



Indicative External Audit Plan

For the year ended 31 March 2023

Orkney Integration Joint Board

June 2023

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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 Code").

This report is intended for the benefit of Orkney Integration Joint Board ("the 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 and it will not be quoted or referred to, in whole or in part, without our prior written consent. 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.

1 Introduction

To the Performance and Audit Committee of Orkney Integration Joint Board

We are pleased to have the opportunity to meet with you on 28 June 2023 to discuss our anticipated approach to the audit of the financial statements of Orkney Integration Joint Board, as at and for the year ending 31 March 2023.

Our audit plan incorporates key changes required as a result of changes to 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.

This report is indicative at this stage, as we complete our planning and risk assessment work, and sets out our approach to setting materiality and likely audit risks as well as other salient aspects of our approach.

1.1 The engagement team

Michael Wilkie is the engagement leader on the audit. Michael will lead the engagement and is responsible for the audit opinion. Matthew Moore 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 Monazzah Samad (Assistant Manager).

1.2 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.

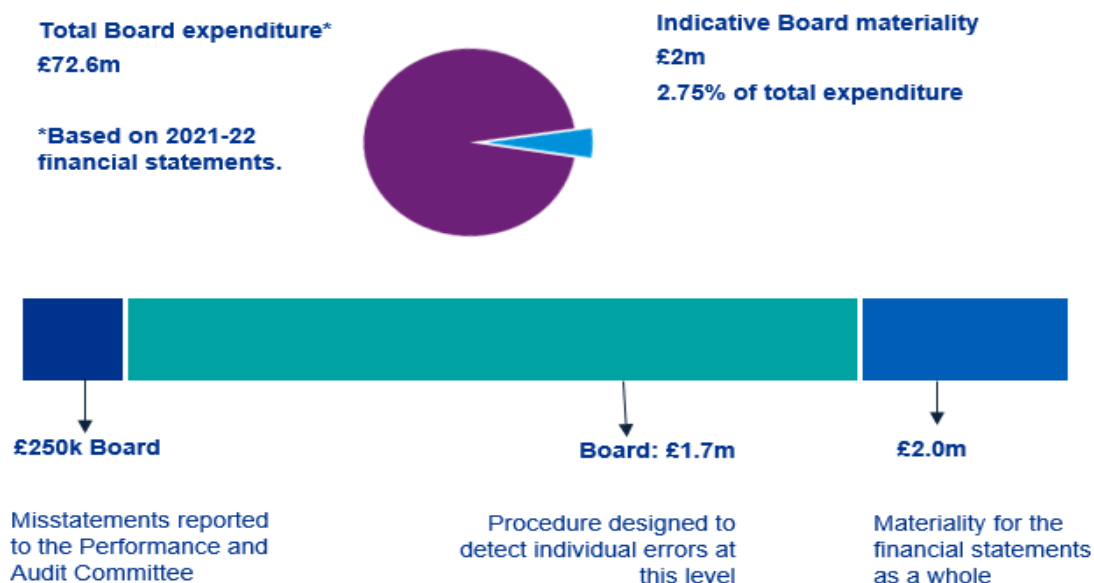
1.3 Restrictions on distribution

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

Yours sincerely,
Michael Wilkie

28 June 2023

2 Indicative Materiality Board



2.1 Our materiality levels

The materiality levels outlined above is indicative and will be confirmed when we receive the draft financial statements. We determine 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 expect to use a benchmark of total expenditure for cost of services. (before asset impairments and defined benefit pension charges) 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. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons, such as directors' salary information in the remuneration report.

2.2 Reporting to the audit committee

Under ISA 260, we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Board, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.25 million. If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Performance and Audit Committee to assist it in fulfilling its governance responsibilities.

3 Significant audit risks and our audit approach

Our planning and risk assessment is ongoing at the time of preparing this report, and therefore this section of our report sets out the expected audit risks we anticipate to focus on and to take up significant audit time. This risk assessment is subject to change and we will provide an updated set of risks, should these change significantly.

Our risk assessment draws upon our knowledge of the industry and the wider economic environment in which Orkney Integration Joint Board operates.

We also use our regular meetings with senior management to update our understanding and take input from component audit teams and internal audit reports.

We will update our risk assessment once we have completed our detailed planning procedures and provide a further update in our Audit Plan and Strategy.

Relevant factors affecting our risk assessment

Significant risks	
1	Fraud risk from income recognition and expenditure (presumed risk per ISA 240) –planned rebuttal per page 4.
2	Fraud risk from management override of controls (presumed risk per ISA 240).
Other risks	
3	Completeness and accuracy of expenditure
4	Financial Sustainability and Reserves

3.1 Risk from income recognition and expenditure

3.1.1 Significant Audit Risk

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Income

We consider that the Board's significant income streams, which include funding requisitions from Orkney Island Council and NHS Orkney. These are agreed in advance of the financial year, with any changes arising from changes in need, requiring approval from each body. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant.

We therefore plan to rebut this risk and do not incorporate specific work into our audit plan in this area beyond our standard fraud procedures.

We will continue to assess this as we complete our planning and risk assessment and report any changes should this assessment change.

Expenditure

The Board works with Orkney Island Council and NHS Orkney in order to deliver services delegated by the Board. The Board makes these decisions based on its budget agreed in advance of the financial year. There is no estimation or judgement in recognising expenditure to these bodies, and we do not regard the risk of fraud to be significant.

We therefore plan to rebut this risk and do not incorporate specific work into our audit plan in this area beyond our standard fraud procedures.

We will continue to assess this as we complete our planning and risk assessment and report any changes should this assessment change.

3.2 Management override of controls

3.2.1 Significant Audit 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.

3.2.2 Planned Response

- Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we will evaluate the design and implementation of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate.
- We will evaluate the design and implementation of general IT controls.
- We will analyse all journals through the year using data and analytics and focus our testing on those with a higher risk, such as journals impacting revenue or expenditure recognition around year-end, or journals linked to our other recognised significant risks.
- 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.

3.3 Completeness and accuracy of expenditure

3.3.1 Other Audit Risk

The risk: Completeness and accuracy of expenditure

The Board's Integrated finance team, led by the Chief Finance Officer, prepare forecasts as part of the annual budgeting process. There is a risk that the actual expenditure and resulting funding is not correctly captured.

3.3.2 Planned Response

- Our substantive audit will obtain support for the gross expenditure included in Orkney Island Council and NHS Orkney's accounting records.
- We will obtain written confirmations of expenditure from each of these bodies.

3.4 Financial Sustainability and Reserves (wider scope risk)

3.4.1 Other Risk

The Risk: Financial Sustainability and Reserves

Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered. This is inherently a risk to the Board giving the challenging environment where demands and inflation likely to be outstripping funding increases, leading to increased efficiencies needed.

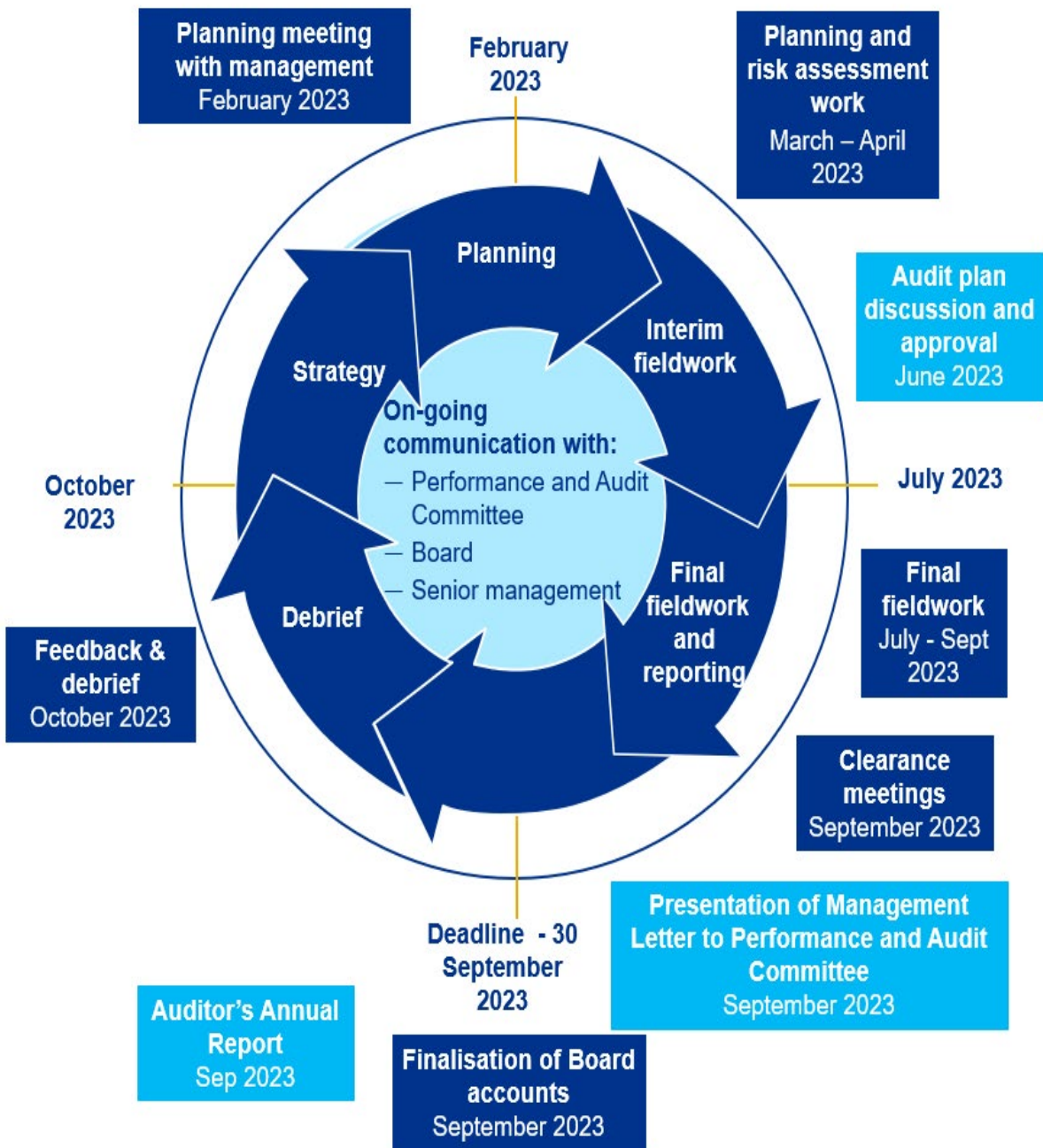
In addition ongoing discussions with Scottish Government has highlighted a desire to recover / use Covid 19 funds received in 2021-22 but not spent by 31.3.2023.

3.4.2 Planned Response

- The Board received funding from NHS Orkney and Orkney Island Council, and is part of an agreed integration scheme.
- This scheme includes the need for the Board to achieve a break-even position unless there are clear plans to create or utilise reserves.
- A three year strategic plan should be produced that incorporates a medium term financial plan, covering activity changes due to changes in demand, inflation, efficiency savings, the legal requirements which may impact unavoidable commitments, and identify savings required to align to funding available, and risk assess the impact of these savings.
- Where recovery plans are needed, these are agreed in consultation with both parties, to address any deficits and timescales and reserves needed to return to the break-even position.
- We will consider the Board's financial planning, reserves strategy, medium term financial plans including the identification and delivery of efficiencies and savings.
- We will remain alert to the communications with Scottish Government in respect of the unutilised Covid 19 reserves;
- We will conclude on the appropriateness of these arrangements in our annual audit report in the financial sustainability wider scope work.

4 Audit Cycle and expected Timetable

Our 2022/23 schedule



- Key Events
- PAAC communications

5 Wider scope and best value

5.1 Approach

We are required to assess and provide conclusions in the Annual Audit Report in respect of four wider scope dimensions: financial sustainability; financial management; vision, leadership and governance; and use of resources to improve outcomes.

We are also required to report on how the Board demonstrates it meets its best value responsibilities

We set out below an overview of our approach to wider scope and best value requirements of our annual audit. We have not, at this stage of our planning, identified any significant wider scope and best value risks. We will provide narrative on these and other areas in the Annual Audit Report where relevant.

5.2 Risk Assessment

We consider the relevance and significance of the potential business risks faced by local authorities, and other risks that apply specifically to the Board. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the Code of Audit Practice.

In doing so we consider:

- The Board's own assessment of the risks it faces, and its arrangements to manage and address its risks.
- Evidence gained from the work of the predecessor auditor, including the response to that work.

We use the shared risk assessment process to consider if there are wider scope and best value risks relevant to the Annual Audit Report

5.3 Linkages with other audit work

There is a degree of overlap between the work we do as part of the wider scope and best value audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Board's organisational control environment, many aspects of which are relevant to our wider scope and best value audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and wider scope, and this will continue. We consider information gathered through the shared risk assessment and the Audit Commission's five strategic priorities when planning and conducting our work

5.4 Identification of significant risks

The Code identifies a matter as significant ‘if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.’

If we identify significant wider scope risks, we will highlight the risk to the Board and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Board, inspectorates and other review agencies.
- Carrying out local risk-based work to form a view on the adequacy of the Board’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

5.5 Concluding on wider scope and Best Value

At the conclusion of the wider scope and best value audit we will consider the results of the work undertaken and assess the assurance obtained against each of the wider scope audit dimensions, regarding the adequacy of the Board’s arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our wider scope conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG’s quality control processes, to help ensure the consistency of auditors’ decisions.

5.6 Reporting

We will update our assessment throughout the year and should any issues present themselves we will report them in our Annual Audit Report.

We will report on the results of the wider scope and best value audit through our Annual Audit Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

5.7 Financial Sustainability

Financial Sustainability looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.

Audit Approach

- We will consider the Board’s long term financial plans and its ability to adapt to the changing demands for its services and increased pressures on funding.
- We will monitor the Board’s key performance indicators and performance reporting, to identify any trends requiring further investigation. We will consider

any overspends against budget caused by increased demand and then strain on funding, as well as any underspends due to staff slippage where vacancies have been hard to fill.

- We will inquire with officers surrounding their assumptions and judgements made in future forecasting or demand and funding.
- We will consider the Board's financial planning and reserves strategy and conclude on the appropriateness of these in our annual audit report.

5.8 Financial Management

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

Audit Approach

- We will consider the Board's systems and processes for budget setting and monitoring.
- We will review the financial results to 31 March 2023 compared to budget to consider if there are indications that savings are not being delivered as planned.
- We will consider the Board's approach to setting a balanced budget for 2023-24 and considering implications and delivery of the budget in our Annual Audit Report.

5.9 Vision, Leadership and Governance

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.

Audit Approach

- We will consider the effectiveness of scrutiny and governance arrangements, by evaluating the challenge and transparency of the reporting of financial and performance information.
- We will continue to report on how the Board supports and maintains decision making, and conclude on its effectiveness.
- We will consider how officers present impact on equalities through equality impact assessments when members debate motions and actions. This will include, but is not limited to reporting on how the Board is committed to equal health opportunities for all the population of the Orkney Islands through policy development to eliminate potential areas of discrimination.
- We will also consider how the Board reports on its equality and fairness responsibilities to the public and its communities.

5.10 Use of Resources to Improve Outcomes

Use of Resources to Improve Outcomes is concerned with how effectively resources are used to provide services.

Audit Approach

- We will specifically consider statutory performance indicators, performance reporting and arrangements to provide for continuous improvement.
- We will understand how the Board allocates resources, monitors performance and its impact.

6 Mandatory Communication (Appendix One)

Type	Statement
Management's responsibilities (and, where appropriate, those charged with governance)	Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error. Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.
Auditor's responsibilities	Our engagement letter with Audit Scotland communicates our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
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	Our engagement letter with Audit Scotland 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 – wider scope and best value	Our value for money methodology slide on pages 8 -11 set out our responsibilities for reporting on wider scope and best value. We have set out on these pages the methodology we will adopt in discharging our responsibilities in these areas.
Independence	Our independence confirmation on page 13 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.

7 Confirmation of Independence (Appendix Two)

7.1 Assessment of our objectivity and independence as auditor of the Orkney Integration Joint Board (“the Board”)

Professional ethical standards require us to provide to you at the conclusion 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.

7.2 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 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 APB Ethical Standards. 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.

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

We have considered the fees charged by us to the board and its affiliates for professional services provided by us during the reporting period. No non-audit services are expected to be provided during 2022/23.

7.4 Independence and objectivity considerations relating to other matters

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

7.5 Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, 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 Performance and Audit 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

8 Audit Team and Rotation (Appendix Three)

Your audit team has been drawn from our specialist public sector 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 director and firm.

	<p>Michael Wilkie is the director responsible for our audit. He will lead our audit work, attend the Performance and Audit Committee and be responsible for the opinions that we issue.</p>
	<p>Matthew Moore is the senior manager responsible for our audit. He will co-ordinate our audit work, attend the Performance and Audit Committee and ensure we are co-ordinated across our accounts and wider scope work.</p>
	<p>Monazzah Samad is the in-charge responsible for our audit. She will be responsible for our on-site fieldwork. She will complete work on more complex section of the audit.</p>

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

This will be Michael's first year as your engagement lead. He can therefore complete a further 9 years before rotation.



9 Fees (Appendix Four)

Audit Scotland has completed a review of funding and fee setting arrangements for 2022-23. 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	2022/23	2021/22
Auditor Remuneration **	£33,530	£19,250
Pooled Costs	£0	£2,010
PABV Contribution	£6,380	£5,670
Audit Support Costs	£1,270	£1,030
Sectoral Cap Adjustment	-£9,710	-
TOTAL AUDIT FEES (Including VAT)	£31,470	£27,960

Source: Audit Scotland

9.1 Billing arrangements

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

9.2 Basis of fee information

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

- The Board'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.

10 Responsibility in relation to fraud (Appendix Five)

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.

10.1 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 Performance and Audit Committee and auditors:

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

10.2 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, Performance and Audit Committee, and others.
- Evaluate broad programmes and controls that prevent, deter, and detect fraud.

10.3 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 Performance and Audit Committee and management.

10.4 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.

11 Audit Scotland code of audit practice – responsibility of auditors and management (Appendix Six)

11.1 Responsibilities of management

11.1.1 Financial Statements

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
- maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements 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 Council.
- maintaining proper accounting records; and
- preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced, and understandable and also clearly address the longer- term financial sustainability of the body.

Further, it is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Audited bodies are responsible for providing the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.

11.1.2 Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

11.1.3 Corporate governance arrangements

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including Audit Committees or equivalent) in monitoring these arrangements.

11.1.4 Financial position

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified.
- compliance with any statutory financial requirements and achievement of financial targets.
- balances and reserves, including strategies about levels and their future use.
- how they plan to deal with uncertainty in the medium and longer term; and

the impact of planned future policies and foreseeable developments on their financial position.

11.1.5 Best Value, use of resources and performance

The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

11.2 Responsibilities of auditors

11.2.1 Appointed auditor responsibilities

Auditor responsibilities are derived from statute, this Code, ISAs, professional requirements, and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:

- undertake statutory duties and comply with professional engagement and ethical standards.
- provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions.
- review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns.
- notify the Auditor General when circumstances indicate that a statutory report may be required.
- participate in arrangements to cooperate and coordinate with other scrutiny bodies (local government sector only).
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies:
 - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets.
 - suitability and effectiveness of corporate governance arrangements; and
 - financial position and arrangements for securing financial sustainability.

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

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.

11.2.2 General principles

This Code is designed such that adherence to it will result in an audit that exhibits these principles.

11.2.2.1 Independent

When undertaking audit work all auditors should be, and should be seen to be, independent. This means auditors should be objective, impartial and comply fully with the FRC ethical standards and any relevant professional or statutory guidance. Auditors will report in public and make recommendations on what they find without being influenced by fear or favour.

Our independence confirmation letter (**Appendix two**) 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.

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

11.2.2.2 Proportionate and risk based

Audit work should be proportionate and risk based. Auditors need to exercise professional scepticism and demonstrate that they understand the environment in which public policy and services operate. Work undertaken should be tailored to the circumstances of the audit and the audit risks identified. Audit findings and judgements made must be supported by appropriate levels of evidence and explanations. Auditors will draw on public bodies' self-assessment and self-evaluation evidence when assessing and identifying audit risk.

11.2.2.3 Quality focused

Auditors should ensure that audits are conducted in a manner that will demonstrate that the relevant ethical and professional standards are complied with and that there are appropriate quality-control arrangements in place as required by statute and professional standards.

11.2.2.4 Coordinated and integrated

It is important that auditors coordinate their work with internal audit, Audit Scotland, other external auditors, and relevant scrutiny bodies to recognise the increasing integration of service delivery and partnership working within the public sector. This would help secure value for money by removing unnecessary duplication and also provide a clear programme of scrutiny activity for audited bodies.

11.2.2.5 Public focused

The work undertaken by external audit is carried out for the public, including their elected representatives, and in its interest. The use of public money means that public audit must be planned and undertaken from a wider perspective than in the private sector and include aspects of public stewardship and best value. It will also recognise that public bodies may operate and deliver services through partnerships, arm's-length external organisations (ALEOs) or other forms of joint working with other public, private or third sector bodies.

11.2.2.6 Transparent

Auditors, when planning and reporting their work, should be clear about what, why and how they audit. To support transparency the main audit outputs should be of relevance to the public and focus on the significant issues arising from the audit.

11.2.2.7 Adds value

It is important that auditors recognise the implications of their audit work, including their wider scope responsibilities, and that they clearly demonstrate that they add value or have an impact in the work that they do. This means that public audit should provide clear judgements and conclusions on how well the audited body has discharged its responsibilities and how well they have demonstrated the effectiveness of their arrangements. Auditors should make appropriate and proportionate recommendations for improvement where significant risks are identified.

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