

NHS Western Isles

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for NHS Western Isles

December 2018

Who we are

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

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



About us

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

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

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

Contents

Risks and planned work	4
Audit scope and timing	10

Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to NHS Western IslesWestern Isles through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help NHS Western Isles promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

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

Exhibit 1

2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<ul style="list-style-type: none"> • Review of accounting estimates. • Focused testing of accruals and prepayments including holiday pay accrual and unspent funding allocations. • Evaluation of significant transactions that are outside the normal course of business. • Testing of transactions after the year end.
<p>2 Risk of fraud over income and expenditure</p> <p>ISA240 includes an assumption of fraud over income. The majority of the board's income is from Scottish Government or other public sector bodies and this specific risk is rebutted.</p> <p>Audit Scotland's Code of Audit Practice extends the scope of ISA240 to specific fraud risks that are relevant to a public sector audit. These include taxation receipts, welfare benefits, grants and other claims made by individuals and organisations on the public purse.</p> <p>Significant expenditure items include payments for primary care services and patients travel. For example, prescribing, where claims are made by practitioners after issuing medicines and medical items to the public. We therefore identify the risk of fraud over expenditure in NHS Western Isles.</p>	<ul style="list-style-type: none"> • Internal controls over expenditure systems operate effectively. • Effective budgetary control by management. • Fraud reports are regularly monitored and information across Scotland is routinely shared. • There are a range of measures in place to prevent and detect fraud, including: the Scheme of Delegation; Standing Financial Instructions; Financial Operating Procedures; Whistleblowing Policy, anti-fraud strategy and codes of conduct for members and officers. • The board has a formal partnership agreement with NHS Scotland Counter Fraud Services and an agreed protocol covering a programme of regular payment verification. 	<ul style="list-style-type: none"> • Audit work on the National Fraud Initiative matches. • Obtain assurances from the NHS Scotland Counter Fraud Service. • Walkthrough of patients travel scheme following recent changes.
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an</p>	<ul style="list-style-type: none"> • Valuations of all land and building assets are reassessed under a 5 year programme of professional valuations by the District Valuer and adjusted in intervening years to take account of 	<ul style="list-style-type: none"> • Review of reports from the District Valuer to confirm asset valuations. • Sample testing of indexation calculations. • Sample testing of CNORIS claims and associated reimbursements.

 Audit Risk	Source of assurance	Planned audit work
<p>increased risk of misstatement in the financial statements.</p>	<p>movements in prices since the latest valuation.</p> <ul style="list-style-type: none"> All legal claims notified to NHS Western Isles are processed by the Scottish NHS Central Legal Office (CLO) who decide upon the risk liability and likely outcome of each case. A contribution rate is agreed with the CLO for the cost of NHS Western Isles' participation in CNORIS. 	<ul style="list-style-type: none"> Verification of the CNORIS provision recognising the future liability from participating in the scheme with reference to the contribution rate provided by the CLO.

Wider dimension issues and risks

<p>4 Financial position</p> <p>The 2018/19 NHS Annual Operational Plan (AOP) identified a break-even position dependent on NHS Western Isles achieving savings of £2.2 million. The year-to-date position at the end of September 2018 was a £1.3 million overspend and a forecast year-end overspend of £1.5 million. Of the required savings of £2.2 million, £0.5 million are classed as high risk and a further £0.5 million remain unidentified.</p> <p>There is a significant risk that NHS Western Isles is unable to deliver the savings needed to achieve its statutory break-even target.</p>	<ul style="list-style-type: none"> Timely and accurate monthly financial monitoring. Ongoing review of the forecast outturn. 	<ul style="list-style-type: none"> Undertake follow up work on financial management. This includes reviewing progress on the delivery of savings plans and the effectiveness of in-year budget reporting. Monitor the development of the budget projection for the remainder of the financial year. Consider any contingency actions if financial balance is not to be achieved.
<p>5 Financial sustainability</p> <p>Our 2017/18 Annual Audit Report included comment that NHS Western Isles has not produced a financial plan beyond 2018/19.</p> <p>There is a significant risk that NHS Western Isles will continue to rely on annual / short term actions and not recognise or plan to respond to significant medium/ long term issues.</p>	<ul style="list-style-type: none"> The Board has produced a 5 year plan for inclusion in the North of Scotland Regional Plan. This will be updated on a six monthly basis and reported to the Board. Scenario planning of possible financial positions. Ongoing discussions with SGHSCD to agree service targets and financial allocations. Ongoing support from SGHSCD for national 	<ul style="list-style-type: none"> Undertake follow up work development of medium / long term financial planning.

	Audit Risk	Source of assurance	Planned audit work
		projects and initiatives.	
6	<p>Best value</p> <p>NHS Board Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value (BV). We have identified the following BV risks at the board:</p> <ul style="list-style-type: none"> • Performance management – ongoing challenges in meeting key national performance targets with 10 targets outwith acceptable standards at the end of March 2018. NHS Western Isles had one of the highest sickness absence rates (5.5%) among the territorial boards for 2017/18. • Workforce sustainability – an ageing workforce and recruitment challenges in key specialities. At the end of September 2018, 11% of funded posts were vacant and 13% of staff in post were over 60. • Spending on temporary staff at NHS Western Isles has increased by 97% over the last five years. Recorded spending on agency staff increased from £2.7 million (6.9%) in 2016/17 to £3.2 million (8.1%) in 2017/18. 	<ul style="list-style-type: none"> • Annual assurance statement completed by each committee, which includes assurances on the achievement of best value. • Timely reporting of year to date performance and actions to improve performance. • NHS Western Isles' Workforce Strategy setting out the key workforce supply and demand challenges and the steps the board will take nationally, regionally and locally to ensure service sustainability. 	<ul style="list-style-type: none"> • Review of a sample of performance targets considering what improvement action is being taken and how planned improvements are monitored. • Review of workforce planning in NHS Western Isles incorporating a review of spend on agency staff to consider the difficulties in filling vacancies on a substantive basis, requirements to meet activity pressures and safe staffing levels, and reporting progress.
7	<p>Dependency on key suppliers</p> <p>NHS Western Isles is dependent on a number of key suppliers to support essential operational activities e.g. the Patient Management System. There is a risk that hospital services may be disrupted if any of these suppliers encountered financial difficulties.</p>	<ul style="list-style-type: none"> • The majority of key systems are provided under national contracts or contracts awarded to pre-approved suppliers under national framework agreements. • Due diligence for local contracts is carried out by the board as part of the procurement process. 	<ul style="list-style-type: none"> • We will establish the extent, value and nature of any key supplier dependencies. • We will review business continuity arrangements for a sample of key systems. • We will consider the arrangements in place, within NHS Western Isles, to monitor the ongoing financial position of key suppliers.
8	<p>EU withdrawal</p> <p>The UK will leave the European Union on 29 March 2019. The</p>	<ul style="list-style-type: none"> • NHS Western Isles has information available on the number of its workforce who are (non-UK) EU which 	<ul style="list-style-type: none"> • We will assess the Board's consideration of significant issues and preparations related to EU withdrawal.

	Audit Risk	Source of assurance	Planned audit work
	<p>impact on NHS Western Isles may be significant.</p> <p>There is a risk that NHS Western Isles is not adequately prepared for EU withdrawal.</p>	<p>confirms the numbers are low</p> <ul style="list-style-type: none"> A BREXIT Contingency Management Group has been established to work through the issues identified An operational readiness checklist was submitted to the Cabinet Secretary in September 2018. 	
9	<p>Governance and transparency</p> <p>Our 2017/18 Annual Audit Report included comment that papers from some committees are not routinely made available on the Board's website. However ongoing issues with the website means papers cannot be accessed.</p> <p>There is a risk that the unavailability of information to public and stakeholders leads to the Board not being sufficiently transparent.</p>	<ul style="list-style-type: none"> Review at Board level of the risks and benefits of all meetings being open to public attendance. 	<ul style="list-style-type: none"> Continue to consider whether transparency expectations are being met. Discussion with Non-executive members. Review of website and accessibility of documents.

Source: Audit Scotland

Reporting arrangements

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

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

7. We will provide an independent auditor's report to NHS Western Isles, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

8. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end, i.e. 31 December. Management are required to submit their audited financial statements by 30 June to meet the consolidation timetable

Exhibit 2

2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	6 December 2018	12 December 2018
Management Report	15 May 2019	22 May 2019
Annual Audit Report	19 June 2019	26 June 2019
Independent Auditor's Report	26 June 2019	26 June 2019

Source: Audit Scotland

Audit fee

9. The proposed audit fee for the 2018/19 audit of NHS Western Isles is £68,350 (2017/18: £68,370). In determining the audit fee, we have taken account of the risk exposure of NHS Western Isles, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 13 May 2019.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Healthcare Governance and Audit Committee and Accountable Officer

11. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

12. The audit of the financial statements does not relieve management or the Healthcare Governance and Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

13. 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.

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

Audit scope and timing

Financial statements

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

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

16. We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the state of affairs of NHS Western Isles and its group at the year end and net expenditure for the year
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income
- whether the auditable part of the remuneration and staff report has been properly prepared in accordance with relevant legislation and other reporting requirements
- whether the information in the performance report and governance report is consistent with the financial statements.

Other information in the financial statements

17. We also review and report on other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

18. We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.



characteristics



responsibilities



principal activities



risks



governance arrangements

Materiality

19. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

20. We calculate materiality at different levels as described below. The calculated materiality values for NHS Western Isles are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018.	£1.3 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£0.8 million
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. This has been calculated at 4% of planning materiality (rounded).	£50,000

Source: Audit Scotland

Timetable

21. To support the efficient use of resources it is critical that an annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited financial statements with complete working papers package	13 May 2019
Latest date for final clearance meeting with Head of Finance and Procurement and other relevant Officers	3 June 2019
Issue of draft Letter of Representation and proposed independent auditor's report	18 June 2019
Agreement of audited unsigned financial statements	26 June 2019
Issue of draft Annual Audit Report to those charged with governance	26 June 2019
Independent auditor's report signed	26 June 2019

Internal audit

22. Internal audit is provided by Scott-Moncrieff. A formal review of internal audit is planned for December 2018. Based on a review of internal audit's annual plan, we have identified the areas where we intend to place specific reliance. These are outlined below.

Using the work of internal audit

23. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently and effectively.

24. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- A2 - Payroll
- C11 - Stock control.

25. In respect of our wider dimension audit responsibilities we plan to consider the following internal audit reports:

- B5 - Risk Management
- B6 - Treatment Time Guarantees
- B8 - Complaints Management.
- B11 - Partnership working
- C6 - Service level Agreements
- C10 - Mandatory Training Requirements
- C12 - Review of TOIL arrangements
- D2 - IT and records security.

Audit dimensions

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

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

27. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Financial management

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

- whether NHS Western Isles has arrangements in place to ensure systems of internal control are operating effectively
- whether NHS Western Isles can demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- how NHS Western Isles has assured itself that its financial capacity and skills are appropriate
- whether NHS Western Isles has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

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

- whether NHS Western Isles can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

30. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- NHS Western Isles can provide evidence that it is demonstrating value for money in its achievement of performance targets and its spending on agency staff.

Strategic plan for the five year appointment

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

Exhibit 6 Strategic plan

Dimension	2018/19	2019/20	2020/21
Financial sustainability	Financial planning – follow up of prior year findings.	Financial planning.	Financial planning.
Financial management	Financial reporting and budgeting – follow up of prior year findings.	Financial reporting and budgeting.	Financial reporting and budgeting.
Governance and transparency	Assessment of dependency on key suppliers and review of business continuity arrangements. EU withdrawal		
Value for money	Performance targets.	Transformation of services.	

Independence and objectivity

32. Auditors appointed by the Accounts Commission or Auditor General 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. 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

33. The appointed auditor for NHS Western Isles 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 Western Isles.

Quality control

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

35. 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 supporting 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 Scotland (ICAS) have been commissioned to carry out external quality reviews.

36. 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.

NHS Western Isles

Annual Audit Plan 2018/19

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



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