

NHS Shetland

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for NHS Shetland
March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of NHS Shetland. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the 2022/23 annual report and accounts to support our opinions on the financial statements
- an audit of regularity and the other statutory information published within the 2022/23 annual report and accounts, including the Performance Report, the Governance Statement and the audited part of the Remuneration and Staff Report
- consideration of arrangements in relation to the wider scope of public sector audit: financial management, financial sustainability, vision, leadership and governance, and use of resources to improve outcomes
- consideration of Best Value arrangements

Audit Appointment

2. We are pleased to be appointed as the external auditor of NHS Shetland for the period 2022/23 to 2026/27 inclusive. [Appendix 1](#) sets out the core members of the new external audit team along with a summary of their previous experience.

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. We keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work that emerge during the course of the year.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to NHS Shetland through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. We will also attend meetings of the Audit and Risk Committee and actively participate in discussions relevant to the audit. In so doing, we intend to help NHS Shetland promote improved standards of

governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Audited Body

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and NHS Shetland. Key responsibilities are summarised below.

Auditor responsibilities

7. Our responsibilities as independent auditors 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.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at NHS Shetland. In doing this, we aim to support improvement and accountability.

NHS Shetland's responsibilities

9. NHS Shetland is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. NHS Shetland has 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 deliver their objectives.

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

Communication of fraud or suspected fraud

12. In line with ISA 240, in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the committee or board have any such knowledge or concerns relating to the risk of fraud within NHS Shetland or their service organisations, we invite them to communicate this to the appointed auditor for consideration. Similar assurances will be sought as part of the audit completion process.

Financial statements audit planning

Audit of the financial statements

13. The annual report and accounts are an essential part of demonstrating the NHS Shetland's stewardship of resources and its performance in the use of those resources.

14. Our approach to the audit of the 2022/23 financial statements has been designed to support the appointed auditor's opinion as to whether the annual report and accounts give a true and fair view of NHS Shetland's finances for the year ended 31 March 2023 and have been properly prepared in accordance with International Financial Reporting Standards and the NHS financial reporting framework.

Materiality

15. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

16. We assess materiality at different levels as described in [Exhibit 1](#) along with the materiality levels set for the 2022/23 audit of NHS Shetland.

Exhibit 1

2022/23 Materiality levels for NHS Shetland

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of NHS Shetland's operations. For the year ended 31 March 2023 we have set our materiality at 2 per cent of gross expenditure based on the audited financial statements for 2021/22.	£2.500 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65 per cent of planning materiality.	£1.625 million

Reporting threshold (ie clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.

£125
thousand

Source: Audit Scotland

Significant risks of material misstatement and other risks of material misstatement for the 2022/23 financial statements

17. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

18. Our risk assessment draws on our cumulative knowledge and consideration of its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management, meetings with internal audit, attendance at committees and review of other relevant information.

19. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

Significant risks of material misstatement for the 2022/23 financial statements

Nature of risk	Sources of assurance	Planned audit response
Significant risks of material misstatement		
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Detailed testing of transactions and journals with a focus on significant risk areas, including year-end and post-close down entries. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments

Nature of risk	Sources of assurance	Planned audit response
		<ul style="list-style-type: none"> • Consider the need to test journal entries and other adjustments during the period. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Focussed testing of accruals and prepayments. • Evaluate significant transactions outside the normal course of business.
<p>2. Accruals recognition and completeness of expenditure</p> <p>Earlier this year we were made aware of major issues that health boards across Scotland were facing with the eFinancials system.</p> <p>We confirmed with the NHS Shetland Finance team that the impact will be significant with accounts payable manual accrual expected to be much higher this year.</p> <p>Manual processing means there is a higher risk of error.</p>	<ul style="list-style-type: none"> • Work is currently underway to clear the backlog of invoices 	<ul style="list-style-type: none"> • Focused testing of accruals balance • Increased testing of post-year end payments

Source: Audit Scotland

20. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. We have considered the risk over income recognition and the risk of fraud over expenditure (in accordance with *Practice Note 10 (Audit of Financial Statements and Regularity of Public Sector Bodies in the UK)*).

21. We have rebutted the presumption that a risk of material misstatement exists, with the exception of management override of controls, as detailed in [Exhibit 2](#) above. Our assessment is on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting (although Revenue Resource Limit targets are relevant to our assessment of management override of controls)

- most income is provided by the Scottish Government and other public bodies and is easily verifiable
- most expenditure is in low risk areas where individual transactions are well-controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale, with management or board approval required for material transactions
- evidence of external fraud from counter fraud services and the National Fraud Initiative does not indicate material risks
- experience in the sector, does not indicate a significant risk.

22. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Revisions to ISA (UK) 315 on auditors' responsibility to identify and assess the risks of material misstatement

23. The revised International Standard on Auditing (UK) 315 includes a revised requirement for auditors to understand a body's use of IT, as part of our understanding of the wider control environment, and to consider the related risks.

24. As part of our 2022/23 audit planning work, we will undertake an assessment of the NHS Shetland's IT systems to obtain an understanding of the use of IT in financial reporting. This will consider the nature and characteristics of the audited body's IT applications and IT infrastructure. It will include consideration of any risks related to national IT systems, and assurances over the operation and reliability of these systems during the year.

25. Any risks of material misstatement identified from our assessment of NHS Shetland's IT systems and infrastructure will be communicated to management and reflected in our approach to the audit of the 2022/23 financial statements.

Group Consideration

26. As group auditors, we are required under International Standard on Auditing (ISA) (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

27. NHS Shetland has a group which comprises component entities, including The NHS Shetland Board Endowment Fund and the Integrated Joint Board. The audit of the financial information of NHS Shetland Board Endowment Fund is performed by another auditor. None of the component entities are assessed as significant. We will obtain sufficient appropriate audit evidence in relation to the consolidation process including analytical review on which to base our group audit opinion.

Audit of Performance Report, Governance Statement, and audited part of the Remuneration and Staff Report

28. In addition to the appointed auditor's opinion of the financial statements, the Auditor General for Scotland prescribes that the appointed auditor should provide opinions as to whether the Performance Report, Governance Statement, and audited part of the Remuneration and Staff Report, have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the financial statements.

29. To inform these opinions we will consider whether the disclosures within each statement comply with the requirements of the applicable guidance, and confirm that relevant information reflects the contents of the financial statements and other supporting documentation

30. Based on our knowledge of the audit, and the established procedures in place to produce these statements, we have not identified any specific risks to be communicated to those charged with governance.

Wider Scope and Best Value

Introduction

31. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

32. In summary, the four wider scope areas cover the following:

- **Financial management** means having sound financial control processes. We will consider these arrangements and comment on financial management in our Annual Audit Report.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit and comment on the 2022/23 financial position and sustainability in our Annual Audit Report.
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by the NHS Shetland. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within NHS Shetland.

Wider scope risks

33. Our planned work on our wider scope responsibilities is risk based and proportionate. We have not identified any additional local wider scope risks for the 2022/23 audit of NHS Shetland.

Climate Change

34. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on (audited body's) arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

35. As noted in paragraph 23, we are undertaking a wider review of ICT systems and in 2022/23, we will consider NHS Shetland's arrangements for managing and mitigating cyber security risks.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

36. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 6](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

37. 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.

38. We will provide an independent auditor's report (audit certificate) to NHS Shetland, the Auditor General for Scotland and the Scottish Parliament setting out our opinions on the annual report and accounts. We will also provide NHS Shetland and the Auditor General for Scotland with an annual report on the audit containing observations, conclusions and recommendations on significant matters which have arisen during the audit.

39. [Exhibit 6](#) outlines the target dates for our audit outputs and reflects our intention to complete the audit in time to enable certification of the 2022/23 annual report and accounts by the 30 June 2023.

Exhibit 3

2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Committee
Proposed Independent Auditor's Report	08 June 2023	15 June 2023
Proposed Annual Audit Report	08 June 2023	15 June 2023 (Board meeting on 22 June)



Source: Audit Scotland

Timetable

40. To support an efficient audit, it is critical that a timetable is agreed with management for the production and audit of the accounts. The agreed timetable for the 2022/23 annual report and accounts is shown in [Exhibit 4](#).

Exhibit 4

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date of unaudited annual report and accounts (Board only) with complete working papers package	08 May 2023
Latest date of consolidated (Board and Group) unaudited annual report and accounts	12 May 2023
Latest date for final clearance meeting with the Director of Finance	05 June 2023
Agreement of audited annual report and accounts for consideration by the audit and risk committee	08 June 2023
Issue of Proposed Annual Audit Report to those charged with governance (along with Letter of Representation and proposed independent auditor's report)	08 June 2023
Audit and Risk Committee meeting to consider Proposed Annual Audit Report and audited annual report and accounts	15 June 2023
Board meeting to approve and sign audited annual report and accounts	22 June 2023
Independent auditor's report certified by appointed auditor and Annual Audit Report finalised and issued	22 June 2023

Source: Audit Scotland

41. For the 2022/23 audit we intend to take a remote working approach. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Audit fee

42. In determining the audit fee, we have taken account of the risk exposure of NHS Shetland and the planned management assurances in place. The proposed audit fee for 2022/23 is £95,000 (£78,020 in 2021/22).

43. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

44. In setting the fee for 2022/23 we have assumed that NHS Shetland has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

45. It is the responsibility of the NHS Shetland to establish adequate internal audit arrangements. The internal audit function at NHS Shetland is provided by Azets.

46. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

47. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

48. 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

49. The appointed auditor for NHS Shetland is Brian Howarth, 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 Shetland.

Audit Quality

50. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

51. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

52. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

53. Audit Scotland is committed to delivering high quality audits. 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 supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

54. 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 appointed auditor.

Appendix 1. Your audit team

55. The audit team involved in the audit of NHS Shetland have significant experience in public sector audit.



Brian Howarth, Audit Director

Brian is the appointed auditor for a portfolio of health, local government and central government bodies, including NHS Shetland, NHS Tayside, Shetland Islands Council and Shetland Islands IJB. He has 30 years experience of public sector audit with Audit Scotland and is a member of the Chartered Institute of Management Accountants. Most recently Brian was the appointed auditor for NHS Fife and NHS Western Isles, as well as Fife Council, Inverclyde Council, North Lanarkshire Council, Moray Council and Comhairle nan Eilean Siar and the five IJBs in these areas.



Stephen O'Hagan, Senior Audit Manager

Stephen joined Audit Scotland's predecessor organisation as a senior auditor over 25 years ago and has been a senior audit manager for over 17 years. He has extensive experience in the delivery of local and central government sectors, most recently leading on a portfolio of audits including Glasgow City Council and Strathclyde Pension Fund.



Wojciech Kuzma, Senior Auditor

Wojciech joined Audit Scotland's Professional Trainee scheme in 2015 and qualified as a Chartered Accountant in 2019. Most recently Wojciech worked on European Agricultural Funds Accounts and Food Standards Scotland audits. Prior to this he worked on a number of other audits in the Central Government sector.



Daniel Cunningham, Auditor

Daniel joined Audit Scotland in 2019 as a professional trainee. He has worked primarily on NHS Borders audit over the past four years, as well as on a variety of central government bodies including National Records of Scotland and National Library of Scotland.

56. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

NHS Shetland

Annual Audit Plan 2022/23

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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