

# NHS Western Isles

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for NHS Western Isles  
February 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

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**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 disease 2019 (COVID-19) pandemic 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 audit teams and the delivery of high-quality audits remains 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 the NHS Western 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

**6.** 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 Western Isles. 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>		
<p><b>1 Risk of material misstatement caused by management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<ul style="list-style-type: none"> <li>Owing to the nature of this risk, assurances from management are not applicable in this instance.</li> </ul>	<ul style="list-style-type: none"> <li>Review of key accounting estimates and critical judgements for bias. This will include both a retrospective review of 31 March 2020 key accounting estimates and critical judgements and a review of corresponding key accounting estimates and critical judgements as at 31 March 2021.</li> <li>Test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.</li> <li>Focused testing of accruals made at the year-end including unspent funding allocations.</li> <li>Focused cut-off testing of invoices received and paid around the year-end.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p><b>2 Risk of material misstatement caused by fraud in income and expenditure recognition</b></p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. However, the majority of the Health Board's income is from Scottish Government or other public sector bodies and the specific risk is rebutted.</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure.</p> <p>Significant expenditure items include payments for primary care services, ordering via the purchase ledger and patients travel.</p>	<ul style="list-style-type: none"> <li>Internal controls over expenditure systems operate effectively.</li> <li>Effective budgetary control by management.</li> <li>Fraud reports are regularly monitored and information across Scotland is routinely shared.</li> <li>There are a range of measures in place to prevent and detect fraud, including: the Scheme of Delegation; Standing Financial Instructions; Financial Operating Procedures;</li> </ul>	<ul style="list-style-type: none"> <li>Audit work on the National Fraud Initiative matches.</li> <li>Obtain assurances from the NHS Scotland Counter Fraud Service.</li> <li>Sample testing of expenditure transactions and verification to supporting evidence and subsequent payment.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>The vast majority of transactions covered by this risk are high volume/ low value and the risk of material misstatement is remote.</p>	<p>Whistleblowing Policy, anti-fraud strategy and codes of conduct for members and officers.</p> <ul style="list-style-type: none"> <li>The Board has a formal partnership agreement with NHS Scotland Counter Fraud Services and an agreed protocol covering a programme of regular payment verification.</li> </ul>	
<b>3</b>	<p><b>Estimations and judgements</b></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.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>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 movements in prices since the latest valuation, with professional revaluations of some assets expected in 2020/21.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Review of reports from the District Valuer to confirm asset valuations.</li> <li>Review of asset expenditure to ensure any elements overtaken by professional revaluation are adjusted.</li> <li>Sample testing of indexation calculations.</li> <li>Centralised assurance over the system of CNORIS claims and associated reimbursements.</li> <li>Verification of the CNORIS provision recognising the future liability from participating in the scheme with reference to the contribution rate provided by the CLO.</li> </ul>
<b>Wider dimension risks</b>			
<b>4</b>	<p><b>Financial management</b></p> <p>Our 2019/20 Annual Audit Report commented that financial monitoring reports presented to the Board and Healthcare Governance and Audit Committee do not contain the details</p>	<ul style="list-style-type: none"> <li>Timely and accurate monthly financial monitoring.</li> <li>Ongoing review of the forecast outturn.</li> </ul>	<ul style="list-style-type: none"> <li>Review of financial monitoring reports presented to Healthcare Governance and Audit Committee.</li> <li>Undertake follow up work on the delivery of savings plans</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>of any risk exposure to overspends in the Integration Joint Board.</p> <p>In addition, NHS Western Isles continues to place reliance on non-recurring savings. The level of non-recurring savings achieved in 2019/20 reflects the highest value of non-recurring savings relied upon in a single year since 2015/16.</p> <p>There is a risk that financial monitoring reports are incomplete and do not transparently report the overall financial position of NHS Western Isles. There is also a risk that NHS Western Isles will continue to rely on non-recurring savings and be unable to deliver the savings required to achieve a balanced budget on a recurring basis over the new three-year planning and performance cycle.</p>		<p>and the effectiveness of in-year budget reporting.</p> <ul style="list-style-type: none"> <li>• Monitor the development of the budget projection for the remainder of the financial year.</li> <li>• Assess the funding and costs associated with Covid-19 in 2020/21.</li> <li>• Review progress against identified savings actions.</li> <li>• Evaluate progress with developing further savings measures during the year to support the “unidentified savings” in the budget.</li> </ul>
<p><b>5 Financial sustainability</b></p> <p>Our 2019/20 Annual Audit Report included comment that the Board’s three-year financial plan was prepared prior to and does not consider the financial impact of the Covid-19 global pandemic. In addition, the Board do not have a transformational plan for the redesign of services to help achieve the required level of efficiency savings.</p> <p>We also commented on the level of unidentified savings required to enable financial balance to be achieved.</p> <p>There is a significant risk that NHS Western Isles will continue to rely on non-recurring savings and be unable to deliver the savings required to achieve a balanced budget on a recurring basis over the three-year planning and performance cycle and over the longer term.</p>	<ul style="list-style-type: none"> <li>• Scenario planning of possible financial positions.</li> <li>• Ongoing discussions with SGHSCD to agree service targets and financial allocations.</li> <li>• Ongoing support from SGHSCD for national projects and initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>• Undertake follow up work on development of medium / longer-term financial planning.</li> <li>• Review progress and achievement of transformational plan / redesign of services.</li> <li>• Review progress against and achievement of unidentified savings.</li> <li>• Consider medium-term financial “gaps” and the assumptions in the plan.</li> </ul>
<p><b>6 Governance and transparency</b></p> <p>Our 2019/20 Annual Audit Report identified a number of risks in relation to governance and transparency. As part of our 2020/21 audit, we will assess progress in the following areas:</p> <ul style="list-style-type: none"> <li>• Financial capacity</li> <li>• Internal audit recommendations</li> </ul>	<ul style="list-style-type: none"> <li>• These areas were identified in our 2019/20 audit and management have provided actions and timescales to address these issues.</li> </ul>	<ul style="list-style-type: none"> <li>• Undertake follow up work on progress against all agreed management actions.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<ul style="list-style-type: none"> <li>GDPR compliance</li> <li>Business continuity management.</li> </ul>		
<b>7</b>	<p><b>Value for money</b></p> <p>Our 2019/20 Annual Audit Report identified a number of risks in relation to value for money. As part of our 2020/21 audit, we will assess progress in the following areas:</p> <ul style="list-style-type: none"> <li>Temporary staff costs</li> <li>Workforce sustainability.</li> </ul>	<ul style="list-style-type: none"> <li>These areas were identified in our 2019/20 audit and management have provided actions and timescales to address these issues.</li> </ul>	<ul style="list-style-type: none"> <li>Undertake follow up work on progress against all agreed management actions.</li> </ul>

Source: Audit Scotland

## Reporting arrangements

**7.** 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).

**8.** 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.

**9.** 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 report and accounts. We will provide the Accountable Officer and Auditor General for Scotland an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**10.** 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 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	3 February 2021	17 February 2021
Management Report	5 May 2021	19 May 2021
Independent Auditor's Report	16 June 2021	23 June 2021
Annual Audit Report	16 June 2021	23 June 2021

Source: Audit Scotland

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## Audit fee

**11.** The proposed audit fee for the 2020/21 audit of NHS Western Isles is yet to be determined and is subject to agreement of Audit Scotland's budget with the Scottish Commission for Public Audit. We will agree this with officers once this process is complete and it will take account of the audit risks in 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 10 May 2021.

**12.** 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

### Healthcare Governance and Audit Committee and Accountable Officer

**13.** 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.

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

### Appointed auditor

**15.** 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.

**16.** 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

**17.** The annual report and 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 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.

**18.** 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 as at 31 March 2021 and of the net expenditure for the year then ended
- 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.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual report and accounts

**19.** We also review and report on statutory other information published within the annual report and accounts including the performance report, 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.

**20.** 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

**21.** 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.

**22.** 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
<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 2021 based on total gross expenditure for 2019/20.	£1.4 million
<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 70% of planning materiality.	£1.0 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 5% of planning materiality.	£70,000

Source: Audit Scotland

## Timetable

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

### Exhibit 4 Annual report and 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 and Procurement and other relevant Officers	9 June 2021
Issue of draft Letter of Representation and proposed independent auditor's report	16 June 2021
Agreement of audited unsigned annual report and accounts	23 June 2021
Independent auditor's report signed	23 June 2021
Issue of Annual Audit Report to those charged with governance	23 June 2021

## Internal audit

**24.** Internal audit is provided by Azets. 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.

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

### Using the work of internal audit

**26.** 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 and effectively.

**27.** From our initial review of internal audit plans we do not plan to place formal reliance on internal audit work to support our audit opinion on the financial statements. However, in respect of our wider dimension audit responsibilities we plan to consider the following internal audit reports:

- Performance Management
- Operational Planning
- GDPR.

## Audit dimensions

**28.** 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

**29.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

### Financial sustainability

**30.** 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:

- 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

**31.** 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 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
- how NHS Western Isles 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

**32.** 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 (including services delivered by, or in partnership with, others such as the Integration Joint Board)
- 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

**33.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether (the body) 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

**34.** The Accountable Officer of NHS Western Isles has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements.

## Independence and objectivity

**35.** 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.

**36.** The engagement lead (i.e. 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

**37.** 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.

**38.** 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.

**39.** 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 Western Isles

## Annual Audit Plan 2020/21

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](mailto:info@audit-scotland.gov.uk)

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