

NHS Orkney

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for by NHS Orkney
March 2021



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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts 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.
- 3.** The public health crisis caused by the coronavirus (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
- 4.** Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before Covid-19. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

- 5.** We aim to add value to the 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

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

Exhibit 1

2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent 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 and judgements.</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>As set out in ISA (UK) 240 there is a presumed risk of fraud in the recognition of income. In addition as most public sector bodies are net expenditure bodies there is also a presumed risk of fraud in expenditure.</p> <p>We consider the risk to be most prevalent where there is greatest incentive and opportunity for fraudulent manipulation. We therefore focus on other income and non-pay expenditure.</p> <p>We consider there is an inherent risk that NHS Orkney fraudulently recognise other income and non-pay expenditure in order to meet their financial targets.</p> <p>The risk is increased in 2020/21 due to additional funding provided by the Scottish Government relating to increased expenditure to support Covid-19 operations.</p>	<p>Clear procedures in place for staff.</p> <p>Effective systems for the completeness and timely recording of accounts receivable and payable.</p> <p>Financial authorisation limits in place for authorising and approving expenditure.</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>Assessing the high level key controls in areas of significant other income and non-pay expenditure.</p> <p>Analytical procedures on income and non-pay expenditure streams.</p> <p>Review of assumptions supporting Covid-19 funding claims and evidence that associated grant conditions have been met.</p> <p>Detailed testing of income transactions focusing on the areas of greatest risk.</p> <p>Focused substantive testing of non-pay expenditure.</p> <p>Testing of income and expenditure cut-off treatment around the year end.</p> <p>Liaise with the External Auditor of the Endowment Fund.</p>
<p>3 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.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Valuations carried out by independent external experts every 5 years for all assets (last valuation was 2019/20). Indexation is applied in line with the NHS Accounting Manual.</p> <p>Provisions are supported by expert</p>	<p>Completion of 'review of the work of an expert' for the professional valuer and the Central Legal Office.</p> <p>Review of the Central Legal Office Reports covering clinical negligence claims.</p> <p>Review of NHS Orkneys own disclosures in relation to identified significant estimates.</p>

	Audit Risk	Source of assurance	Planned audit work
		reports on clinical negligence claims.	Review of the reasonableness of indexation applied in the accounts against information provided by the valuer. Focused substantive testing of key areas.
4	Potential misstatement of payments to primary care contractors Payments to primary care contractors are a material and complex account area with payments totalling around £10m each year. The service auditor issued qualified audit opinions in 2019/20 across the four primary care payment streams which reflected an absence of evidence to confirm the operation of a range of expected controls. While recommendations were agreed, it is uncertain to what extent they have been implemented and improvements made. There is a risk of misstatement in the annual accounts due to the use of some estimates and uncertainty about the extent of improvement made by NHS NSS in responding to weaknesses reported by the service auditor in June 2020.	Effective budget monitoring by management. Payments made to primary care contractors are reviewed by management and unexpected variances are investigated.	Review progress reports to the Audit and Risk Committee on primary care action plans. Consideration of 2020/21 service auditor's report covering the financial ledger, IT contracts and Practitioners Services Division under ISA 402. Review the reasonableness of the assumptions on which primary care payments have been made during the pandemic (based on previous averages) and monitor progress with the resumption of payment verification checks. Review local primary care monitoring arrangements in place during 2020/21.
5	Disclosures in the annual report and accounts The Performance and Accountability Reports required significant changes in 2019/20 in order to meet the required standards. We highlighted that further improvements would be required in 2020/21 to ensure compliance with the FReM and SPFM. Additional disclosures and commentary in the annual report and accounts may need to be considered to reflect the impact of Covid-19. There is a risk that the performance of the NHS Orkney and the impact of Covid-19 is not reported in a transparent manner.	NHS Orkney agreed to review the Performance and Accountability Reports as part of their preparation of the 2020/21 Annual Report and Accounts.	Ensure format and content of Performance Report and Governance Statement comply with NHS Accounting Manual and other relevant guidance and is consistent with supporting evidence/auditor's cumulative audit knowledge.

**Audit Risk****Source of assurance****Planned audit work****Wider dimension risks**

6	Financial sustainability	<p>The financial position is monitored by management and those charged with governance.</p> <p>Regular reporting to the Scottish Government through Covid-19 finance returns.</p> <p>The Scottish Government has confirmed that the deficit will be fully funded.</p>	<p>We will monitor the health board's financial position through continuing discussion with officers; reviewing finance reports to the Finance and Performance Committee and the health board; and reviewing the minutes of these meetings.</p>
<p>The health board's latest financial position to November 2020 shows that the health board is currently in a deficit position of £7.8 million. The outturn position is forecast to be a deficit of £10.9 million by the year end. Covid-19 has played a significant part in that, with additional expenditure of £4.5 million expected in addition to £5.5 million of unachieved savings.</p> <p>NHS Orkney anticipates that all Covid-19 costs will be fully funded by the Scottish Government which would bring the board into financial balance at the year end.</p> <p>In the event that the health board is unable to meet its financial targets, an explanatory paragraph would be included in the independent auditors' report.</p>			
7	Changes in Senior Leadership	<p>NHS Orkney are considering the timing and method of recruitment.</p>	<p>We will consider any updates on the recruitment process.</p> <p>We will consider the impact of interim arrangements on governance processes.</p>
<p>NHS Orkney has an interim Chief Executive in place and we anticipate this arrangement will continue until the end of the financial year.</p> <p>There is a risk that NHS Orkney cannot attract the right candidate and that recruitment is not conducted in an open and transparent manner.</p>			
8	Development of key strategies	<p>Work on creating a new medical model is underway and will inform the clinical and workforce strategies</p>	<p>We will monitor progress in developing the clinical and workforce strategies.</p> <p>We will consider links between long term financial planning and other strategies.</p>
<p>NHS Orkney has identified the need to develop a clinical strategy, which will provide a local vision for their services. This is to be developed in line with an appropriate workforce strategy and supported by long term financial plans.</p> <p>The development of the clinical and workforce strategies has been delayed as a result of Covid-19.</p> <p>There is a risk that NHS Orkney focuses on operational matters and do not have a clear strategic direction. In addition, there is a risk that longer term savings</p>			

	Audit Risk	Source of assurance	Planned audit work
	options are not driven by the strategic aims of the board.		
9	<p>Performance against targets</p> <p>Covid-19 has had a significant impact on performance measures, particularly for services which have been suspended or are operating at a reduced level.</p> <p>In January 2021 the board reported that 39% of indicators were behind the target level, however, remobilisation was having an impact and access to services was improving.</p> <p>There is a risk that NHS Orkney will not have sufficient capacity to remobilise services and will fail to meet its desired outcomes.</p>	<p>Regular performance reporting to the senior leadership team, the board and relevant committees.</p> <p>Regular reporting on remobilisation to the Scottish Government.</p>	<p>Review performance reporting to the Board and Performance Governance Committee to assess the response by management and the impact of the board's remobilisation plans.</p>
10	<p>Governance and transparency</p> <p>We are aware that the Board and Committee agendas and minutes are not up to date on the Boards web site.</p>		<p>We will review the web site to ensure it is up to date.</p>

Source: Audit Scotland

Reporting arrangements

6. 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.

7. 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 officers to confirm factual accuracy.

8. 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.

9. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the audited resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end i.e. 31 December. Discussions are ongoing with the Scottish Government Health Directorate about 2020/21 deadlines. The Auditor General has set a deadline of 31 August for the completion of the audit. NHS Orkney management, however, are keen that both parties work towards a completion date of 30 June for their financial statements. With that ambition in mind the following timeline has been set. All dates below may be subject to change due to uncertainty and additional challenges arising from remote working.

Exhibit 2

2020/21 Audit outputs

Audit Output	Target Date	Committee Date
Annual Audit Plan	16 February 2021	2 March 2021
Independent Auditor's Report	24 June 2021	24 June 2021
Annual Audit Report	10 June 2021	24 June 2021
Signed Assurance Statement on the Scottish Government consolidation template	30 June 2021	Not applicable

Source: Audit Scotland

Group accounts

10. NHS Orkney prepares group accounts which incorporates the Endowment Fund and the Orkney Integration Joint Board. We consider the endowment fund to be of individual financial significance to the group.

11. In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process. To support our audit work on NHS Orkney's group accounts, we seek to place reliance on the work of the auditors of the endowment fund. We will liaise with the auditor of the body to obtain assurance over the component figures included in the consolidation.

12. As part of our audit we will perform analytical procedures at the group level and review the consolidation working papers to ensure the group accounts accurately reflect the activities of NHS Orkney and its component bodies.

Audit fee

13. The proposed audit fee for the 2020/21 audit of NHS Orkney is £73,630 (2019/20 fee £71,850). 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 annual accounts, with a complete working papers package on 3 May 2021.

14. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts 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 and Risk Committee and Accountable Officer

15. Audited bodies have 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.

16. The audit of the annual accounts does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Appointed auditor

17. 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.

18. 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.

Audit scope and timing

Annual report and accounts

19. The annual report and accounts, which include the financial statements, 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.

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

- give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the affairs of the board and its group as at 31 March 2021 and of the net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 FReM; and
- have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

Statutory other information in the annual accounts

21. We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration and staff 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.

22. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

23. 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

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

Exhibit 3 Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure (excluding expenditure on services provided on behalf of Orkney Integration Joint Board) for the year ended 31 March 2021 based on the latest audited accounts for 2019/20.	£0.800 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 65% of planning materiality.	£0.500 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 materiality.	£20 thousand

Source: Audit Scotland

Timetable

25. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included a proposed timetable at [Exhibit 4](#). However, the dates may be subject to change as a result of the uncertainty and additional challenges associated with the ongoing Covid-19 pandemic.

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited financial statements with complete working papers package	3 May 2021
Latest date for final clearance meeting with Director of Finance	28 May 2021
Consideration of unaudited financial statements by those charged with governance	1 June 2021
Issue of letter of representation and proposed independent auditor's report	10 June 2021
Agreement of audited unsigned financial statements	24 June 2021
Issue of Annual Audit Report to those charged with governance	24 June 2021
Independent auditor's report signed	24 June 2021
Submission of Minimum Dataset	28 June 2021
Latest date for certifying the Scottish Government consolidation template	31 August 2021

Internal audit

26. 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 Azets, wherever possible and as part of our planning process we carry out an assessment of the internal audit function.

27. We are currently undertaking a formal review of internal audit to ensure that Azets operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place.

Service auditor assurances for shared systems and functions

28. In order to provide efficiencies and avoid duplication of effort, we will draw assurances from service auditor reports for the following national shared systems and functions:

- Practitioner Services Division (host NHS National Services Scotland and service auditor currently KPMG)
- National IT Services Contract (host NHS National Services Scotland and service auditor currently KPMG)
- National Single Instance (NSI) financial ledger (host NHS Ayrshire and Arran and service auditor currently BDO UK LLP)
- NHS payroll system (NHS Tayside host. While there is no formal service auditor arrangement for payroll, assurances on the system are provided by NHS Tayside's internal auditor.)

Audit dimensions

29. 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

30. 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

31. 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 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 there are arrangements in place to demonstrate the affordability and effectiveness of funding decisions.

Financial management

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

Governance and transparency

33. 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

34. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether NHS Orkney can demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered.
- that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

Independence and objectivity

35. 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.

36. The engagement lead for NHS Orkney is Gillian Woolman, Audit Director. Auditing and ethical standards require the appointed auditor, Gillian Woolman, 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

37. International Standard on Quality Control (UK) 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.

38. 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.

39. 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.

NHS Orkney

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