

# NHS Orkney

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for NHS Orkney  
February 2017

## Who we are

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

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



## About us

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

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

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

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# Contents

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<b>Risks and planned work</b>	<b>4</b>
Audit risks	4
Reporting arrangements	7
Audit fee	8
Responsibilities	8
<b>Audit scope and timing</b>	<b>9</b>
Financial statements	9
Internal audit	10
National Fraud Initiative	11
Audit dimensions	11
Strategic plan for the five year appointment	13
Independence and objectivity	13
Quality control	13

# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit - including the new approach to Best Value. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

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

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income</b></p> <p>NHS Orkney receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>Effective budget monitoring by management.</p> <p>Regular monitoring of national fraud reports.</p> <p>Counter Fraud Policy and Whistleblowing Policy in place.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current</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>

Audit Risk	Management assurance	Planned audit work
<p>assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>		
<p><b>5 Integrated Joint Board financial assurance</b></p> <p>NHS Orkney and Orkney IJB are required to submit their audited accounts by 30 June and 30 September respectively. In future years, Orkney IJB will need to provide both financial and non-financial information by a mutually agreed date to allow the board to meet its earlier statutory reporting obligations. In addition, the board will need to consider what assurances are required from the IJB for its Governance Statement.</p> <p>There is a risk that the board may fail to meet its statutory reporting requirements if appropriate information and assurances are not received from the IJB in time.</p>	<p>Finance officers plan to liaise with their IJB colleagues regarding the timetable for draft accounts.</p>	<p>Review the finance team's plans for incorporating the IJB transactions into the accounts.</p> <p>Gain assurances from the Orkney IJB audit team over the accuracy of IJB transactions.</p> <p>Specific audit testing of group accounts.</p> <p>Follow-up of recommendations of Audit Scotland national report relating to IJBs.</p>
<p><b>Wider dimension risks</b></p>		
<p><b>6 Financial position</b></p> <p>The board's latest financial position to December 2016 shows that the board is currently in a deficit position of £0.428 million, however the outturn position is forecast to be a surplus of £0.220 million by the year end. The 2016/17 budget was set including £2.2 million of savings, £0.6 million non recurring.</p> <p>The Board is budgeting for £4.280 million of savings between 2017/18 and 2020/21, With all but £0.5 million being on recurring savings. Each year, finding new savings becomes increasingly more difficult to ensure budgets are balanced.</p> <p>Due to the rural nature of NHS Orkney and the lack of redirection options, challenges remain in controlling locum spend and delivering the required savings. In the event that the Board is unable to meet its financial targets, an explanatory paragraph would be</p>	<p>Regular financial reporting to the Finance and Performance Committee and the Board.</p> <p>The Board now has a stable portfolio of locums with agreed favourable rates. The Board considers that the locums currently working for NHS Orkney are dependable and settled enough to run clinics, eg two weeks on, two weeks off.</p> <p>Progress on the delivery of the savings programme is regularly monitored and reported to the Board.</p>	<p>We will monitor the Board's financial position through continuing discussion with officers; reviewing finance reports to the Finance and Performance Committee and the Board; and reviewing the minutes of these meetings.</p>

Audit Risk	Management assurance	Planned audit work
<p>included in the independent auditors' report.</p>		
<p><b>7 Workforce strategy</b></p> <p>To meet strategic objectives, bodies need to plan and manage their workforces effectively. The board's most recent workforce strategy only covers the period to March 2015.</p> <p>Without an up-to-date workforce strategy and plan, there is a risk that the board may not understand its future workforce requirements which may result in skills shortages, duplication and ineffective deployment of staff, and unnecessary use of expensive temporary staff. NHS Orkney agreed to ensure workforce plans were aligned with service and improvement plans by December 2016.</p>	<p>We are currently reviewing staffing models to support new ways of working. Reviews of podiatry, speech and language, clinical admin, IT and ehealth have already been carried out.</p>	<p>Review Internal Audit reports on Workforce strategy</p> <p>Review of workforce plans when available</p>
<p><b>9 New hospital and healthcare facility</b></p> <p>This is the largest construction project ever undertaken by NHS Orkney. It is therefore crucial that project management arrangements evolve during the course of the project, and are robust throughout, to ensure it is successfully delivered on time, within budget and to the quality expected</p> <p>The size and scale of the project means it has significant financial, clinical and reputation risks.</p>	<p>Agreed, and this review mechanism is in place. The internal audit on project management identified the scheme project management as good practice. Robust risk management is in place.</p>	<p>Review of project updates reported to the Board.</p>
<p><b>10 ICT</b></p> <p>ICT continues to play a significant role in the day-to-day running of the board, both in relation to patient care and administration. The board is facing some significant ICT challenges.</p>	<p>Work is currently ongoing to progress</p> <ul style="list-style-type: none"> <li>• investment in ICT to increase the operational resources available on both desktop and infrastructure issues and to support the move to the new hospital and healthcare facility.</li> <li>• the implementation of a Digital Medical Records solution well in advance of the move to the new build</li> <li>• the development of a strategic deployment matrix</li> <li>• an agreed programme to</li> </ul>	<p>We will monitor the status of the risks in the risk register and progress of the mitigating actions, including comment in our annual audit report.</p>

Audit Risk	Management assurance	Planned audit work
	<p>work through the infrastructure issues, with a particular focus on primary care</p> <ul style="list-style-type: none"> <li>• investment in formal on call arrangements for IT staff</li> <li>• completion of an internal audit on IT business continuity and disaster recovery.</li> </ul>	

## Reporting arrangements

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

**4.** 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.

**5.** We will provide an independent auditor's report to NHS Orkney, and the Auditor General for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will provide NHS Orkney and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

**6.** 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

### 2016/17 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	28 February 2017	14 March 2017
Interim Audit Report (If Required)	31 March 2017	02 May 2017
Annual Audit Report including ISA 260 requirements	30 June 2017	26 June 2017
Signed Independent Auditor's Report	30 June 2017	N/A
National Fraud Initiative (NFI) questionnaire	30 June 2017	5 September 2017

## Audit fee

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

**8.** 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

**9.** 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.

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

### Appointed auditor

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

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

# Audit scope and timing

## Financial statements

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

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

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

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

## Materiality

**15.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for NHS Orkney are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2016 based on the latest audited accounts.	£0.514 million
<b>Performance materiality</b> - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of planning materiality.	£0.257 million
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2.5% of planning materiality, rounded to the nearest £5k.	£15,000

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

### Timetable

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

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited] financial statements with complete working papers package	8 May 2017
Latest date for final clearance meeting with Director of Finance	2 June 2017
Agreement of audited unsigned financial statements	16 June 2017
Issue of Annual Audit Report including ISA 260 report to those charged with governance	26 June 2017
Independent auditor's report signed	30 June 2017
Submission of Minimum Dataset	30 June 2017

### Internal audit

18. 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-Moncrief wherever possible and as part of our planning process we carry out an assessment of the internal audit function.

### Adequacy of Internal Audit

19. We have undertaken a formal review of internal audit and have concluded that Scott-Moncrief, overall, operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place.

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

- Workforce management
- IT business continuity planning and disaster recovery

### National Fraud Initiative

21. NFI is a data-matching exercise led by Audit Scotland to aid the detection of fraudulent payments. NFI allows public bodies to investigate matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

22. The current data matching exercise collected data in October 2016 and match investigation work is due to begin in January 2017. We will monitor the board's participation and progress with the NFI and complete an NFI audit questionnaire which will reflect the activity undertaken by the board to June 2017.

### Audit dimensions

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

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## Exhibit 5

### Audit dimensions




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### Financial sustainability

24. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term

(two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether NHS Orkney can demonstrate the affordability and effectiveness of funding decisions it has made.

### **Financial management**

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

- has arrangements in place to ensure systems of internal control are operating effectively
- can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

We will also review, conclude and report on how NHS Orkney has assured itself that its financial capacity and skills are appropriate

### **Governance and transparency**

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

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

### **Value for money**

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

- provide evidence that it is demonstrating value for money in the use of its resources.
- demonstrate that there is a clear link between money spent, output and outcomes delivered.
- demonstrate that outcomes are improving.

We will also review, conclude and report on whether there is sufficient focus on improvement and the pace of it.

## Strategic plan for the five year appointment

28. As part of our responsibility to report on the audit dimensions over the current audit appointment, we have identified the following areas of proposed audit work (this will be subject to annual review):

### Exhibit 6 Strategic plan

Dimension	2016/17	2017/18	2018/19 to 2020/21
Financial sustainability	Financial planning		Financial planning
Financial management	Financial governance	Resource management	
Governance and transparency	Role of Boards follow up		Leadership, governance and scrutiny
Value for money		Patient travel Locum costs	Delayed discharges

## Independence and objectivity

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

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

## Quality control

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

32. 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 issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**33.** 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

## Annual Audit Plan 2016/17

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