- We critically assessed the independence, objectivity and expertise of Gerald Eve, the valuers used in developing the valuation of the Board's properties at 31 March 2023;
- We inspected 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);

##### **Input assessment:**

- We compared 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 were identified;

##### **Assessing methodology and benchmarking assumptions:**

- We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We challenged 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 performed 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 RICS and the FReM;

(Continued)



# Audit risks and our audit approach

## Valuation of land and buildings

### Significant audit risk

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#### **Our response (continued)**

- We agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the FReM; and

#### **Assessing transparency:**

- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

#### **Our findings**

We have reviewed the data, assumptions and methodology involved in management's valuation of land and buildings and confirmed these were appropriate and consistent with the requirements of the Government Financial Reporting Manual.

Auditing Standards requires where we have identified a significant audit risk, for management to have a review control in place (MRC) to respond to the risk. We have not identified such a MRC that is designed and implemented in such a way to provide the level of precision, response, investigation, and follow up needed by the Auditing Standards.

# 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 identified and recorded**

As achieving a breakeven position 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 breakeven position has been met.

The setting of a breakeven target can create an incentive for management to understate the level of non-pay expenditure compared to that which has been incurred. We have based this on our planning inquiries to date.

We consider this would be most likely to occur through understating accruals at the year end, for example to push back expenditure to 2023-24 to mitigate financial pressures.

#### **Our response**

We performed the following procedures designed to specifically address the significant risk:

- We evaluated the design and implementation of the controls in place for manual expenditure accruals;
- We inspected a sample of invoices of expenditure, in the period around 31 March 2023, to determine whether expenditure has been recognised in the correct accounting period;
- We selected a sample of year end accruals and inspected evidence of the actual amount paid after year end in order to assess whether the accrual had been completely recorded;
- We inspected 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; and
- We performed a retrospective review of prior year accruals in order to assess the completeness with which accruals had been recorded at 31 March 2022 and consider the impact on our assessment of the accruals at 31 March 2023. We also compared the items that were accrued at 31 March 2022 to those accrued at 31 March 2023 in order to assess whether any items of expenditure not accrued for as at 31 March 2023 have been done so appropriately.

#### **Our findings**

We have not identified any fraudulent expenditure recognition during our testing.

Auditing Standards requires where we have identified a significant audit risk, for management to have a review control in place (MRC) to respond to the risk. We have not identified such a MRC that is designed and implemented in such a way to provide the level of precision, response, investigation, and follow up needed by the Auditing Standards. However the Board have a number of year end processes including:

- a journal approval process which authorises the year end accruals as they are entered into the General Ledger;
- Supplier statement reconciliations;
- Accrual checklists; and
- Variance analysis.

Management consider these arrangement sufficient to address the risk they face.

# 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.

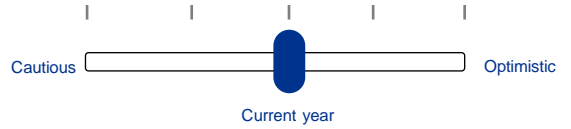
#### Our response

- Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we evaluated the design and implementation and, where appropriate, tested 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 analysed all journals through the year and focused our testing on those with a higher risk, such as journals impacting revenue or expenditure recognition;
- We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates;
- We reviewed the appropriateness of the accounting for significant transactions that are outside the Board's normal course of business, or are otherwise unusual; and
- We assessed the controls in place for the identification of related party relationships and tested the completeness of the related parties identified. We verified that these have been appropriately disclosed within the financial statements.

#### Our findings

- We identified 3 journal entries and other adjustments meeting our high-risk criteria – our examination did not identify any inappropriate entries.
- We evaluated accounting estimates and did not identify any indicators of management bias. See page 12 for further discussion.
- We did not identify any significant unusual transactions.
- We did not identify any issues from our related parties testing.

# Key accounting estimates – Overview



## Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions. Cautious means a smaller asset or bigger liability; optimistic is the reverse.

Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
<b>Assets</b>					
Valuation of land & buildings		86	20		Assumptions were found to be neutral. Our view of the disclosures of the judgements is neutral, best practice disclosure of Valuation estimates would include sensitivity analysis .

## Other estimates

We have also reviewed the following non-significant estimates as part of our audit work

- Depreciation

## Group involvement – significant component audits

### Involvement in group components

The Group financial statements are made up of the following components:

- NHS Orkney Board (Parent) (significant)
- NHS Orkney Board Endowment Fund (non significant)
- Orkney Integrated Joint Board (significant)

As communicated in our audit plan we determined that the parent Board and the Orkney Integrated Joint Board were significant components. We have performed risk assessment procedures over the remaining components in order to confirm that there were not material balances within the other entities that could cause a material error and did not identify any exceptions.

We did not identify any errors as a result of the procedures set out above.

# Other matters

## Annual report

We have read the contents of the Annual Report (including the Accountability Report, Directors Report, Performance Report and Annual Governance Statement (AGS)) and audited the relevant parts of the Remuneration Report. We have checked compliance with the Annual Accounting Manual. Based on the work performed:

- We have not identified any inconsistencies between the contents of the Accountability, Performance and Director's Reports and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the director's statements. As Directors you confirm that you consider that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for patients, regulators and other stakeholders to assess the Board's performance, business model and strategy;
- The parts of the Remuneration Report that are required to be audited were all found to be materially accurate;
- The AGS is consistent with the financial statements and complies with relevant guidance subject to updates as outlined on page 4; and
- The report of the Audit and Risk Committee included in the Annual Report includes the content expected to be disclosed as set out in the Annual Accounting Manual and was consistent with our knowledge of the work of the Committee during the year.

## National Fraud Initiative

The Board has effective internal processes in place to follow up the NFI matches that have been identified.

## Consolidation schedules

As required by the Audit Code of Practice we are required to provide a statement on your consolidation schedule. We comply with this by checking that your summarisation schedule is consistent with your annual accounts. We will complete a check of the final accounts to the final consolidation schedules following receipt of the signed statements.

## Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

## Audit Fees

The fee for the audit was £91,420. We have not completed any non-audit work at the Board during the year.

# Wider Scope

Appointed auditors are required to consider the areas defined in the Code of Audit Practice (2021) 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 of Audit Practice 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.

## Commentary on arrangements

We have prepared our commentary on the Board's Wider Scope arrangements within this report.

- Financial Management – Page 16;
- Financial Sustainability – Page 18;
- Vision, Leadership and Governance – Page 20; and
- Use of Resources to Improve Outcomes – Page 23

We have also reported on Climate Change on Page 25, as required by Audit Scotland.

## Summary of findings

We have identified a number of weaknesses in relation to our Wider Scope work and have made one recommendation in Appendix two (page 32).

# 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;
- the capacity and skills of the Board's finance team

### Findings:

The Board has appropriate arrangements to ensure public money is applied with the relevant financial rules, this includes processes for approving expenditure.

For 2022/23 Board set a budget of £76.6m which included a savings target for the Board of £7.2m. During the year the Board monitored the spend closely and reported internally through the Finance and Performance Committee and then to the Board. For the last six months of the financial year the Board have been reporting a consistent message internally and to Scottish Government that they were projecting a £4.1m overspend. This overspend was as a result of overspending due to demand pressures and non-delivery of the savings targets. The main pressures and drivers for the overspends included the level of agency, locum and bank staff being utilised to cover staffing shortages. This overspend was met by additional resource allocation from Scottish Government in March 2023.

The 2022/23 budget included setting a savings target of £7.2m needed to achieve the financial break even target. These savings was made up of Board - £4.8m and IJB - £2.4m. However the outturn position showed savings of £3.9m were not achieved – Board - £1.5m and IJB - £2.4m.



# Wider Scope arrangements

## Financial Management

We recognise that financial sustainability is key pillar of the Board's Plan on a Page and has been through appropriate governance arrangements and 2023/24 savings are being implemented, however the 2024/25-2027/28 savings plans are still being developed by the services.

Since April 2023 the Board have introduced a new Grip and Control Board arrangement to monitor the financial performance including delivery of savings, and to take any appropriate mitigating actions where required.

### **Conclusions:**

We are satisfied the Board's financial monitoring and reporting arrangements are adequate as an accurate financial position has been identified and reported during the year. However there was a weakness in achieving their in year financial plan without the financial support received from Scottish Government. To address the weakness identified the Board need to demonstrate how effective the new Grip and Control arrangements are in delivering the financial plan in 2023/24.

# 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 appropriateness of 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
- the 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.

### Findings:

In the Financial Management section of this report we identified the Board had an overspend of £4.1m, which was met through additional funding from Scottish Government. We also identified savings schemes had not delivered the savings that the Board planned to achieve its financial targets. We note in 2021/22 similar support of £4.7m was required.

Following discussions with Scottish Government the Board has produced a five year recovery financial plan for 2023-24 – 2027/28. This plan requires a total of £15.465m savings over the 5 years, of which, £8.544m are recurrent savings over the period.

We recognise the Board have developed some savings plans for 2023/24 with £2.4m savings identified with a further £1.4m savings to be identified and delivered.

The Financial Sustainability Office (FSO) is working with executive directors to further identify and develop the required recurring and non recurring savings plans for years 2-5 of the financial recovery plan.

We recognise that the Board is going through a process of internal change in respect of its planning and governance arrangements, which we articulate in the Vision, Leadership and Governance section of this report. Once these arrangements are operating and begin to be embedded the Board need to ensure the recovery plan is fully integrated to deliver the Board's other priorities.

# 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.

### Findings:

We recognise there has been limited capital spend in both 2021/22 and 2022/23, if additional capital expenditure is needed to help support savings being delivered future revenue consequences of that spend will also need to be considered financial plans.

### Conclusions:

Based on historical performance the Board has weaknesses in its arrangements to achieve financial sustainability.

To address the weakness identified the Board has made a number of changes to their arrangements, and will need to demonstrate these are effective and embedded during 2023/24.

# Wider Scope arrangements

## Vision, Leadership and Governance

### 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.

### Areas of Focus

- 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 need to realise the Boards priorities and long term sustainability of services to meet the needs of the citizens.
- the governance arrangements are appropriate and operating.
- assess the level of involvement of the local communities, including seldom heard groups, and health inequalities in identifying and agreeing the Boards priorities.
- assess the evidence that demonstrates leaders are adaptive to the changing environment
- 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

### Findings

The Board has a clear vision and set of values. In 2021, the Board revisited its plans and priorities, and issued a *Plan on a Page*. This plan recognised the impact of the pandemic and focussed the Board into delivering the health requirements of the population of Orkney through the pandemic. There is a plan to develop a new long term Corporate Plan into 2024 at which point the current strategic vision will also be refreshed.

In May 2023, the new Chief Executive, made a statement of intent and reviewed the 2021 *Plan on a Page* and this was agreed by the Board in May 2023, this sets out the 5 priorities of NHS Orkney:

- Workforce;
- Culture;
- Quality and Safety;
- Systems and Governance; and
- Sustainability.

# Wider Scope arrangements

## Vision, Leadership and Governance

### 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.

### Findings

To support the strategic vision the Board has issued a Clinical Strategy – outlining the key commitments to the population of Orkney. Under each of the priorities in the Clinical Plan a number of high level actions have been articulated, and it is understood that as at May 2023 there is a requirement for the Executive Directors and the Board to be translated into local actions and plans. These plans are still to be fully developed – without the development of these plans it will be difficult to monitor progress and report performance.

During 2021-22 the Board, as a statutory facilitating partner in the Orkney Community Planning Partnership participated in widespread consultation called “Orkney Matters” which allowed residents to view their opinions on what they think the priorities should be into the coming years. Following the consultation a full Orkney Community Plan was produced including the Local outcomes Improvement plan for 2023-2030. This demonstrates the Board works with partners.

During 2022-23 the Board agreed an Annual Delivery Plan which articulates the plans, actions, and key risks linked to the 2022-23 Plan on a Page.

Key governance arrangements have operated in 2022/23 – key elements are:

- Regular reports for consideration from the chairs of the Finance and Performance, Staff Governance, Joint Clinical and Care Governance, Audit and Risk Committees’ and from the Chair of the Charitable Funds;
- Regular reviews of financial performance, risk management, non financial performance, workforce performance, and service quality;
- Reports on Healthcare Associated Infection, prevention and control;
- Updates on risk management arrangements built on localised risk registers and processes; and
- Updates on key statutory compliance functions including information governance, health and safety, fire and asbestos.

In February 2023 the Board adopted the NHS Scotland Blueprint for Good Governance document and requested an updated in 12 months time. The NHS Scotland Blueprint for Good Governance document provides a guide for the Board to Self Assess itself against.

# Wider Scope arrangements

## Vision, Leadership and Governance

### 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.

### Conclusions:

Based on the above findings the Board has adequate arrangements in place to facilitate effective scrutiny and governance, leadership and decision making, including transparent reporting of financial and performance information.

# 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 been considered.
- the arrangements to evaluate service delivery and quality and whether the user needs and views are included in any such evaluation.

### Findings

The Board through its non-financial performance reporting shows the current and previously reported performance against the National Standards and Targets.

The Board's Annual Delivery Plan has articulated a number of actions and outcomes that it wants to achieve to deliver the strategic aims of the Board, however, it is unclear whether SMART targets have been set for the measuring of the progress and achievement of these outcomes. This makes it difficult for the Board to evidence whether the planned outcomes have been achieved.

The Board through its financial performance reporting demonstrates how the Board has performed against the current year budget.

However, it is not clear how benchmarking and using alternative service delivery were considered in the Board's arrangements during 2022-23, however we recognise the FSO are actively reviewing cost and service delivery models into 2023-24.

# 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.

### Conclusions:

The lack of SMART targets and linked performance information for the planned outcomes make it difficult for the Board to demonstrate a clear link between the money spent and the outcomes delivered, therefore it is difficult for the Board to demonstrate effective use of resources to improve outcomes.

See Recommendation 4 (page 32).



# Wider Scope arrangements – National Risk Assessment

## Climate Change

### Background

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045, and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. A number of public bodies have declared a climate emergency and set their own net zero targets, some of which are earlier than Scotland's national targets. All public bodies will need to reduce their direct and indirect emissions, and should have plans to do so. Many bodies will also have a role in reducing emissions in wider society, and in supporting activity to adapt to the current and potential future impact of climate change. For example, working with the private sector and communities to help drive forward the required changes in almost all aspects of public and private life, from transport and housing to business support.

Public audit has an important and clear role to play in:

- helping drive change and improvement in this uncertain and evolving area of work
- supporting public accountability and scrutinising performance
- helping identify and share good practice.

### Findings and Conclusion

The Board has set targets to reduce emissions in line with the Scottish Government policy. Grant monies have been received and initial surveys have taken place with a programme of work over the next two years to decarbonise the NHS Orkney estate.

The action plans are led by the NHS Orkney Sustainability Group, which has clear targets in line with Scottish Government Policy

The Board is using the NHS Scotland Sustainability Assessment Tool (NSAT) to assess performance against 16 areas of focus.

Reporting is internally through the Finance and Performance committee, and then up to the Board.








The performance overview report included in the Annual Report and Accounts for the year ended 31 March 2023 details the progress and plans that the Board have to further decarbonise their estate.



# Appendices

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# Mandatory communications

Type	Statement
Our draft management representation letter	 We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2023.
Adjusted audit differences	 Appendix 3 identifies 1 adjusted audit difference. This had no impact on the reported position surplus/deficit position of the Board
Unadjusted audit differences	 No unadjusted audit differences identified. See appendix 3.
Related parties	 There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit and Risk Committee	 There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	 We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	 No actual or suspected fraud involving group management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements was identified during the audit.

# Mandatory communications

Type	Statement	
<b>Significant difficulties</b>	<input checked="" type="radio"/> OK	No significant difficulties were encountered during the audit.
<b>Modifications to auditor's report</b>	<input checked="" type="radio"/> OK	None.
<b>Disagreements with management or scope limitations</b>	<input checked="" type="radio"/> OK	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
<b>Other information</b>	<input checked="" type="radio"/> OK	No material inconsistencies were identified relating to other information in the annual report, Strategic and Directors' reports. The Annual report is fair, balanced and comprehensive, and complies with the Annual Reporting Manual.
<b>Breaches of independence</b>	<input checked="" type="radio"/> OK	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
<b>Accounting practices</b>	<input checked="" type="radio"/> OK	Over the course of our audit, we have evaluated the appropriateness of the Board's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
<b>Significant matters discussed or subject to correspondence with management</b>	<input checked="" type="radio"/> OK	The significant matters arising from the audit were discussed, or subject to correspondence, with management.
<b>Provide a statement to AS on your consolidation schedule</b>	<input checked="" type="radio"/> OK	We have issued our report to Audit Scotland. We have summarised the differences to be reported on page 34.

## Recommendations followed up and raised

We have followed up the recommendations raised in the prior year by Audit Scotland. Below is a table of the actions and implementation. We have disclosed below the recommendations that are still ongoing with the current management response.

Priority rating for recommendations		
<p><b>1</b> <b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p><b>2</b> <b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p><b>3</b> <b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

## Recommendations (followed up)

Total number of recommendations	Number of recommendations implemented or superseded with new recommendations	Number outstanding (repeated below):
15	14	1

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
1	<b>2</b>	<p>The Scottish Government Clinical Prioritisation Framework performance is monitored through returns to the Scottish Government. Those charged with governance do not regularly see the returns.</p> <p>Risk – There is a risk that key performance issues are not subject to appropriate scrutiny.</p> <p>Recommendation</p> <p>In order to improve transparency over performance the monitoring information on the clinical prioritisation framework should be periodically presented to the appropriate committee.</p>	<p><b>Agreed:</b></p> <p>To be captured as part of NHS Orkney's Annual Delivery Plan for 2023/24</p> <p>Responsible Officer</p> <p>Medical Director</p> <p><b>Date:</b></p> <p>31 March 2024</p>

# Recommendations raised (Financial Statements)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
1	③	<p><b>Review of IT Equipment and Intangible Assets – Issue</b></p> <p>We have identified a small number of Intangible Assets held in the Asset Register that were no longer in use.</p> <p><b>Risk</b></p> <p>There is a risk assets are categorised incorrectly in the financial statements and/or asset lives are not appropriate.</p> <p><b>Recommendation:</b></p> <p>An annual process needs to take between Finance and IT to review the Fixed Asset Register for both physical IT equipment and Intangible Assets to ensure that all assets classified as operational assets are still in use.</p>	<p><b>Agreed:</b></p> <p>Process will be implemented in 2023/24 by Head of IT and Head of Finance.</p> <p><b>Date:</b></p> <p>31 March 2024</p>
2	③	<p><b>Impairment review - Issue</b></p> <p>There is no documented impairment review completed by management with estates involvement.</p> <p><b>Risk</b></p> <p>There is a risk that property, plant and equipment is overstated if there are impairment indicators that have not been identified and reviewed.</p> <p><b>Recommendation</b></p> <p>We recommend that management complete an annual impairment review with estates involvement, that is formally evidenced and approved.</p>	<p><b>Agreed:</b></p> <p>Process will be implemented in 2023/24 by Head of Estates, Facilities and NPD Contract, and Head of Finance.</p> <p><b>Date:</b></p> <p>31 March 2024</p>

# Recommendations raised (Financial Statements)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
3	③	<p><b>Key estimates and judgements - Issue</b></p> <p>The financial statements contain a number of key estimates and judgements, which if not appropriately applied can lead to significantly different entries in the financial statements. Those charged with governance have not had an opportunity to consider the proposed accounting policies, key judgements and estimates ahead of the preparation of the financial statements.</p> <p><b>Risk</b></p> <p>Whilst we acknowledge that the accounting policies went to Audit Committee in May 2023, we have not been able to identify where Board or Audit Committee consider these before the preparation of the financial statements (prior to 31 March).</p> <p><b>Recommendation</b></p> <p>We would recommend that management produce annual papers for Board or Audit Committee discussion and approval setting out their approach to key judgements and estimates, for example going concern and valuation of property plant and equipment, prior to the preparation of the financial statements commences.</p>	<p><b>Agreed:</b></p> <p>Director of Finance will take an annual paper to the Risk and Audit Committee in March.</p> <p><b>Date:</b></p> <p>31 March 2024</p>

## Recommendations raised (Wider scope)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
4	1	<p><b>Wider Scope findings</b></p> <p>Our Wider Scope findings have identified a weakness impacting on the Board's arrangements in respect of Use of Resources to Improve Outcomes.</p> <p><b>Recommendation</b></p> <p>We recommend that aligned to five pillars set out in the Plan on a Page 2023/24 that the following arrangements are clearly developed and implemented by the Board:</p> <ul style="list-style-type: none"> <li>• Clear SMART targets are identified to measure achievement of the outcomes of the Board's Plan on a Page; and</li> <li>• Performance indicators need to be aligned to the SMART targets to allow the Board to monitor achievement of the outcomes.</li> </ul>	<p><b>Agreed</b></p> <p>Work is ongoing in this area and is being led by the Chief Executive and the Planning, Performance, and Risk Manager.</p> <p><b>Date:</b></p> <p>31 March 2024</p>



## Audit Differences

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Risk Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements.

### Unadjusted audit differences (£'000s)

There were no unadjusted audit differences identified.

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Risk Committee with a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

### Adjusted audit differences (£'000s)

No	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr Trade Payables	-	£1,184	Trade payables included £1,184k of accruals that should have been reported as Accruals in the notes to the financial statements.
	Cr Accruals	-	(£1,184)	

We also identified a small number of disclosure adjustments, which were all corrected in the final version of the statement of accounts.

### Intra-group error reporting

As required by the Audit Code of Practice we are required to provide a statement on your consolidation schedule. We comply with this by checking that your summarisation schedule is consistent with your annual accounts. We have completed that work and found no matters to report.

# 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 with 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 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.

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

*Summary of non-audit services*

We have not provided any non-audit services in year.

## Confirmation of Independence (continued)

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

Entity	2022/23	2021/22
Auditor Remuneration **	£103,250	£64,640
Pooled Costs	£9,340	£7,250
Audit Support Costs	£4,040	£3,190
Sectoral Cap Adjustment	-£25,210	-
<b>TOTAL AUDIT FEES (Incl VAT)</b>	<b>£91,420</b>	<b>£75,080</b>
<b>Fees for non-audit services</b>	<b>-</b>	<b>-</b>

(\*\* the average of tender values which may differ from what KPMG receives)

### 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-audit or 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.

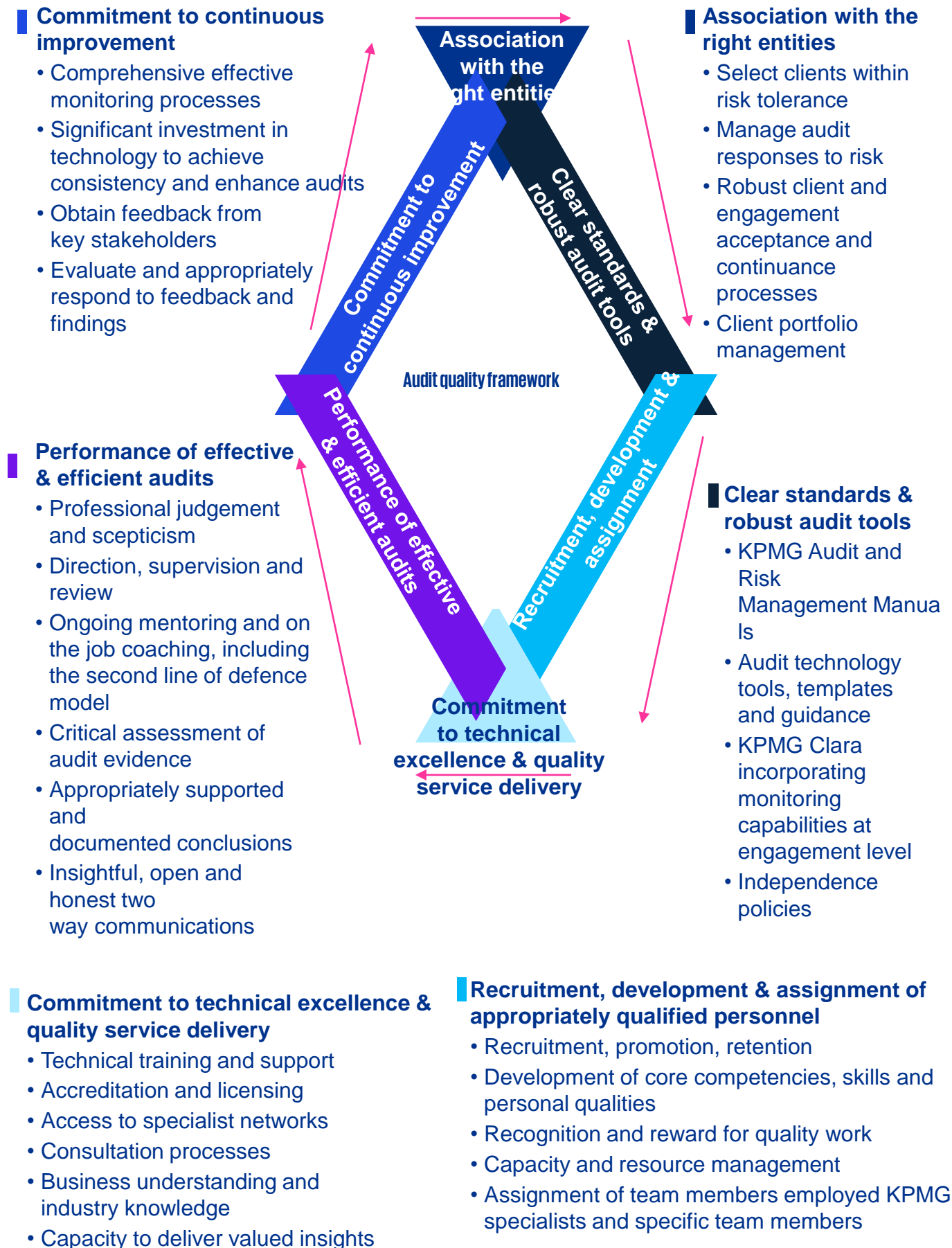
Yours faithfully

KPMG LLP

## 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.



# ISA (UK) 315 Revised: Overview

## Summary

**ISA (UK) 315 Identifying and assessing the risks of material misstatement incorporates significant changes from the previous version of the ISA.**

These have been 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 is effective for periods commencing on or after **15 December 2021**.

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

## Why have these revisions been made?

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 are aimed at (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.

## What did this mean for our audit?

To meet the requirements of the new standard, auditors have been required to spend an increased amount of time across the risk assessment process, including more detailed consideration of the IT environment. These changes have resulted in significantly increased audit effort levels which in turn, has affected auditor remuneration. This additional effort is a combination of time necessary to perform the enhanced risk assessment procedures in our audits.






# ISA (UK) 240 Revised: Summary of key changes

## Summary and background

- ISA (UK) 240 The auditor’s responsibilities relating to fraud in an audit of financial statements includes revisions introduced to clarify the auditor’s obligations with respect to fraud and enhance the quality of audit work performed in this area. The revised ISA (UK) is effective for periods commencing on or after **15 December 2021**. Unlike ISA (UK) 315 which mirrors updates in the international ISA, the updated UK fraud standard is not based on international changes by the IAASB.
- The impact of the revisions to ISA (UK) 240 is less extensive compared to ISA (UK) 315, but nevertheless resulted in changes to our audit approach. The table to the right summarises the main changes and our final assessment of their impact.

## What did this mean for our audit?

- The changes introduced new requirements which increased audit effort and therefore the audit fee. The additional work is largely the result of investing more time identifying and assessing the risk of fraud during risk assessment and involving specialists to aid with both risk identification and the auditor’s response to risk.

Area	Effect on audit effort	Summary of changes and impact
<b>Risk assessment procedures and related activities</b>		<ol style="list-style-type: none"> <li>1. Increased focus on applying professional scepticism – the key areas affected are:                             <ul style="list-style-type: none"> <li>– the need for auditors not to bias their approach towards obtaining evidence that is corroborative in nature or excluding contradictory evidence,</li> <li>– remaining alert for indications of inauthenticity in documents and records, and</li> <li>– investigating inconsistent or implausible responses to inquiries performed.</li> </ul> </li> <li>2. Our inquiries with individuals at the entity were expanded to include, amongst others, those who deal with allegations of fraud</li> <li>3. We determined whether to involve technical specialists (including forensics) to aid in identifying and responding to risks of material misstatement due to fraud.</li> </ol>
<b>Internal discussions and challenge</b>		<p>We complied with enhanced requirements for internal discussions among the audit team to identify and assess the risk of fraud in the audit, including a requirement to determine 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>
<b>Communications with management / TCWG</b>		<p>We have complied with new requirements for communicating matters related to fraud with management and those charged with governance, in addition to the reporting in our audit reports.</p>



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