

# NHS Orkney

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for NHS Orkney  
December 2017

## Who we are

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

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



## About us

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

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

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

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

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

## Exhibit 1

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income</b></p> <p>Orkney receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Effective budget monitoring by management.</p> <p>Regular monitoring of national fraud reports.</p> <p>Counter Fraud Policy and Whistleblowing Policy in place.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Liaise with the External Auditor of the Endowment Fund.</p>

Audit Risk	Source of assurance	Planned audit work
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements</p>	<p>Effective budget monitoring by management.</p> <p>Regular reporting to the Board</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Focused substantive testing of key areas.</p>
<p><b>4 Integration Joint Board</b></p> <p>NHS Orkney and Orkney Integration Joint Board (IJB) are required to submit their audited accounts by 30 June and 30 September respectively.</p> <p>NHS Orkney is required to consolidate the IJB's financial and non-financial information in to their accounts and will need to ensure arrangements are in place for the IJB to provide the required information by a mutually agreed date to allow the board to meet its earlier statutory reporting obligations.</p> <p>There is a risk that the board may fail to meet its statutory reporting requirements if appropriate information and assurances are not received from the IJB in time.</p>	<p>Finance officers plan to liaise with their IJB colleagues regarding the timetable for draft accounts.</p>	<p>Liaise with Finance staff to ensure IJB figures will be available for the draft accounts.</p>
<p><b>5 Finance Staff Capacity</b></p> <p>There have been a number of key staffing changes within Finance during 2017 and the service has been operating below establishment for several months.</p> <p>There is a risk that the Finance division has insufficient capacity to maintain service delivery, and meet business plan objectives in the changing financial and legislative environment.</p> <p>There is also an increased risk of the likelihood of weaknesses in the control environment and errors in the financial statements.</p>	<p>We are in consultation with NHS Grampian to identify the cover they are able to provide to ensure resilience is kept.</p> <p>Consideration is being given to the creation of a trainee position, however this will require approval.</p> <p>Year end knowledge is sufficient within the team to ensure year end standards aren't reduced.</p>	<p>We will monitor the capacity of finance function and mitigating actions put in place.</p>

Audit Risk	Source of assurance	Planned audit work
<b>Wider dimension risks</b>		
<p><b>6 Change of Chief Executive Officer</b></p> <p>The current Chief Executive Officer has resigned to take up a similar role elsewhere with effect from 31 December 2017.</p> <p>An interim Chief Executive Officer has been appointed and is expected to start while the current Chief Executive is still in post.</p> <p>Arrangements for securing a permanent replacement officer are unclear and there is a risk that there may not be suitable measures in place following the Chief Executive's departure to ensure compliance with all applicable statutes and regulations.</p>	<p>An interim CEO commences in January who has previous experience within NHSO as a Director of Finance and also as Deputy CEO and will reside in post until a suitable candidate has been recruited.</p> <p>An advert will be going out to recruit a permanent CEO who has all the relevant experience in order to fulfil the requirements of the position, including compliance with statutes and regulations.</p>	<p>Senior Personnel arrangements will be monitored.</p>
<p><b>7 Wider Financial position</b></p> <p>The latest financial position to September 2017 shows that the board is currently in a deficit position of £0.327 million; however the outturn position is forecast to be a surplus of £0.086 million by the year end.</p> <p>The 2017/18 budget was set including £1.250 million of recurring savings. It is likely that a significant proportion of the required savings will be non recurring, rather than recurring savings in 2017/18. This will put pressure on future years to increase non-recurring savings.</p> <p>There is a risk that the Board is unable to meet its financial targets. Should this happen, an explanatory paragraph would be included in the independent auditor's report.</p>	<p>Regular financial reporting to the Finance and Performance Committee and the Board.</p>	<p>We will monitor the Board's financial position through continuing discussion with officers; reviewing finance reports to the Finance and Performance Committee and the Board; and reviewing the minutes of these meetings and include comment as appropriate in our Annual Audit Report.</p>
<p><b>8 Workforce Management</b></p> <p>Work is ongoing to review staffing models to support new ways of working and a number of innovative recruitment projects are in place.</p> <p>The board should consider preparing an up to date</p>	<p>The Workforce strategy is underway and will be completed prior to March 2018.</p>	<p>Workforce strategy and planning arrangements to be monitored.</p>

Audit Risk	Source of assurance	Planned audit work
<p>workforce strategy document to provide clarity of direction and align workforce planning arrangements to service and improvement plans.</p> <p>Until the strategy is agreed and implemented there is a risk that NHS Orkney may have insufficient staff and skills to meet strategic plan objectives</p>		
<p><b>9 New hospital and healthcare facility</b></p> <p>This is the largest construction project ever undertaken by NHS Orkney. It is therefore crucial that project management arrangements evolve during the course of the project, and are robust throughout, to ensure it is successfully delivered on time, within budget and to the quality expected</p> <p>The size and scale of the project means it has significant financial, accounting, clinical and reputation risks.</p>	<p>Two internal audits have been carried out; stage 1 was to assess effectiveness of project management arrangements, including progress reporting and oversight.</p> <p>Stage 2 was a follow-up exercise on project controls around targets and milestones having been achieved and project is on track to deliver within timeframe.</p>	<p>Review of project updates reported to the Board.</p> <p>Focussed testing of accounting transactions.</p>
<p><b>10 ICT</b></p> <p>ICT continues to play a significant role in the day-to-day running of the board, both in relation to patient care and administration. The board is facing some significant ICT challenges. The impending loss of a key staff member may increase the challenge.</p>	<p>Work is currently ongoing to progress IT projects across NHS Orkney.</p> <p>The vacant post is going through the recruitment process in order to fill the position.</p>	<p>We will monitor the status of the risks in the risk register and progress of the mitigating actions.</p>

## Reporting arrangements

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

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

6. We will provide an independent auditor's report to NHS Orkney, and the Auditor General for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will provide NHS Orkney and the Auditor General for Scotland with an annual report on the audit containing

observations and recommendations on significant matters which have arisen in the course of the audit.

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

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## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	23 November 2017	5 December 2017
National Fraud Initiative (NFI) questionnaire	28 February 2018	6 March 2018
Interim Audit Report (If Required)	31 March 2018	26 April 2018
Annual Audit Report including ISA 260 requirements	25 June 2018	25 June 2018
Signed Independent Auditor's Report	25 June 2018	25 June 2018

### Audit fee

**8.** The proposed audit fee for the 2017/18 audit of NHS Orkney is £TBC (2016/17: £70,780). In determining the audit fee we have taken account of the risk exposure of NHS Orkney, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 7 May 2018.

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

### Responsibilities

#### Audit Committee and Accountable Officer

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

**11.** The audit of the financial statements does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

#### Appointed auditor

**12.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

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

# Audit scope and timing

## Financial statements

**14.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

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

**15.** We will give an opinion on the financial statements as to whether:

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

## Materiality

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

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



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 based on the latest audited accounts.	£0.579 million
<b>Performance materiality</b> - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of planning materiality.	£0.289 million
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2.5% of planning materiality, rounded to the nearest £5k.	£20,000

Source:

**18.** We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration report. Any issue identified will be reported to the Audit Committee.

### Timetable

**19.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited financial statements with complete working papers package	7 May 2018
Receipt of Integrated Joint Board Draft Accounts	7 May 2018
Latest date for final clearance meeting with Director of Finance	1 June 2018
Agreement of audited unsigned financial statements	15 June 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	15 June 2018
Independent auditor's report signed	25 June 2018
Submission of Minimum Dataset	29 June 2018

## Internal audit

**20.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit, provided by Scott-Moncrieff wherever possible and as part of our planning process we carry out an assessment of the internal audit function.

### Adequacy of Internal Audit

**21.** We are currently undertaking a formal review of internal audit to ensure that Scott-Moncrieff, operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place. We concluded in 2016/17 that this was the case.

**22.** In respect of our wider dimension audit responsibilities we also plan to consider the following areas of internal audit work:

- New Hospital and Healthcare Facility Project

## Audit dimensions

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

### Exhibit 5

#### Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

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

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

- whether NHS Orkney can demonstrate the affordability and effectiveness of funding decisions it has made.

### Financial management

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

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

### Governance and transparency

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

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

### Value for money

**27.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- NHS Orkney can provide evidence that it is demonstrating value for money in the use of its resources.
- NHS Orkney can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- NHS Orkney can demonstrate that outcomes are improving.
- There is sufficient focus on improvement and the pace of it.

### Independence and objectivity

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

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

## Quality control

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

**31.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

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

## Adding Value

**33.** Through our audit work we aim to add value to NHS Orkney. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well NHS Orkney has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# NHS Orkney

## Annual Audit Plan 2017/18

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