

# NHS Lanarkshire

## Annual Audit Plan 2020/21



 AUDIT SCOTLAND

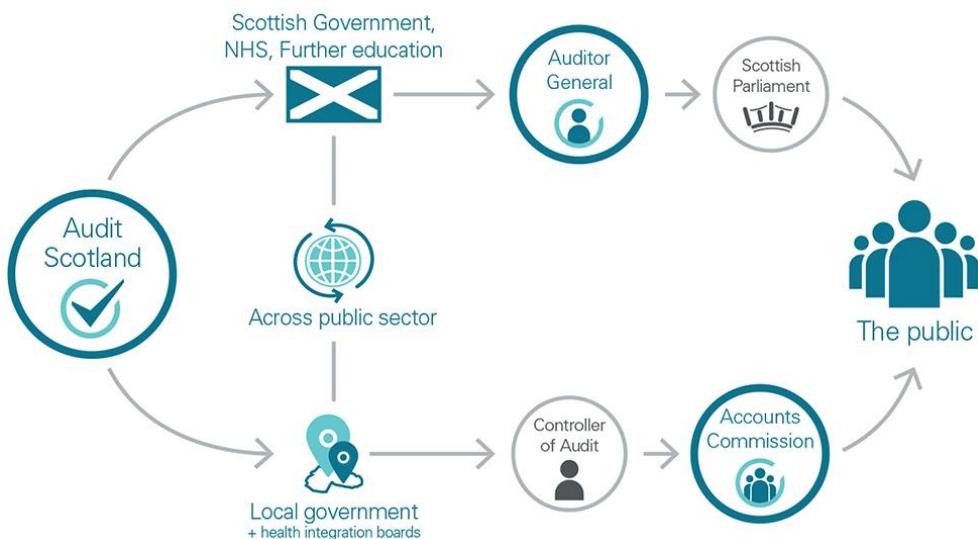
Prepared for NHS Lanarkshire

January 2021

# 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.

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# Risks and planned work

- 1.** This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts 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.
- 3.** The public health crisis caused by the coronavirus pandemic (Covid-19) has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
- 4.** Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before Covid-19. The well-being of those involved in the audit and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

## Adding value

- 5.** We aim to add value to NHS Lanarkshire 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 Lanarkshire promote improved standards of governance, better management and decision making and more effective use of resources.

## Extension of audit appointment

- 6.** Auditors appointed under statute by the Auditor General for Scotland are engaged for a five-year period. The current audit engagement was due to end after the conclusion of the 2020/21 audit. Normally at the end of each five-year period a new auditor is appointed, either Audit Scotland or a private sector accountancy firm. Covid-19 had an impact on the 2019/20 audits of public sector bodies and the vast majority of these audits were reported later than normal. Planning for and potentially reporting of 2020/21 annual audit work is also being affected. In October 2020 Audit Scotland approved the extension of current audit appointments for a year to include the 2021/22 audit year. This decision reflects the need for stability and continuity given the longer-term impact of Covid-19 on audited bodies and the difficulty of running the necessary audit procurement exercise during the pandemic.

## Audit risks

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

### Exhibit 1 2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<b>1 Risk of material misstatement due to fraud caused by the management override of controls</b>  International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<b>2 Risk of material misstatement caused by fraud in revenue recognition.</b>  As set out in ISA (UK)240, there is a presumed risk of fraud in the recognition of income. NHS Lanarkshire receives a significant amount of income from sources other than the Scottish Government. There is therefore a risk that income may be misstated, resulting in a material misstatement in the financial statements.	Effective budget monitoring by management.  Fraud reports are regularly monitored and information across Scotland is routinely shared.	<ul style="list-style-type: none"> <li>Walk-through of controls over income.</li> <li>Detailed testing of revenue transactions focusing on areas of greatest risk.</li> </ul>
<b>3 Risk of material misstatement caused by fraud in expenditure</b>  As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. NHS Lanarkshire incurs significant expenditure on family health services (FHS) which requires audit coverage.	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 Standing Financial Instructions, Standing Orders and a Code of Conduct for Staff which incorporates both whistleblowing and fraud policies.  The board has a formal partnership agreement	<ul style="list-style-type: none"> <li>Walk-through of controls over family health services expenditure.</li> <li>Audit work on the National Fraud Initiative matches.</li> <li>Obtain assurances from the Counter Fraud Services.</li> <li>Assurances from Auditor of NHS National Services Scotland over the work of the Service Auditor in respect of Practitioner Services.</li> </ul>

 Audit Risk	Source of assurance	Planned audit work
	<p>with NHS Scotland Counter Fraud Services and an agreed protocol covering a programme of regular payment verification checks.</p> <p>The board maintains a fraud risk register.</p>	
<b>4 Estimation and judgements: Non-current assets</b>	<p>There is a significant degree of subjectivity in the measurement and valuation of the material account area, non-current assets. In 2019/20 an explanatory paragraph was included in the independent auditor's report, in respect of the valuation of land and buildings, due to the economic uncertainty arising from Covid-19 disruption.</p> <p>The impact of Covid-19 continues in 2020/21 so there is a risk that estimations and judgements are changeable. This therefore represents a risk of material misstatement in the accounts.</p>	<ul style="list-style-type: none"> <li>Review of the Valuer's Report for land and buildings.</li> <li>Focused substantive testing of the valuation of assets.</li> </ul>
<b>5 Estimations and judgements: Provisions</b>	<p>There is a significant degree of subjectivity in the measurement and valuation of the material account area, provisions. In previous years we have identified some errors in the provisions balances in the accounts.</p> <p>This subjectivity and the prior year errors, represent a risk of material misstatement in the accounts.</p>	<ul style="list-style-type: none"> <li>Review of information provided by the Central Legal Office.</li> <li>Focused substantive testing of provisions.</li> </ul>
<b>6 Staff costs</b>	<p>Staff costs amounted to £598 million in 2019/20. Controls in place around payroll processing are essential to ensure that only valid payments are made. Our planning process found three areas of potential risk to the staff costs incurred by the board:</p> <ul style="list-style-type: none"> <li>The board's response to the pandemic saw it recruit in excess of 1,000 additional employees in a very short period. This put pressure on payroll, HR and managers to process the new starts quickly and we are advised that there were some instances</li> </ul> <p>The on boarding of temporary staff during the first wave of the pandemic caused issues nationally. Lessons have now been learned and going forward unique identifiers will be used to ensure the correct employee is paid. The board continues to remind line managers of their duties to inform HR and Payroll of staff terminations.</p> <p>The only circular issued so far allows employees to claim for leave untaken during 2019/20 to be paid</p>	<ul style="list-style-type: none"> <li>Focused substantive testing on new starts, leavers and payments for untaken annual leave.</li> </ul>

 Audit Risk	Source of assurance	Planned audit work
<p>of payment being made to the wrong employee.</p> <ul style="list-style-type: none"> <li>• In previous years we have reported delays in notifying payroll of employee terminations which can give rise to salary overpayments. We understand this has been an issue again in 2020/21.</li> <li>• In response to the demands on staff as we move through the pandemic, the Scottish Government advised that staff can exchange some or all untaken annual leave from 2019/20 for salary or carry the holidays forward into 2020/21. Discussions are ongoing as to whether a similar approach will be taken in respect of untaken annual leave from 2020/21. This will require payroll to implement measures to ensure that only valid payments are made for untaken annual leave.</li> </ul> <p>While none of the issues set out above are likely to have a material impact on the costs in the accounts individually, collectively, there is the potential for the integrity of staff costs in the accounts to be undermined.</p>	<p>out during 2020/21. There are, given the second wave, predicted imminent huge surge, testing and vaccination programmes, live national discussions about untaken leave for 2020/21 but nothing has been decided or issued yet. From the board's perspective the agreement so far does not appear to be a significant risk – the process was agreed in partnership and a standard application form was devised, to be paid out in two tranches, November 2020 and February 2021.</p>	
<b>Wider dimension risks</b>		
<b>7 Impact of Covid-19</b> <p>The pandemic, and the board's response to it, has wide ranging impact on the operations of the board. The board's financial pressures, governance arrangements and the way in which services are delivered have all changed. A key challenge in the short-term is achieving financial balance, as the board has been unable to realise the planned efficiency savings set out in the 2020/21 financial plan, due to those being based on pre-pandemic service delivery models.</p>	<p>Monthly financial reports to Board, Review of process for approving, identifying and capturing Covid-19 related expenditure, review of January 2021 and year end allocation, review of draft 21/22 financial plan.</p> <p>The board is working with the Scottish Government to manage the wider impact of Covid-19 and is focused on taking the necessary steps to ensure NHS Lanarkshire is learning lessons from the pandemic and shaping its strategic plans to reflect this going forward.</p>	<p>Review the board's response to the wider impact of the pandemic in terms of learning lessons, Covid recovery plans, managing the financial pressures in 2020/21, medium-term financial planning, service delivery and performance reporting arrangements.</p>
<b>8 Impact of EU withdrawal</b>	<p>Review of timetable of EU resilience meetings, logs</p>	<p>Review board's assessment of the impact of EU withdrawal on</p>

 Audit Risk	Source of assurance	Planned audit work
<p>The transitional arrangements in place following the United Kingdom's exit from the European Union end on 31 December 2020. There is significant uncertainty around the impact of EU withdrawal at this time as there has been no agreement on what the future relationship will be with the European Union.</p> <p>There is a risk that EU withdrawal will have a significant impact on health boards and their ability to deliver services efficiently.</p>	<p>and expanded risk registers.</p> <p>The corporate risk register includes a risk on EU withdrawal.</p> <p>The board is working with the Scottish Government to ensure that all practical steps are taken to safeguard service delivery in NHS Lanarkshire.</p>	<p>its operations and the mitigating controls in relation to this risk as set out in the board's corporate risk register.</p>
		Source: Audit Scotland

## Reporting arrangements

**8.** 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](http://www.audit-scotland.gov.uk).

**9.** 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.

**10.** We will provide an independent auditor's report to NHS Lanarkshire, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual reports and 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.

**11.** 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. However, in response to the pandemic, the timetable for the submission of the audited accounts has been extended to 31 August 2021 for 2020/21. We discussed the planned audit timing with officers, and the intention is to aim for the original pre-covid timetable of 30 June 2021. However, this could be subject to change if unforeseen challenges arise for either the board or Audit Scotland. This plan assumes that the annual report and accounts will be audited for 30 June 2021.

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## Exhibit 2 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2021	2 March 2021
Management Report	30 May 2021	1 June 2021
Independent Auditor's Report	31 August 2021	30 June 2021
Annual Audit Report	31 August 2021	30 June 2021

Source: Audit Scotland

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## Audit fee

**12.** The proposed audit fee for the 2020/21 audit of NHS Lanarkshire is £199,520 [2019/20: £194,670]. In determining the audit fee, we have taken account of the risk exposure of NHS Lanarkshire, 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 annual report and accounts, with a complete working papers package week commencing 10 May 2021.

**13.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts 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 out with our planned audit activity.

## Responsibilities

### Audit Committee and Accountable Officer

**14.** 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.

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

### Appointed auditor

**16.** 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.

**17.** 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 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

## Annual report and accounts

**18.** The annual accounts, which include the financial statements, 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 Lanarkshire 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 Lanarkshire 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.

**19.** We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of affairs of the board and its group as at 31 March 2021 and of the income and expenditure of the board and its group for the year then ended;
- have been properly prepared in accordance with the financial reporting framework.



## Statutory other information in the annual report and accounts

**20.** We also review and report on statutory other information published within the annual accounts including the performance report, governance statement and the remuneration and staff 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.

**21.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## Materiality

**22.** 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.

**23.** We calculate materiality at different levels as described below. The calculated materiality values for NHS Lanarkshire are set out in [Exhibit 3](#) overleaf.

## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess 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 21 based on the budget monitoring information for 2020/21.	£16.570million
<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 would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£9.942 million
<b>Reporting threshold (i.e., clearly trivial)</b> – 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 1% of planning materiality.	£165 thousand

Source: Audit Scotland

## Timetable

- 24.** To support the efficient use of resources it is critical that the annual report and 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 annual report and accounts with complete working papers package	10 May 2021
Latest date for final clearance meeting with Director of Finance	16 June 2021
Issue of Letter of Representation and proposed independent auditor's report	23 June 2021
Agreement of audited unsigned annual report and accounts	23 June 2021
Independent auditor's report signed	30 June 2021
Issue of Annual Audit Report to those charged with governance	30 June 2021

## Internal audit

- 25.** Internal audit is as part of a managed service, overseen by Fife, Tayside and Forth Valley Audit and Management Services (FTF). As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA (UK)610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**26.** We will report any significant findings to management on a timely basis.

### Using the work of internal audit

**27.** International 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 or effectively.

**28.** From our initial review of internal audit plans we plan to place formal reliance on internal audit work in the following areas for the financial statements audit:

- Property Transaction Monitoring and Property Disposals
- Financial Process Compliance
- Service Contract Income
- Service Contract Expenditure

**29.** In addition, we plan to consider the work of internal audit in other areas to inform our audit knowledge. We will consider the following in respect of our wider audit dimensions responsibilities:

- Financial Management
- Workforce Planning including capable and effective workforce

### Audit dimensions

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

## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

#### Financial sustainability

**31.** 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) sustainability. We will carry out work and conclude on:

- how NHS Lanarkshire has adapted its plans and arrangements to reflect the ongoing, significant challenges, presented by the response to Covid-19.
- 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
- progress in the Monklands Replacement Project.

#### Financial management

**32.** 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:

- how NHS Lanarkshire has adapted its arrangements to reflect the ongoing, significant challenges, presented by the response to Covid-19.
- whether arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control systems in communicating accurate and timely financial performance can be demonstrated
- how NHS Lanarkshire has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

## Governance and transparency

**33.** 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:

- how NHS Lanarkshire has adapted its arrangements to reflect the ongoing, significant challenges, presented by the response to Covid-19.
- whether NHS Lanarkshire can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others).
- 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

**34.** Value for money refers to using resources effectively and continually improving services. This has been a particular challenge in 2020/21 as the board has responded to the significant challenges presented by Covid-19. Taking account of these difficult circumstances, we will review, conclude and report on whether NHS Lanarkshire can demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered.
- that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

## Best Value

**35.** The Accountable Officer of NHS Lanarkshire has a duty to ensure arrangements are in place to secure best value. NHS Lanarkshire implemented arrangements to demonstrate how it was achieving best value in 2018. We will review and report on these arrangements.

## Independence and objectivity

**36.** 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.

**37.** The engagement lead (i.e. appointed auditor) for NHS Lanarkshire is Fiona Mitchell-Knight, Audit Director. Auditing and ethical standards require the appointed auditor Fiona Mitchell-Knight 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 Lanarkshire.

## Quality control

**38.** 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.

**39.** 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.

**40.** 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.

# NHS Lanarkshire

## Annual Audit Plan 2020/21

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