

NHS Ayrshire & Arran

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for NHS Ayrshire & Arran
February 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 Ayrshire & Arran. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: 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 Ayrshire & Arran for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

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. While we use our initial assessment of risk to inform our planned audit approach, 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.

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 Ayrshire & Arran 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 & Risk Committee. In so doing, we will help NHS Ayrshire & Arran 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 Ayrshire & Arran. 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 Ayrshire & Arran. In doing this, we aim to support improvement and accountability.

NHS Ayrshire & Arran's responsibilities

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

10. NHS Ayrshire & Arran 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.

Communication of fraud or suspected fraud

11. In line with ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), 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. During our audit, should members of the board have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration.

Annual report and accounts audit planning

Introduction

12. The annual report and accounts are an essential part of demonstrating NHS Ayrshire & Arran's stewardship of resources and its performance in the use of those resources.

13. 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.

Materiality

14. Materiality is an expression of the relative significance of a matter in the context of the annual accounts. 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 determine with reasonable confidence whether 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

15. The materiality values for NHS Ayrshire & Arran and its group are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for NHS Ayrshire & Arran and its group

Materiality	Board & Group
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 Ayrshire & Arran's operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure less contributions to Integration Joint Boards (IJBs) based on the audited financial statements for 2021/22.	£20.3 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	£12.1 million

considered. Using our professional judgement, we have assessed performance materiality at 60% of planning materiality.

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. £200 thousand

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

16. Our risk assessment draws on our cumulative knowledge of NHS Ayrshire & Arran its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, and internal audit, attendance at committees and a review of supporting information.

17. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

18. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. This is the risk which has 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

2022/23 Significant risk of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<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</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. 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. Test journals at the year-end and post-closing entries with a focus on significant risk areas.

Significant risk of material misstatement	Sources of assurance	Planned audit response
because of management's ability to override controls that otherwise appear to be operating effectively.		<ul style="list-style-type: none"> • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Evaluate significant transactions outside the normal course of business. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

Consideration of the risks of fraud in the recognition of revenue and expenditure

19. 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. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk as most of the Board's funding is received from the Scottish Government. This funding is clearly communicated and can be readily agreed to third party confirmations.

20. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for the main expenditure streams of NHS Ayrshire & Arran. 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 transactions greater than £4 million. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

21. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial

statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

22. The areas of specific audit focus are:

- **Estimations and judgements – valuation of land and buildings:** This is an area of audit focus, given the significant degree of subjectivity in the valuation of this category of assets. The value of land and buildings subject to specialist revaluations was £392.5 million at 31 March 2022. A full revaluation is expected to be conducted at 31 March 2023. We will review the arrangements in place to satisfy the board that the annual revaluation process is complete and is free from material misstatement.
- **Repayment of Covid-19 funding from the Ayrshire Integration Joint Boards to the Scottish Government:** In January 2023 the Scottish Government announced its intention to recover unspent IJB Covid-19 funding, held in IJBs' earmarked reserves. The return of this funding will be completed via the Board with the level of Covid-19 funding to be recovered estimated at £23.998m. As part of our audit, we will consider the accounting treatment and disclosures for these repayments.

23. An issue has arisen following the January 2023 eFinancials systems upgrade from version 5 to version 6 which has yet to be fully rectified. The upgrade has impacted on some elements of the finance function, the main issue being the instability of DbCapture, the optical character recognition tool used by the NHS to scan/read invoices for payment. As part of our audit, we will assess the impact of the upgrade on the system's controls and payment processes. We will also review and consider the implication of the NHS Ayrshire & Arran NSI 2022/23 service auditor report references to the upgrade.

Audit of the performance report, governance statement and remuneration and staff report

24. In addition to the appointed auditor's opinion of the financial statements, the appointed auditor is required to provide opinions as to whether the performance report, the governance statement, and the audited part of the remuneration and staff report have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the accounts.

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

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 Ayrshire & Arran has a group comprised of North Ayrshire Integration Joint Board, East Ayrshire Integration Joint Board, South Ayrshire Integration Joint Board, and the Ayrshire & Arran Health Board Endowment Fund. Based on our discussions with management and assessment of the group we have concluded that there are no significant group components for audit purposes. The audits of the financial information of the IJBs are performed by the same core team as NHS Ayrshire & Arran. 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.

Wider Scope and Best Value

Introduction

28. 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.

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

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **Financial sustainability** – 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).
- **Vision, leadership and governance** – we will conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by NHS Ayrshire & Arran. We also consider the effectiveness of the governance arrangements to support delivery.

NHS Ayrshire & Arran is participating in the National Fraud Initiative (NFI) in Scotland in 2022/23. We will monitor progress made with investigating the matches identified by this process.

- **Use of resources to improve outcomes** – we will consider how NHS Ayrshire & Arran demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope risk

30. We have identified one wider scope audit risk in the area set out in [Exhibit 4](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over this risk.

Exhibit 4**2022/23 wider scope risk**

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>The Board is on level 3 of the Scottish Government's escalation framework due to its financial position. It is estimated that brokerage of £26.4 million will be required in 2022/23.</p> <p>The 2021/22 Annual Audit Report recorded that the Board has not prepared any financial forecasts beyond 2022/23 and is therefore unable to demonstrate that it is financially sustainable in the medium and longer term.</p> <p>The report also recommended that the Board assess its potential financial position over the medium to longer term, and develop detailed plans, with key actions and milestones to ensure that services are delivered in a financially sustainable way.</p> <p>Risk: Services cannot be delivered sustainably in the future.</p>	<ul style="list-style-type: none"> • Scenario planning of possible financial positions. • Ongoing discussions with the Scottish Government Health and Social Care Directorate (SGHSCD) to agree service targets and financial allocations. • Planned submission of a three-year medium term financial plan to the Scottish Government. • Ongoing support from SGHSCD for national projects and initiatives. 	<ul style="list-style-type: none"> • Reporting the 2022/23 outturn in the Annual Audit Report. • Review of the required three-year financial plan to be submitted to the Scottish Government and assessment of plans to address any forecasted budget deficits. • Monitor progress in achieving cash releasing efficiency savings (CRES) and cost avoidance plans. • Evaluate progress with the Board's priority programme for 2022/23 and transformational sustainability plans. • Review of internal audit's reports into the Board's preparations for the Caring for Ayrshire Programme. • Review of performance reports to assess the extent to which the Board is meeting service performance targets, including Scottish Government targets relating to waiting times. • Monitor progress with workforce planning as part of the Board's ambition to "right size the workforce".

Source: Audit Scotland

31. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider work undertaken by the Board to respond to climate change and cyber security threats.

Climate Change

32. Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

33. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on NHS Ayrshire & Arran'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

34. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider NHS Ayrshire & Arran's arrangements for managing and mitigating cyber security risks.

Duty of Best Value

35. [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 Ayrshire & Arran.

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 to NHS Ayrshire & Arran, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide NHS Ayrshire & Arran 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.

39. [Exhibit 6](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 30 June 2023.

Exhibit 6 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2023	15 March 2023
Independent Auditor's Report	30 June 2023	21 June 2023
Annual Audit Report	30 June 2023	21 June 2023

Source: Audit Scotland



Timetable

40. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 7](#) that has been discussed with management.

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.

Exhibit 7 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited Board annual report and accounts with complete working papers package.	9 May 2023
Latest submission date for the receipt of the unaudited consolidated annual report and accounts with complete working papers package.	17 May 2023
Latest date for final clearance meeting with the Director of Finance	9 June 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	21 June 2023
Agreement of audited and unsigned annual report and accounts by the Audit and Risk Committee	21 June 2023
Issue of Annual Audit Report to those charged with governance.	21 June 2023
Signed Independent Auditor's Report	27 June 2023

Source: Audit Scotland

Audit fee

43. In determining the audit fee, we have taken account of the risk exposure of NHS Ayrshire & Arran and the planned management assurances in place. The proposed audit fee for 2022/23 is £208,680 (£167,691 in 2021/22).

44. 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.

45. In setting the fee for 2022/23 we have assumed that NHS Ayrshire & Arran 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

46. It is the responsibility of the NHS Ayrshire & Arran to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

47. 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 our wider scope audit responsibilities.

Independence and objectivity

48. 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.

49. 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.

50. The appointed auditor for NHS Ayrshire & Arran is Fiona Mitchell-Knight FCA, 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 Ayrshire & Arran.

Audit Quality

51. 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.

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) have 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 engagement lead.

Appendix 1. Your audit team

54. The audit team involved in the audit of NHS Ayrshire & Arran have significant experience in public sector audit.

Fiona Mitchell-Knight CA
Audit Director
FMitchell-Knight@audit-scotland.gov.uk

Fiona is the appointed auditor and engagement lead for the audit of NHS Ayrshire & Arran, Fiona has 30 years of public sector auditing experience across local authorities, health boards and colleges.

David Jamieson CPFA
Senior Audit Manager
djamieson@audit-scotland.gov.uk

David has over 30 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Jack Kerr CA
Senior Auditor
jkerr@audit-scotland.gov.uk

Jack has experience of delivering audits across several areas of the Scottish public sector. Jack will be your primary contact and will be responsible for the day-to-day management of the NHS Ayrshire and Arran audit.

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 capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

NHS Ayrshire & Arran

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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

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