

# NHS Tayside

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for NHS Tayside  
March 2023

---

# Contents

---

Introduction	3
Financial statements audit planning	5
Wider Scope and Best Value	11
Reporting arrangements, timetable, and audit fee	12
Other matters	15
Appendix 1. External audit team	17

---

# Introduction

---

## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of NHS Tayside. 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 Tayside 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 Tayside 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 doing so we intend to help NHS Tayside promote improved standards of governance, better management and decision making, and more effective use of resources.

## Respective responsibilities of the auditor and NHS Tayside

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and NHS Tayside. 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 Tayside. In doing this, we aim to support improvement and accountability.

### NHS Tayside's responsibilities

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

10. NHS Tayside also has 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 Tayside, 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 NHS Tayside'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 Tayside'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 detailed in [Exhibit 1](#) on page 6, along with the materiality levels set for the 2022/23 audit of NHS Tayside.

## Exhibit 1

### Materiality levels set for 2022/23 audit

Materiality	Amount
<p><b>Planning materiality:</b> This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It is set based on our assessment of the needs of the users of the financial statements and the nature of NHS Tayside's operations. For the year ended 31 March 2023 we have set our materiality at 2 per cent of gross expenditure for the group based on the audited financial statements for 2021/22.</p>	£38.0 million
<p><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 could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 60 per cent of planning materiality.</p>	£22.8 million
<p><b>Reporting threshold:</b> We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been capped at the maximum amount allowable under Audit Scotland's audit approach.</p>	£0.25 million

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 identify significant risks of material misstatement to the financial statements. These are the risks which have the greatest impact on our planned audit procedures. We also identify any other non-significant risks of material misstatement that require a specific audit response over and above our standard audit procedures. [Exhibit 2](#) on page [7](#) summarises the nature of these risks, the sources of assurance from management arrangements, and the further audit procedures we plan to perform to gain assurance over these risks.

**Exhibit 2****Significant and non-significant risks of material misstatement for the 2022/23 financial statements**

Nature of risk	Sources of assurance	Planned audit response
<b>Significant risks of material misstatement</b>		
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></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"> <li>• Detailed testing of transactions and journals with a focus on significant risk areas, including year-end and post-close down entries.</li> <li>• Review of significant accounting estimates.</li> <li>• Focussed testing of accruals and prepayments.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> </ul>
<b>Other non-significant risks of material misstatement</b>		
<p><b>2. IFRS 16 lease accounting entries</b></p> <p><i>International Financial Reporting Standard 16 - Leases</i> is effective for accounting periods starting from 1 April 2022.</p> <p>Under IFRS 16, lessees are required to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. NHS Scotland has elected to utilise the capitalisation threshold of £5,000 to determine the assets to be disclosed.</p> <p>The standard is expected to increase total expenditure in 2022/23 by £0.4 million, and right-of-use assets totalling £54.0 million will also be brought onto the Statement of Financial Position, with an associated lease liability of £51.7 million.</p>	<ul style="list-style-type: none"> <li>• All lease agreements being reviewed against new IFRS 16 requirements.</li> <li>• Impact of new IFRS 16 accounting requirements will be accurately reflected in the 2022/23 Annual Report and Accounts.</li> </ul>	<ul style="list-style-type: none"> <li>• Review list of leases to assess for completeness.</li> <li>• Sample testing of lease agreements to ensure they have been correctly assessed and accounted for in the 2022/23 financial statements.</li> </ul>

Nature of risk	Sources of assurance	Planned audit response
<p>There is a risk that NHS Tayside's 2022/23 financial statements do not accurately reflect the impact of the new IFRS 16 accounting arrangements.</p>		
<p><b>3. Accounting treatment of Covid-19 reserves clawback from IJBs by Scottish Government</b></p> <p>In February 2023, NHS Tayside's 2022/23 revenue resource allocation was advised that its funding would be reduced for the unspent Covid-19 reserve balances that the Scottish Government has clawed back from IJBs. This is expected to result in a £32 million reduction in the board's RRL for 2022/23 (£12 million from Angus IJB, £10 million from Dundee City IJB, and £10 million from Perth &amp; Kinross IJB).</p> <p>This reduction will be reflected in reduced contributions to each IJB of the same value.</p> <p>The amounts were determined on period 8 expenditure and may be further adjusted as a result of actual Covid-19 expenditure in 2023.</p> <p>It will be important that NHS Tayside and the three IJBs account for this on a consistent basis. A further consideration is that where the IJB reserves balance is held by the relevant local authority then a payment from the council to NHS Tayside will be required to release the cash funds back to the board.</p>	<ul style="list-style-type: none"> <li>• The clawback arrangements have been communicated by the Scottish Government.</li> </ul>	<ul style="list-style-type: none"> <li>• Verify clawback values to IJB unaudited accounts, budget monitoring reports or schedules prepared by the 3 IJBs.</li> <li>• Review accounting treatment against accounting requirements agreed with Scottish Government and confirm this is adequately disclosed in NHS Tayside's 2022/23 Annual Report and Accounts.</li> </ul>



**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 in 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 at point 1 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 and of the audit of NHS Tayside, including a review of past misstatements, 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 NHS Tayside's IT systems to obtain an understanding of the use of IT in financial reporting. This will consider the nature and characteristics of the NHS Tayside'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 Tayside'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 Tayside has a group which comprises component entities, including the Tayside NHS Board Endowment Fund and the three Tayside associated Integration Joint Boards. The audits of the financial information of some of the components are performed by other auditors. We plan to place reliance on the work of the component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

## 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 will conclude on the arrangements in place to deliver the vision, strategy and priorities of NHS Tayside. We also consider the effectiveness of the governance arrangements.
- **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 Tayside.

## 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 Tayside.

## 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 NHS Tayside'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 Tayside'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. This Annual Audit Plan and the outputs set out in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://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 reports will be issued to the relevant officers to confirm factual accuracy, prior to the issue and publication of final reports.

**38.** We will provide an independent auditor's report (audit certificate) to NHS Tayside, the Auditor General for Scotland and the Scottish Parliament setting out our opinions on the annual report and accounts. We will also provide NHS Tayside 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 3](#) 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	15 June 2023	22 June 2023
Proposed Annual Audit Report	15 June 2023	22 June 2023 (Board meeting on 29 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](#) on page [13](#).

## Exhibit 4

### 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	5 May 2023
Latest date of consolidated (Board and Group) unaudited annual report and accounts	19 May 2023
Latest date for final clearance meeting with the Director of Finance	13 June 2023
Agreement of audited annual report and accounts for consideration by the audit and risk committee	15 June 2023
Issue of Proposed Annual Audit Report to those charged with governance (along with Letter of Representation and proposed independent auditor's report)	15 June 2023
Audit and Risk Committee meeting to consider Proposed Annual Audit Report and audited annual report and accounts	22 June 2023
Board meeting to approve and sign audited annual report and accounts	29 June 2023
Independent auditor's report certified by appointed auditor and Annual Audit Report finalised and issued	29 June 2023

Source: Audit Scotland

**41.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

**42.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. 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

**43.** In determining the audit fee, we have taken account of the risk exposure of NHS Tayside and the planned management assurances in place. The proposed audit fee for 2022/23 is £230,050 (£197,064 in 2021/22), an increase of 17 per cent.

**44.** 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. These include increased regulatory expectations and a widening in the scope of audit work.

**45.** In setting the fee for 2022/23 we have assumed that NHS Tayside 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 the risks and the scope of the audit during the year. Where our audit cannot proceed as planned, a supplementary fee may be levied.

---

# Other matters

---

## Internal audit

**46.** It is the responsibility of NHS Tayside to establish adequate internal audit arrangements. The internal audit function at NHS Tayside is provided by Fife, Tayside and Forth Valley Audit and Management Services (FTF). We will review the internal audit plan and the results of internal audit's work. This will include consideration of internal audit's work on the Scottish Standard Payroll system uprating process, to confirm that this has not identified material issues that could impact on the accuracy of the staff costs figures of NHS bodies that use this system. We will inform other NHS external auditors of the outcome of this review.

## Independence and objectivity

**47.** Auditors appointed by the Auditor General for Scotland 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. These arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**49.** Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. The appointed auditor for NHS Tayside is Brian Howarth, Audit Director. We are not aware of any such relationships pertaining to the audit of NHS Tayside.

## 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. 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.

**52.** 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) has been commissioned to carry out external quality reviews.

**53.** 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. External audit team

**54.** The audit team involved in the audit of NHS Tayside has significant experience in public sector audit as detailed below.



## **Brian Howarth, Audit Director**

Brian is the appointed auditor for a portfolio of health, local government and central government bodies, including NHS Tayside, Dundee City Council, Tayside Pension Fund, Dundee City IJB and Perth and Kinross 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.



## **Richard Smith, Senior Audit Manager**

Richard has been leading the external audit team in Dundee since the 2021/22 financial year. To provide continuity for the new audit appointments, Richard is continuing as the Senior Audit Manager for the NHS Tayside audit team for 2022/23. He has 20 years experience of public sector audit with Audit Scotland covering health, local government, central government and further education sectors.



## **Lauryn Graham, Qualified Auditor**

Lauryn joined Audit Scotland's Professional Trainee scheme as a school leaver in 2017 and has recently completed her Institute of Chartered Accountants of Scotland (ICAS) studies. During 2021/22 she worked on the NHS Fife, Fife Council, and Fife Pension Fund audits. Prior to this she worked on a number of central government audits including the Scottish Government audit.



## **Roisin McQuade, Professional Trainee**

Roisin joined Audit Scotland's Professional Trainee scheme as a school leaver in October 2021. She worked on the 2021/22 Scottish Government audit and was also involved in the audits of the Scottish Children's Reporter Administration, Children's Hearings Scotland and Scottish Commission on Social Security. Roisin is currently studying towards her ICAS qualification.

**55.** 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.

**56.** Where possible and appropriate, we use our data analytics team to enable us to analyse financial data. This analysis allows us to consider all transactions and identify specific exceptions and anomalies to enhance the focus of audit testing and support efficiency.

# NHS Tayside

## 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](http://www.audit-scotland.gov.uk/accessibility)

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



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
Phone: 0131 625 1500 Email: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)