

NHS National Services Scotland

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for NHS National Services Scotland

March 2023

Contents

<u>Introduction</u>	3
<u>Financial statements audit planning</u>	5
<u>Wider Scope and Best Value</u>	10
<u>Reporting arrangements, timetable, and audit fee</u>	12
<u>Other matters</u>	15
<u>Appendix 1. Your audit team</u>	17

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of NHS National Services Scotland (NHS NSS). 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 of NHS NSS and the issue of an Independent Auditor's Report setting out our audit opinions on the financial statements, regularity and other statutory information including the Performance Report, Governance Statement and Remuneration Report 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 NSS for the period 2022/23 to 2026/27 inclusive. Carole Grant will remain as the engagement lead. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment we invest time gaining an understanding of your business to support our identification and assessment of audit risks. While we use our initial assessment of risk to inform our planned audit approach, we keep it 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 NSS by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help NHS NSS promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

Respective responsibilities of the auditor and NHS NSS

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

NHS NSS responsibilities

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

10. NHS NSS 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 it to deliver its objectives.

Financial statements audit planning

Introduction

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

12. We focus our work on the areas of highest risk. As part of our planning process, we assess any audit risks in the main financial systems relevant to the production of the financial statements.

Materiality

13. 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

14. We assess materiality at different levels and the materiality values for NHS NSS are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for NHS National Services Scotland

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality is based on our assessment of the needs of the users of the financial statements and the nature of NHS NSS's operations. For the year ended 31 March 2023 we have set our materiality at 1.25 per cent of gross expenditure based on projected expenditure in the December 2022 financial performance return.	£13.8 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 50 per cent of planning materiality.	£6.9 million

Materiality	Amount
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.	£250,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of NHS NSS, its major transaction streams, key systems of internal control and risk management processes. Also it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

16. 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.

17. 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

2022/23 Significant risks 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 because of management's ability to override controls that</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 process about inappropriate or unusual journal activity. Test journal entries and other adjustments during the financial year, at the year-end and post-closing entries. Focus on significant risk areas.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>otherwise appear to be operating effectively.</p> <p>This is presumed to be a significant risk in every audit.</p>		<ul style="list-style-type: none"> • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accounting accruals and prepayments.
<p>2. Estimation in the valuation of land and buildings.</p> <p>NHS NSS holds land and buildings with a value of £55 million.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p> <p>All non-current assets are revalued on a five-year rolling basis. Values may also change year on year, and it is important that NHS NSS ensures the financial statements accurately reflect the value of the land and buildings.</p>	<ul style="list-style-type: none"> • NHS NSS appointed a suitably qualified and experienced professional to provide the valuation of land and buildings (District Valuer). • Buildings are reviewed annually using a desktop valuation and a full site review is carried out on a rolling 5-year basis. • Both valuations are based on the latest indices and professional judgement. 	<ul style="list-style-type: none"> • Review the information provided to the external valuer to assess for completeness. • Evaluate the competence, capabilities and objectivity of the professional valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Critically assess the approach NHS NSS has adopted to assess the risk that assets not subject to valuation are materially misstated. Consider the robustness of that approach. • Challenge management's assessment of why it considers that the land and buildings not revalued in 2022/23 are not materially misstated. Critically assess the appropriateness of any assumptions. • Critically assess the adequacy of NHS NSS's disclosures regarding the assumptions in relation to the valuation of land and buildings.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>3. Risk of material misstatement caused by fraud in expenditure</p> <p>Practice Note 10 extends the requirements of ISA 240 to include consideration of fraud in expenditure for public bodies.</p> <p>This is a significant risk for NHS NSS due to the complexity and number of expenditure streams, including the procurement and contracting NHS NSS undertakes on behalf of other NHS Boards.</p>	<ul style="list-style-type: none"> NHS NSS has extensive professional and legal expertise, which is utilised when entering into procurement contracts. SFIs set out the financial governance arrangements for the authorisation of procurement contracts. NHS NSS has robust financial controls in place to reduce the risk of fraudulent payments. 	<ul style="list-style-type: none"> Analytical procedures over expenditure streams to support detailed testing. Detailed substantive testing of payments made under contracts, including those of personal protective equipment (PPE). Detailed substantive testing of expenditure transactions across the financial year. Substantive testing of post-year end payments to confirm they have been recorded in the correct financial year (cut-off).

Source: Audit Scotland

18. 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 for NHS NSS because most of the funding is received from Scottish Government and other public sector bodies, is clearly communicated and can be readily agreed to third party confirmations. We have concluded that there is limited opportunity to manipulate the recognition of income in the financial statements. We will undertake substantive testing of this income but will not incorporate additional work into our audit plan.

Other areas of audit focus

19. 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.

20. The areas of specific audit focus are:

- IFRS 16 Implementation:** IFRS 16 will be introduced in 2022/23. NHS NSS will recognise their leases as right-of-use assets, with a corresponding lease liability in their statement of financial position. As disclosed in their 2021/22 financial statements, NHS NSS assessed that

this would result in an additional £67 million right-of-use assets with an associated lease liability of £50 million. We will engage with NHS NSS at an early stage to review their proposed IFRS 16 opening balance adjustments and the presentation and disclosure that will be included in the 2022/23 accounts.

- **Inventories Valuation:** We recognise a risk around pandemic inventories valuation due to the volume, the varying costs across suppliers, type and timing of inventories. The inventories valuation could lead to a risk of material misstatement. We will test NHS NSS's inventories arrangements, including how they are valued and the process to identify obsolescent inventories.
- **eFinancials ledger upgrade:** In January 2023, there was an upgrade to the eFinancials ledger used by NHS NSS. Following this upgrade, all NHS boards had difficulties with some financial processes, including processing purchase invoice payments. This led to a two-week delay during which some payments were processed manually. We will substantively test the payments made during the final months of 2022/23, particularly those processed manually. We will assess the impact on the year-end accrued expenditure.

Wider Scope and Best Value

Introduction

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

Wider scope audit focus

22. Our planned work on our wider scope responsibilities is risk based and proportionate. In addition to local risks we consider challenges which are impacting the public sector as a whole. In summary, our audit will cover:

- **Financial management** - concerned with financial capacity, sound budgetary processes and the operation of the control environment. We will consider the arrangements in place to secure sound financial management including the strength of the financial management culture and achievement of recurring savings. We will complete our review of the service audit arrangements for practitioner service payments and share this with all appointed auditors to ensure efficiency in the audit process. We will also conclude on the 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 medium term (two to five years) and longer term (longer than five years), including a focus on the implications of non-recurring funding on longer terms strategies.
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by NHS NSS. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how NHS NSS demonstrates economy, efficiency and effectiveness through the use of financial and other resources. A key element of this will be assessing performance against the targets set and considering the role of NHS NSS in the delivery of the [digital health and care strategy](#).

- **Climate change** – tackling climate change is one of the greatest global challenges and the Scottish Parliament has set a legally binding target of becoming net zero by 2045. We will gather information on NHS NSS's arrangements for responding to climate change including the development of strategies and the monitoring and reporting of progress against targets for reducing emissions.
- **Cyber security** – there continues to be a significant risk of cyber-attacks to public bodies and a number of recent incidents have demonstrated the significant impact they can have on both the finances and operation of an organisation. In 2022/23, we will consider NHS NSS's arrangements for managing and mitigating cyber security risks.

Duty of Best Value

23. [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 NSS.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

24. Audit reporting is the visible output for the annual audit. All audit outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

25. 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.

26. We will provide an independent auditor's report to NHS NSS, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the NHS NSS 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.

27. [Exhibit 3](#) 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 3 2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31/03/2023	23/02/2023 <i>Will be finalised by correspondence</i>
Independent Auditor's Report	30/06/2023*	26/06/2023
Annual Audit Report	30/06/2023*	26/06/2023

Source: Audit Scotland

* These dates represent when the independent auditor's report will be signed, and the final annual audit report issued. We will provide copies to those charged with governance in advance of the June committee to enable them to be considered.



Timetable

28. 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 4](#).

29. The Covid-19 pandemic 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.

30. 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 over the course of the audit.

Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package	8 May 2023
Issue draft annual audit report for clearance discussion	8 June 2023
Latest date for final clearance meeting with the Director of Finance and Business Services	12 June 2023
Agreement of audited and unsigned annual report and accounts	14 June 2023
Issue of annual audit report, letter of representation and proposed independent auditor's report to those charged with governance	19 June 2023
Consideration of audited annual report and accounts and audit reporting by those charged with governance	26 June 2023
Independent auditor's report signed	30 June 2023

Source: Audit Scotland

Audit fee

31. Following the audit appointment process there has been an increase in our audit fees for 2022/23. This reflects the current audit market and the rising costs of increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

32. The audit fee for the 2022/23 audit of NHS NSS has been set at the baseline level of £234,700 (£195,300 in 2021/22). This audit fee assumes that NHS NSS has effective governance arrangements and will prepare comprehensive and accurate annual accounts 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

33. It is the responsibility of the NHS NSS to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

34. From our initial review of the internal audit plans, we do not plan to place formal reliance on the work of internal audit in 2022/23 for our financial statements audit responsibilities. We do plan to consider the findings of internal audit across a range of work including:

- Key Financial Controls: Inventory
- Practitioner and Counter Fraud Services – Payment Streams
- Business Continuity Arrangements
- IT Infrastructure and Hardware.

Independence and objectivity

35. 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.

36. 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.

37. The appointed auditor for NHS NSS is Carole Grant, 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 NSS.

Audit Quality

38. 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.

39. 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.

40. 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.

41. 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.

42. 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

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

Carole Grant

Audit Director

cgrant@audit-scotland.gov.uk

Carole has over 20 years of public sector auditing experience across the breadth of the public sector on both financial and performance audits.

Liz Maconachie

Senior Audit Manager

lmaconachie@audit-scotland.gov.uk

Liz has over 25 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.

Kevin Boyle

Senior Auditor

kboyle@audit-scotland.gov.uk

Kevin has considerable experience in planning and delivering audits. Kevin will manage the team and work alongside Carole and Liz to deliver the audit.

Joan Dalgleish

Auditor

jdalgleish@audit-scotland.gov.uk

Joan has over 20 years of audit experience. She has worked on a range of audits covering health, central government and local government.

Matthew Cronin

Trainee Auditor

mcronin@audit-scotland.gov.uk

Matthew is a professional trainee and is currently studying for his ICAS qualification. Matthew has worked on health and central government audits.

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.

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 National Services Scotland

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.](#)



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