

NHS Orkney

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for NHS Orkney
December 2018

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.

Contents

Risks and planned work	4
Audit scope and timing	9
Appendix 1: The audit team	14

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 sets out the work necessary to allow us to provide an independent auditor's report and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to NHS Orkney through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help NHS Orkney promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. Based on our discussions with staff, attendance at audit 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 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Risk of management override of controls</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 to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</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>2 Risk of fraud over income and expenditure</p> <p>NHS Orkney receives income from several sources, in addition to Scottish Government funding. The extent and complexity of</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>

 Audit Risk	Source of assurance	Planned audit work
<p>income means that, in accordance with ISA240, there is an inherent risk of fraud. The Code of Audit Practice expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure, for public sector bodies which have an overall net expenditure position.</p>	<p>Clear procedures in place for staff.</p> <p>Financial authorisation limits in place for authorising and approving expenditure.</p> <p>Budget monitoring and review with significant variances investigated and discussed with budget holders.</p>	<p>Liaise with the External Auditor of the Endowment Fund.</p> <p>Audit work on the National Fraud Initiative matches.</p> <p>Assessing the high level key controls in areas of significant expenditure.</p> <p>Focused substantive testing of expenditure</p>
<p>3 Senior Finance Capacity</p> <p>As the Director of Finance left on 19 October and has not been replaced, there is a risk that there is insufficient finance capacity at a senior level.</p>	<p>Management assurance: interim arrangements have been put in place, with Director of Finance responsibilities having been allocated to the Chief Executive and Head of Finance. The NHS Board is currently exploring options for filling the Director of Finance role.</p>	<p>Monitor arrangements for filling the Director of Finance role.</p>
<p>4 Estimation and judgements</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>5 Revenue Resource Limit Notification</p> <p>Due to the likelihood of brokerage being provided to NHS Orkney for 2018/19, there is a risk of a delay in receiving confirmation of the Revenue Resource Limit (RRL).</p>	<p>We anticipate that discussions with Scottish Government in relation to the year end position will be finalised in a timescale which will allow the final RRL to be confirmed.</p>	<p>Monitor receipt of final communication from the Scottish Government.</p>
<p>Wider dimension issues and risks</p>		
<p>5 Financial sustainability</p> <p>Efficiency savings</p> <p>NHS Orkney is required to achieve efficiency savings of circa 6% of baseline RRL in 2018/19. This is equivalent to a saving of £2.75 million with 38% on a recurring basis. Current budgetary reports show that the required savings are not going to be met in 2018/19, which will also have an impact on future years as the levels of non-recurring savings required will increase.</p>	<p>Monthly meetings of the Finance and Performance committee will be provided with progress reports on the identification and delivery of savings targets. Significant work has already commenced on 2019/20 and beyond.</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>

 Audit Risk	Source of assurance	Planned audit work
<p>There is a risk that the board may not be able to deliver the targeted savings in 2018/19.</p>		
<p>6 Financial management</p> <p>Governance and transparency</p> <p>New hospital and healthcare facility</p> <p>This is the largest construction project ever undertaken by NHS Orkney.</p> <p>The size and scale of the project means it has significant financial, accounting, service delivery, IT and reputational risks, including maintaining service levels in existing premises.</p>	<p>Through the Transformation Implementation Programme Board, detailed migration and transition plans are discussed and agreed. The Project Director is responsible for all aspects of construction and commissioning with the Head of Hospital and Support services taking on responsibility of migration from the old premises to the new.</p>	<p>Review of project updates reported to the Board.</p> <p>Focussed testing of accounting transactions.</p> <p>Ongoing review of service delivery and IT risks.</p> <p>Monitor routine performance reporting.</p>
<p>7 Governance and transparency</p> <p>Workforce Management</p> <p>NHS Orkney continues to face several workforce challenges. Currently around 20% of the workforce is aged 55 or over and are all eligible for retirement.</p> <p>There will be a loss of experience as the older workforce retires and the board could experience difficulties in attracting experienced new staff.</p> <p>There also remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit) for which the most significant concern for NHS Orkney is in relation to workforce. However, no detailed assessment has been carried out.</p>	<p>The Staff Governance Committee is monitoring implementation of the workforce strategy including approaches to succession planning to ensure a sustainable workforce with the right skills and capacity.</p>	<p>Review minutes of Staff Governance Committee meetings and report any issues in our interim management report.</p>
<p>8 Information Security</p> <p>The Health Board should update its IT disaster Recovery plan along with the testing strategy for the new hospital.</p>	<p>The Head of eHealth and IT has been a dedicated member of the new hospital project team from the outset.</p> <p>The new facility has been designed around resilience and redundancy with regular system testing ensuring its reliability.</p>	<p>Review ICT arrangements for new facility as specified in the Authority Construction Requirements.</p> <p>Review ICT Capacity Plan</p> <p>Review Requirements Specification Documents</p> <p>Review Low Level Design Documents</p> <p>Review Test Plans</p>

Source: Audit Scotland

Reporting arrangements

- 5.** 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.
- 6.** 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.
- 7.** 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 during the audit.
- 8.** 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.

Exhibit 2 2018/19 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
 Annual Audit Plan	23 November 2018	4 December 2018
 Management Report	29 March 2019	7 May 2019
 Annual Audit Report	11 June 2019	25 June 2019
 Independent Auditor's Report	25 June 2019	25 June 2019

Source: Audit Scotland

Audit fee

- 9.** The proposed audit fee for the 2018/19 audit of NHS Orkney is £70,700 [2017/18 fee £70,700]. 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 by 6 May 2019.
- 10.** 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

11. 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.

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

Appointed auditor

13. 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 Financial Reporting Council's Ethical Standard.

14. Auditors in the public sector give an independent opinion on the financial statements and other specified information within 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.

15. We include full details of the current audit team in [Appendix 1](#).

Audit scope and timing

Financial statements

16. The financial statements audit will be the foundation and source for most 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.

17. We will give an opinion on whether the financial statements:

- 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.

Other information in the financial statements

18. We also review and report on other information published within the financial statements including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

19. We also read and consider any information in the financial statements other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

20. 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 opinions in the independent auditor's report.



characteristics



responsibilities



principal activities



risks



governance arrangements

21. 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
 Overall materiality – 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 19 based on the latest audited accounts for 2017/18.	£0.6 million
 Performance materiality – 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.	£0.3 million
 Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2.5% of planning materiality.	£15 thousand

Source: Audit Scotland

Timetable

22. To support the efficient use of resources it is critical that the financial statements timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#)

Exhibit 4 Financial statements timetable

Key stage	Date
Consideration of unaudited financial statements by those charged with governance	4 June 2019
Latest submission date of unaudited financial statements with complete working papers package	6 May 2019
Latest date for final clearance meeting with Director of Finance	30 May 2019
Issue of letter of representation and proposed independent auditor's report	11 June 2019
Agreement of audited unsigned financial statements	25 June 2019
Issue of Annual Audit Report to those charged with governance	25 June 2019
Independent auditor's report signed	28 June 2019
Submission of Minimum Dataset	28 June 2019

Internal audit

23. 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.

24. 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 2017/18 that this was the case.

Other Planned Audit Work

25. The following areas may present significant risks to NHS Orkney:

- EU Withdrawal, specifically looking at implications for workforce, finance, regulation and the supply of drugs and other medical supplies
- The changing landscape for public financial management
- Dependency on key suppliers
- Openness and transparency, reviewing the approach to openness and transparency to ensure It is keeping pace with public expectations and good practice.

26. As part of our 2018/19 audit we will be looking at how these areas are being managed by NHS Orkney.

Audit dimensions

27. 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

28. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

Financial sustainability

29. 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 NHS Orkney'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

30. 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

31. 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

32. 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

33. 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 robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

34. The engagement lead (i.e. appointed auditor) for NHS Orkney is Gillian Woolman, Audit 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

35. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires a system of quality control to be 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.

36. 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

37. 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.

Appendix 1

The audit team

The core audit team consists of the following staff and will be supported at peak times with additional resources to ensure key reporting deadlines are met:

Gillian Woolman FCA CPFA

Audit Director

✉ gwoolman@audit-scotland.gov.uk ☎ 0131 625 1981

Gillian is the appointed independent auditor established under the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice and guided by the auditing profession's ethical guidance.

She has worked in the public and private sector, internal and external audit, in the UK and overseas. She is the lead Audit Director for equality and diversity matters at Audit Scotland and holds a mixed portfolio of audits. She is currently chair of the regional strategic board for the Institute of Chartered Accountants in England and Wales and Chair of the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).

Patricia Fraser CPFA

Audit Manager

✉ pfraser@audit-scotland.gov.uk ☎ 0131 625 1966

Patricia will have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly planned, resourced and concluded within time.

Patricia has worked in local government and has audit experience across the various sectors. Patricia is a corporate resource lead in Audit Scotland and a member of the quality team. Patricia engages in quality reviews within Audit Scotland and the Northern Ireland Audit Office.

Colin Morrison CPFA

Senior Auditor

✉ cmorrison@audit-scotland.gov.uk ☎ 0131 625 1904

Colin will lead the audit team and will be the main contact for the audit.

Colin has experience of auditing in several sectors, including Health, Local Government, Pension Funds and the Further Education Sector.

NHS Orkney

Annual Audit Plan 2018/19

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk