



# External Audit Plan

For the year ended 31 March 2023

NHS Orkney

2 May 2023

# Contents

<b>Introduction</b>	<b>1</b>
<b>Audit Summary</b>	<b>2</b>
<b>Materiality</b>	<b>3</b>
<b>Audit risks and our approach</b>	<b>4</b>
<b>Group audit scope</b>	<b>9</b>
<b>Other Significant matters</b>	<b>10</b>
<b>Impact of new auditing standards</b>	<b>11</b>
<b>Audit cycle and timetable</b>	<b>12</b>
<b>Wider scope</b>	<b>13</b>
<b>Appendices</b>	<b>19</b>

## **About this report**

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice*

("the auditing Code").

This report is for the benefit of NHS Orkney and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scoping and purpose section of this report.

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## **Complaints**

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Rashpal Khangura, who is the engagement leader for our services to NHS Orkney, telephone 0113 231 3396 email: [Rashpal.Khangura@kpmg.co.uk](mailto:Rashpal.Khangura@kpmg.co.uk) who will try to resolve your complaint. If your problem is not resolved, you should contact Tim Cutler, our lead for our work for Audit Scotland, either by writing to him at 1, St Peter's Square, Manchester M2 3AE or by telephoning 0161 246 4774 or email to [tim.cutler@kpmg.co.uk](mailto:tim.cutler@kpmg.co.uk). We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Fiona Kordiak, Audit Scotland, 4<sup>th</sup> Floor, 102 West Port, Edinburgh, EH39DN.

# 1 Introduction

To the Audit and Risk Committee of NHS Orkney

**We are pleased to have the opportunity to meet with you on 02 May 2023 to discuss our audit of the consolidated financial statements of the Orkney Health Board ('the Board'), as at and for the year ending 31 March 2023.**

This report outlines our risk assessment and planned audit approach. At page 13 we include our Wider Scope risk assessment as required by the Code of Audit Practice.

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.

## 1.1 The engagement team

Rashpal Khangura is the engagement lead on the audit. He has over 20 years of NHS audit experience. This is Rashpal's first year working on your audit.

Matthew Moore will be the senior 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 who will be the assistant manager for the audit and coordinate our on site fieldwork

## 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.

Yours sincerely,

Rashpal Khangura

20 March 2023

## 2 Audit Summary

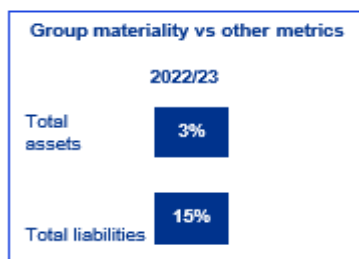
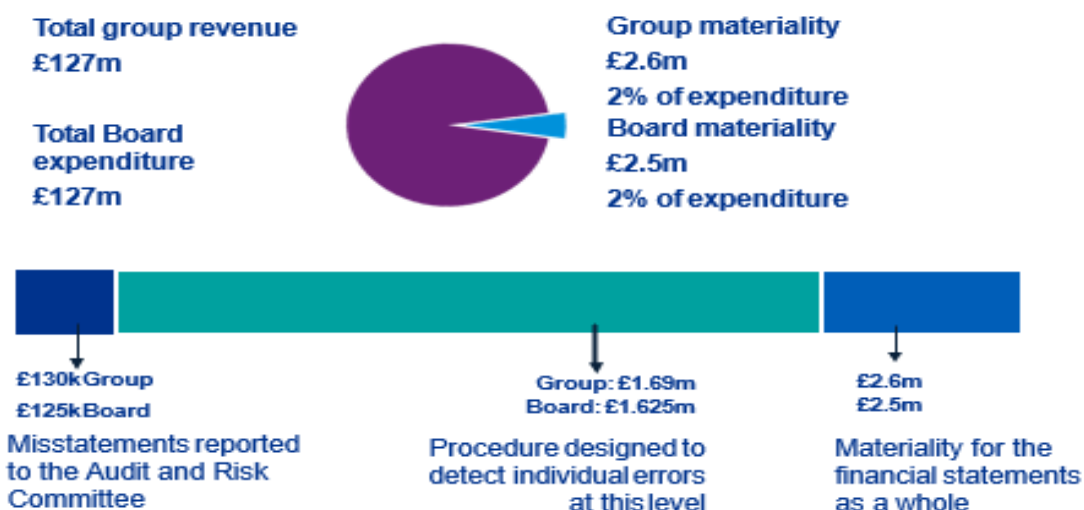
Key : ▲ Increased ▼ Decreased ★ New ◆ Unchanged

Financial Statement Audit			
We have commenced our audit planning and risk assessment procedures and have identified the following risks on which we will focus our work	Significant risks	Movement	Page
	Fraud risk - expenditure recognition	◆	6
	Valuation of Land & Buildings	◆	4
	Management override of controls	◆	8
	Fraud risk - revenue recognition rebuttal	◆	7

### Wider Scope risk assessment

Our audit risk assessment is an iterative and dynamic process, our current assessment of risks outlined in this plan may change as more information and evidence becomes available during the audit. Where such changes occur, we will advise management and report to those charged with governance. We have to date identified one risk regarding financial sustainability

### 3 Indicative Materiality (Group and Board)



#### 3.1 Our materiality levels

We determined materiality for the consolidated financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of expenditure which we consider to be appropriate as it reflects the scale of the Board’s services and we consider this most clearly reflects the interests of users of the Board’s accounts. To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of performance materiality £1.69m. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons.

#### 3.2 Prior period errors

In the previous audit the auditor reported one unadjusted audit difference relating to grossing up income and expenditure of £338k. We have considered the impact of this error on our level of performance materiality and due to the nature of the error have not made an adjustment to our usual approach.

## 4 Significant audit risks and our audit approach

### 4.1 Valuation of land and buildings

#### 4.1.1 Significant Audit Risk

**Risk: The carrying amount of land and 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 2022 was £66.1m, of which £64.1m are valued as specialised assets at depreciated replacement cost.

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

#### 4.1.2 Planned Response

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

- We will perform the following procedures designed to specifically address the significant risk associated with the valuation:
- We will critically assess the independence, objectivity and expertise of Valuation Office Agency, the valuers used in developing the valuation of the Board's properties at 31 March 2023;
- We will inspect the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the Government Financial Reporting Manual (FRM);
- We will compare the accuracy of the data provided to the valuers for the development of the valuation to underlying information, such as floor plans, and to previous valuations, challenging management where variances are identified;
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;

- We will challenge the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed, as part of our judgement;
- We will perform inquiries of the valuers in order to verify the methodology that was used in preparing the valuation and whether it was consistent with the requirements of the RICS Red Book and the FReM;
- We will agree the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the FReM;
- We will utilise our own valuation specialists to review the valuation report prepared by the Board's valuers to confirm the appropriateness of the methodology utilised; and
- Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

## **4.2 Fraud risk from expenditure recognition - completeness**

### **4.2.1 Significant Audit Risk**

**Risk: Liabilities and related expenses for purchases of goods or services are not recorded in the correct accounting period**

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.

### **4.2.2 Planned Response**

We would plan to include the following types of procedures to address this risk:

- We will evaluate the design and implementation of the controls in place for manual expenditure accruals;
- We will inspect a sample of invoices of expenditure, in the period around 31 March 2023, to determine whether expenditure has been recognised in the correct accounting period;
- We will select a sample of year end accruals and inspect evidence of the actual amount paid after year end in order to assess whether the accrual had been completely recorded;
- We will inspect journals posted as part of the year end close procedures that decrease the level of expenditure recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence; and
- We will perform a retrospective review of prior year accruals in order to assess the completeness with which accruals had been recorded at 31 March 2022 and consider the impact on our assessment of the accruals at 31 March 2023. We will also compare 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.



### 4.3 Revenue – Rebuttal of Significant Risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Due to the nature of the revenue within the Board, we have rebutted this significant risk. We have set out the rationale for the rebuttal of key types of income in the table below.

Description of Income	Nature of Income	Rationale for Rebuttal
Income from services commissioned by Integrated Joint Board	This is the main block contract from the Integration Joint Board. This income is accounted for alongside the payments to the Integrated Joint Board relating to the delivery of patient care.	The income is agreed in the contract, with simple recognition criteria linked to patient services delivered. The values are supported by the Agreement of contract budgets and agreements with the IJB with limited incentive or opportunities to manipulate the value recognised.
Scottish government funding drawn down	The Health Board are allocated a funding envelope by Scottish Government, this funding is drawn down in cash to facilitate payments that are required	The income is drawn down in cash, this is recognised on receipt and confirmation at year end leaves limited incentive or opportunities to manipulate the value recognised
Other Income	Mix of income streams including: other income from Scottish government, other NHS bodies, donations, and other income.	The various other income streams are high volume, low value sales, with simple recognition criteria. There is a mixture of NHS and Non NHS income, however we do not deem there to be any incentive or opportunity to manipulate the income and note there would need to be a significant volume of transactions misstated to create a material error. We will review this assessment at year end.

## **4.4 Management override of controls**

### **4.4.1 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.

### **4.4.2 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 and, where appropriate, test the operating effectiveness of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate;
- We will analyse all journals through the year using data and analytics and focus our testing on those with a higher risk.
- We will assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- We will review the appropriateness of the accounting for significant transactions that are outside the Board's normal course of business, or are otherwise unusual.
- We will assess the controls in place for the identification of related party relationships and test the completeness of the related parties identified. We will verify that these have been appropriately disclosed within the financial statements.

## 5 Group audit scope

### 5.1 Group Companies

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

The table below shows the entities within scope of the Group audit and the extent of procedures we are planning to undertake in order to provide our Group audit opinion.


Entity	Financially Significant	Exposed to Group Significant Risks
NHS Orkney (parent)	✓	✓
Orkney Health Board Endowment Funds (Subsidiary)	-	-
Orkney Integrated Joint Board (Joint Venture)	✓	-

We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

## 6 Other significant matters relating to our audit approach

### 6.1 Disclosure of significant estimates and judgements

We have included here the disclosures of significant estimates and judgements from the prior year annual report and the assessment of the level of optimism included within the valuation as well as the assessment of the quality of disclosure made about the estimation uncertainty within the estimate:

Estimates and judgements	Balance £k	Assessment of balance	Assessment of disclosure	Further comments
Valuation of land and buildings (estimate)	66,140	<p>Cautious Neutral Optimistic</p> <p>█</p>	<p>Needs improvement Neutral Best practice</p> <p>█</p> <p></p>	The Prior year auditor had assessed the prior year indexation rate applied as appropriate. We will review the full valuation during 2022-23 and provide an assessment of the valuation and quality of the disclosure.

Source: Audit Scotland

### 6.2 Other estimates

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

- Depreciation
- Clinical and Medical Negligence Provision

# 7 Impact of new auditing standards

## Impact of new auditing standards on our audit approach

Our audit plan incorporates key changes required as a result of changes to the following International Auditing Standards, which come into force for the 31 March 2023 audit.

### ***ISA 315 (UK) Revised: Identifying and assessing the risks of material misstatement***

ISA (UK) 315 incorporates significant changes from the previous version of the ISA, in order to achieve a more rigorous risk identification and assessment process. To meet the requirements of this new standard, we will have spent an increased amount of time on risk assessment. While the changes to the standard are significant, the key impacts on our approach at NHS Orkney have been as follows:

- **More granular risk assessment procedures** and documentation of risks of material misstatement e.g. focusing on specific types of accruals in relation to our expenditure significant risk;
- **Increased focus on the IT environment**, including the IT applications and supporting IT infrastructure, the IT processes and personnel running them;
- **Evaluation of the design and implementation of general IT controls**

(automated controls) supporting journal entry where there are automated controls.

### ***ISA 240 The auditors responsibilities relating to Fraud***

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 changes are not as extensive as ISA 315 Revised, but have had the following impact on your audit:

- **Increased focus on applying professional scepticism**
- **Requirement to perform inquiries with individuals at the entity are expanded**

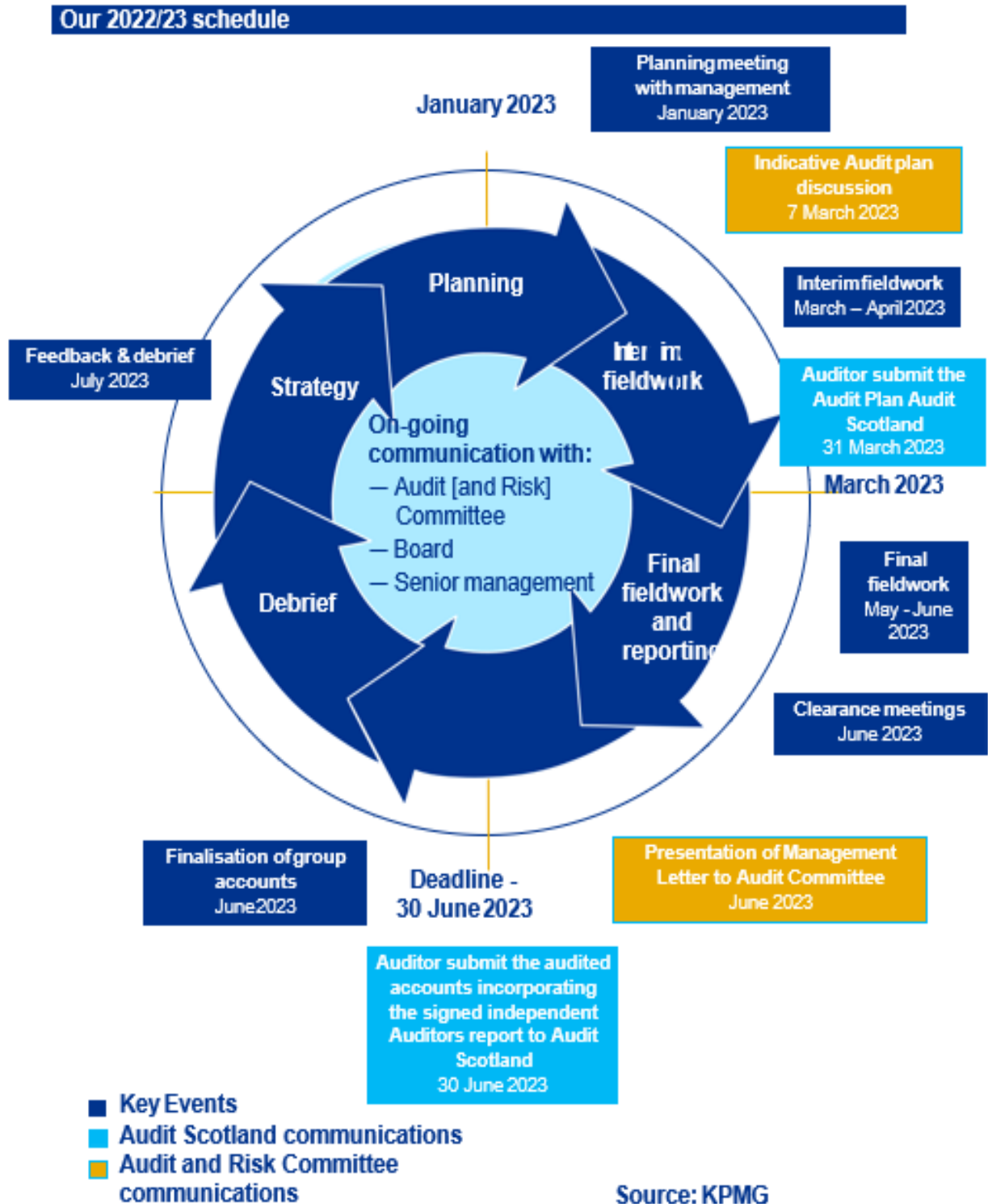
to include, amongst others, those who deal with allegations of fraud.

- **Specific determination as to whether to involve technical specialists**

(including forensics) to aid in identifying and responding to risks of material misstatement due to fraud.

Further detail on these new standards is set out in appendix 7

# 8 Audit Cycle and expected Timetable



## 9 Wider scope

Appointed auditors are required to consider the areas defined in the Code of Audit Practice (2021) ('the Code') as wider-scope audit.

Auditors should consider these additional requirements when:

- identifying significant audit risks at the planning stage
- reporting the work done to form conclusions on those risks
- making recommendations for improvement and, where appropriate, setting out conclusions on the audited body's performance.

The new Code has refreshed the areas used to define the wider audit scope. The previous 2016 edition set out four areas (described as audit dimensions), i.e. financial management, financial sustainability, governance and transparency, and value for money.

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

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

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

- Financial Management – Page 14;
- Financial Sustainability – Page 15;
- Vision, Leadership and Governance – Page 16; and
- Use of Resources to Improve Outcomes – Page 17.

### **Source: Code of Audit Practice**

In addition to the four wider scope for 2022/23 Audit Scotland have also mandated that for their National Risk Assessment all bodies are assessed for climate changes (page 18).

## **Reporting within the Annual Audit Report**

We will report on the four wider scope areas and Climate change within the Annual Audit Report, and we are required to provide clear judgements and conclusions on the effectiveness and appropriateness of the arrangements in place based on the work that they have done. Where significant risks are identified we will make recommendations for improvement. The Annual audit reports will include conclusions which are retrospective in nature, comment on progress in implementing previous recommendations and on forward plans within aspects of the wider scope requirements.

### **9.1 Financial management**

#### **9.1.1 Scope**

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

#### **9.1.2 Area of Focus**

- the arrangements to ensure effective systems of internal control, to ensure public money is applied within the relevant financial rules;
- the effectiveness of the budget control system to communicate accurate and timely financial performance to meet the needs of the user;
- the accuracy and embeddedness of financial forecasting within financial management and financial reporting arrangements, including achievement of financial targets;
- the arrangements taken to link budget setting, savings plans to the priorities and risks of the Board; and
- the capacity and skills of the Board's finance team.
- 

#### **9.1.3 Risk Assessment and Planned Audit Response**

At this time we have not identified any significant risks relating to financial management.



## **9.2 Financial sustainability**

### **9.2.1 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

### **9.2.2 Area 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 Boards priorities;
- the arrangements put in place to address any identified funding gaps / savings plans and organisational restructures, including clarity of the impact on services to the public; and
- the degree to which medium to longer term capital financial plans include clear links to how capital investment will be used to deliver organisational priorities, including revenue consequences of the capital expenditure.

### **9.2.3 Current Assessment**

NHS Orkney are currently negotiating with Scottish Government a 5 year recovery plan. An initial draft of the plan has been submitted to Scottish Government.

### **9.2.4 Audit Response**

Once agreed we will review the recovery plan and arrangements in place to ensure the delivery of the recovery plan to achieve its objectives.

## **9.3 Vision, Leadership and Governance**

### **9.3.1 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

### **9.3.2 Area 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 needed to realise the Board's priorities and long term sustainability of services to meet the needs of the citizens;
- that governance arrangements are appropriate and operating;
- the level of involvement of the local communities, including seldom heard groups, and health inequalities in identifying and agreeing the Board's priorities.
- the evidence that demonstrates leaders are adaptive to the changing environment; and
- the culture of the Board and how it operates with partners to understand their roles and responsibilities to help deliver the priorities of all partners, including where delivered through ALEO's

### **9.3.3 Risk Assessment**

At this time we have not identified any significant risks relating to vision, leadership and governance.

## **9.4 Use of Resources to Improve Outcomes**

### **9.4.1 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.

### **9.4.2 Area of Focus**

- The arrangements in place to demonstrate that there is a clear link between money spent and outputs and the outcomes delivered;
- The arrangements in place to assess whether outcomes are improving based on the trend and relative to pace of change in comparable organisations, and appropriate to the risk and challenges facing the Board;
- The arrangements in place to consider cost of delivery of current services and whether alternative models of service delivery have been considered.
- The arrangements to evaluate service delivery and quality and whether the views of users and are included in any such evaluation.

### **9.4.3 Risk Assessment**

At this time we have not identified any significant risks relating to use of resources to improve outcomes

## **9.5 Climate Change**

### **9.5.1 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; and
- helping identify and share good practice

### **9.5.2 2022-23 Audit Requirements:**

We are required to provide answers to a standard set of questions Audit Scotland have mandated. This is intended to gather basic information on the arrangements for responding to climate change in each body.

### **9.5.3 Reporting**

We will be required to report the responses to the questions to Audit Scotland. We will also provide a commentary on the findings in the Annual Audit Report.

# 10 Mandatory Communication (Appendix One)

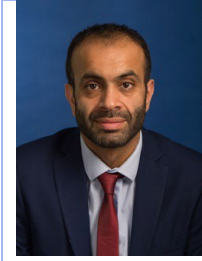

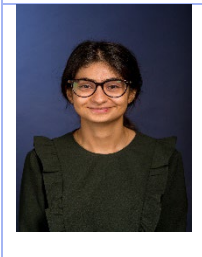
Type	Statement
Management's responsibilities (and, where appropriate, those charged with governance)	<p>The Code outlines the responsibilities of Management in respect of the following:</p> <p>Audited bodies are responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective governance of their activities. Audited bodies are responsible for maintaining:</p> <ul style="list-style-type: none"> <li>• strong corporate governance arrangements;</li> <li>• a financial position that is soundly based;</li> <li>• preparing accounts for audit, comprising financial statements and related reports;</li> <li>• sound systems of internal control;</li> <li>• standards of conduct for prevention and detection of fraud and other irregularities; and</li> <li>• internal audit.</li> </ul>
Management's responsibilities (Financial statements and related reports)	<p>The Code highlights that: Management must prepare annual accounts comprising financial statements and other related reports. They have responsibility for:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their accounts and related reports disclosures</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority</li> <li>• preparing and publishing, along with their financial statements, related reports such as an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements</li> <li>• ensuring that the management commentary (or equivalent) is fair, balanced and understandable.</li> </ul>

Type	Statement
Auditor's responsibilities	<p>The Code outlines the responsibilities of Auditor's Auditors appointed by the Auditor General undertake the audit of accounts including the wider-scope responsibilities. Once appointed, auditors act independently in carrying out their responsibilities and in exercising professional judgement. The appointed auditor reports to the audited body and others on the results of audit work.</p> <p>Appointed auditor responsibilities are derived from statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, the Code and guidance from Audit Scotland. More detail on the auditor's responsibilities for auditing accounts and their wider-scope responsibilities are set out in Page 13.</p> <p>Weaknesses or risks, including fraud and other irregularities, identified by auditors are only those which come to their attention during their normal audit work in accordance with the Code and may not be all that exist.</p>
Auditor's responsibilities	<p>The appointed auditors' statutory duties are derived from appointment by the Auditor General under the Public Finance and Accountability (Scotland) Act 2000. Appointed auditors' reports (ie, the independent auditor's report in relation to the accounts) must set out the auditor's findings on:</p> <ul style="list-style-type: none"> <li>• whether the expenditure and receipts shown in the accounts were incurred or applied in accordance with any enactment by virtue of which the expenditure was incurred or the income received in line with the Budget Act(s) for the financial year, or any part of the financial year, to which the accounts relate to Sections 4-7 of the 2000 Act, relating to the Scottish Consolidated Fund (the Fund)</li> <li>• where sums have been paid out of the Fund for the purpose of meeting such expenditure, whether the sums were applied in accordance with Section 65 of the Scotland Act 1998</li> <li>• whether the expenditure and receipts shown in the accounts were incurred or applied in accordance with any applicable guidance (whether as to propriety or otherwise) issued by the Scottish ministers</li> <li>• whether the accounts comply with any applicable direction by virtue of any enactment.</li> </ul>

Type	Statement
Auditor's responsibilities - Fraud	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
Auditor's responsibilities – Other information	The Code communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
Auditor's responsibilities – Consolidation Schedules	This "Whole of Government Accounts" requirement is fulfilled when we check your summarisation schedules are consistent with your annual accounts.

# 11 Audit Team and Rotation (Appendix Two)

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>Rashpal is the director responsible for our audit. He will lead our audit work, attend the Audit and Risk Committee and be responsible for the opinions that we issue.</p>
	<p>Matthew is the senior manager responsible for our audit. He will co-ordinate our audit work, attend the Audit and Risk Committee and ensure we are co-ordinated across our accounts and use of funds work.</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 Rashpal's 1st year as your engagement lead. He can therefore complete a further 9 years before rotation





## 12 Fees (Appendix Three)

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 **	£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 (Including VAT)</b>	<b>£91,420</b>	<b>£75,080</b>

Source: Audit Scotland

### 12.1 Billing arrangements

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

### 12.2 Basis of fee information

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

- The Group's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this);
- Draft statutory accounts are presented to us for audit subject to audit and tax adjustments.
- Supporting schedules to figures in the accounts are supplied; A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met.

- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned.
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-forms as necessary. Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

If there are any variations to the above plan, we will discuss them with you and agree any additional fees before costs are incurred wherever possible.

# 13 Confirmation of Independence (Appendix Four)

To the Audit and Risk Committee members

## 13.1 Assessment of our objectivity and independence as auditor of the NHS Orkney Board

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
  - Independence and objectivity considerations relating to the provision of non-audit services; and
  - Independence and objectivity considerations relating to other matters.
- General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard.

As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

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

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

## 13.2 Summary of non-audit services

We are not providing any non audit services

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

	2022/23	2021/22
	£	£
Audit of Board	91,420	N/A
<b>Total audit</b>	<b>91,420</b>	<b>N/A</b>
Other Assurance Services	-	-
<b>Total non-audit services</b>	<b>-</b>	<b>-</b>
<b>Total Fees</b>	<b>91,420</b>	<b>-</b>

Source: Audit Scotland

## 13.3 Application of the FRC Ethical Standard 2019

We communicated to you previously the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

We confirm that as at 15 March 2020 we were not providing any non-auditor additional services that required to be grandfathered.

## 13.4 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

# 14 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.

## 14.1 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 Monitoring and Audit Committee and auditors:

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

## 14.2 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, Audit and Risk Committee, and others.
- Evaluate broad programmes and controls that prevent, deter, and detect fraud.

## 14.3 KPMG's response to identified fraud risk factors

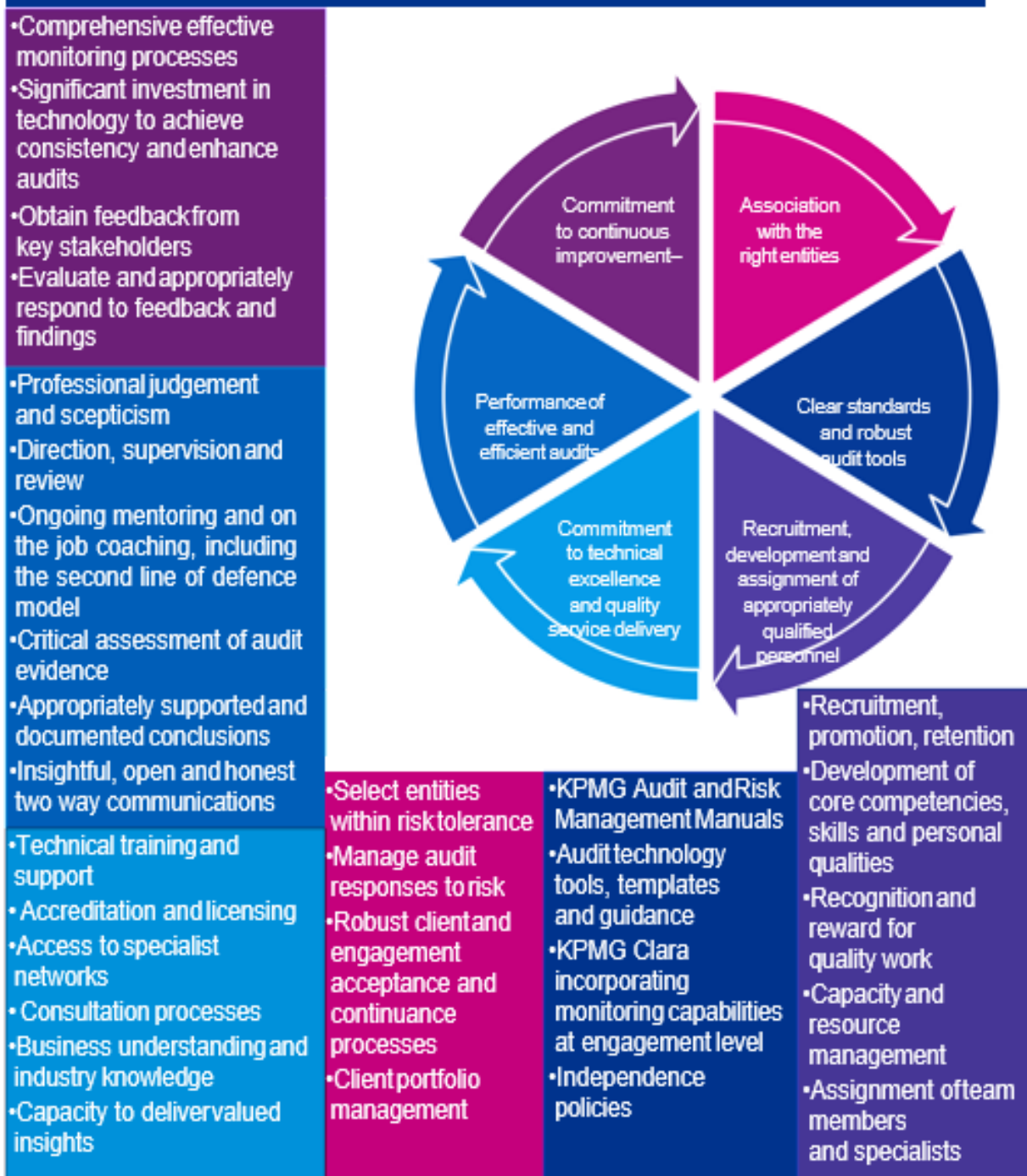
- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit and Risk Committee and management.

#### **14.4 KPMG's identified fraud risk factors**

- Whilst we consider the risk of fraud at the financial statement level to be low for the Council, 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.

# 15 KPMG's Audit quality (Appendix Six)

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.



Source: KPMG

# 16 Impact of new standards - ISA (UK) 315 Revised (Appendix Seven)

## 16.1 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, and hence for this year’s audit.

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

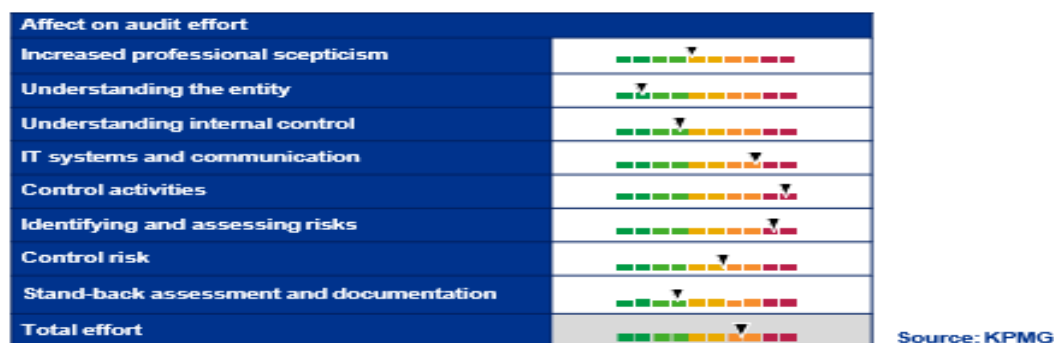
## 16.2 Why have these revisions been made?

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.

## 16.3 What does this mean for your audit?

To meet the requirements of this new standard, we are required to spend an increased amount of time across the risk assessment process, including more detailed consideration of the IT environment. These changes will result in increased audit work and hence an increased level of fee. This additional effort is a combination of time necessary to perform the enhanced risk assessment procedures and the anticipated need to involve more technical specialists (particularly IT Audit professionals) in our audits.





# 17 Impact of new standards - ISA (UK) 240 Revised (Appendix Eight)

## 17.1 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 has nevertheless resulted in changes to our audit approach.

The table below summarises the main changes and our assessment of their impact.

Area	Summary of changes and impact
<p>Risk assessment procedures and related activities</p>	<p>1 Increased focus on applying professional scepticism – the key areas affected are:</p> <ul style="list-style-type: none"> <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> <p>2 Requirements to perform inquiries with individuals at the entity are expanded to include, amongst others, those who deal with allegations of fraud.</p> <p>3 Every audit now requires a specific determination as to whether to involve technical specialists (including forensics) to aid in identifying and responding to risks of material misstatement due to fraud. This will result in increased involvement of specialists and an expanded scope of work for these specialists, on audit engagements.</p>
<p>Internal discussions and challenge</p>	<p>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>
<p>Communications with management / TCWG</p>	<p>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>

## 17.2 What does this mean for an audit?

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

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