

# NHS Greater Glasgow and Clyde

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for NHS Greater Glasgow and Clyde

March 2022

# Contents

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Introduction	3
Financial statements audit planning	5
Audit dimensions and Best Value	9
Reporting arrangements, timetable, and audit fee	12
Other matters	14

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# Introduction

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## Summary of planned audit work

- 1.** This document summarises the work plan for our 2021/22 external audit of NHS Greater Glasgow and Clyde (the board). The main elements of our work include:
  - evaluation of the key controls within the main accounting systems
  - an audit of the annual accounts and provision of an Independent Auditor's Report
  - an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
  - consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
  - consideration of Best Value arrangements
  - review NHS Greater Glasgow and Clyde's participation in the National Fraud Initiative.

## Impact of Covid-19

- 2.** The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.
- 3.** The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

- 4.** We aim to add value to NHS Greater Glasgow and Clyde 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 will help NHS Greater Glasgow and Clyde 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 Greater Glasgow and Clyde

**5.** The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and NHS Greater Glasgow and Clyde. Key responsibilities are summarised below.

### Auditor responsibilities

**6.** 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.

**7.** 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.

### NHS Greater Glasgow and Clyde's responsibilities

**8.** NHS Greater Glasgow and Clyde is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

**9.** Also, NHS Greater Glasgow and Clyde has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

### Managing the transition to 2022/23 audits

**10.** Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Financial statements audit planning

## Materiality

**11.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. 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 2021/22 audit

**12.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for NHS Greater Glasgow and Clyde are set out in [Exhibit 1](#).

## Exhibit 1

### 2021/22 Materiality levels for NHS Greater Glasgow and Clyde and its group

Materiality	Amount
Planning materiality – This is the figure we use to assess the overall impact of audit adjustments on the financial statements. It has been based on the audited financial statements for 2020/21.	£30 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 65% of planning materiality.	£20 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.	£250 thousand

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**13.** Our risk assessment draws on our cumulative knowledge of NHS Greater Glasgow and Clyde, 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.

**14.** 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

### 2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></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 otherwise appear to be operating effectively.</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"> <li>Review the design and implementation of controls over journal entry processing.</li> <li>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity.</li> <li>Test journals at the year end and post-closing entries, focussing on significant risk areas.</li> <li>Evaluate significant transactions outside the normal course of business.</li> <li>Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> </ul>
<p><b>2. Risk of material misstatement due to estimation and judgement in accruals</b></p> <p>The impact of Covid-19 resulted in an exceptional increase in the value of accruals reported in the 2020/21 annual accounts. There is a significant amount of estimation and judgement applied to the valuation and classification of such balances. Covid-19</p>	<ul style="list-style-type: none"> <li>NHS GGC has robust systems in place to prevent and detect fraud.</li> <li>Regular meetings between Fraud Liaison Officer and Counter Fraud Services.</li> <li>Regular reports to Audit and Risk Committee.</li> <li>All material accruals are based on best available</li> </ul>	<ul style="list-style-type: none"> <li>Review management's controls over significant accruals reported in the accounts.</li> <li>Detailed testing of material accruals balances. To include an assessment of the reasonableness of methodology applied in any estimation and testing of completeness and accuracy of underlying data.</li> <li>Review of the design and implementation of controls over systems that provide the source</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>has continued to impact the board in 2021/22, including the ability to deliver services (e.g. elective treatment) and capital projects. There is also continued pressure on the workforce which may impact on annual leave outstanding at the year end, and so the related accrual.</p>	<p>data and are reviewed by Finance SMT.</p>	<p>of information for estimates e.g. Trakcare.</p> <ul style="list-style-type: none"> <li>• Review of related disclosures.</li> </ul>

Source: Audit Scotland

**15.** 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. We have rebutted this risk because while the possibility of fraud exists, we do not judge it to be significant due to the nature of NHS Greater Glasgow and Clyde's revenue streams.

**16.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have also rebutted this risk due to the nature of the expenditure incurred by NHS Greater Glasgow and Clyde.

**17.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

## Other areas of audit focus

**18.** 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. If our assessment of risk changes and these risks become significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

**19.** The areas of specific audit focus are:

- Estimation in the valuation of land and buildings: At 31 March 2021 the board held land and building with a net book value of £2,087 million. There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist assumptions and estimates, and changes in these can result in material changes to valuations.

- Estimation in the provision for clinical and medical negligence claims: The board includes a provision for estimated costs relating to clinical and medical negligence claims in the accounts and, at 31 March 2021, this balance was £165 million. Reliance is placed on the details provided by the NHS Scotland Central Legal Office (CLO) to quantify amounts provided. There is a significant amount of professional judgement applied by the CLO in arriving at these figures.

## Group Consideration

**20.** As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

**21.** NHS Greater Glasgow and Clyde has a group which comprises component entities, including subsidiaries and joint ventures. The audits of the financial information of some of the components are performed by other auditors. We plan to place reliance on the work of the component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

## Audit risk assessment process

**22.** 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.

# Audit dimensions and Best Value

## Introduction

**23.** The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

## Audit dimensions

**24.** The four dimensions that frame our audit work are shown in [Exhibit 3](#).

### Exhibit 3 Audit dimensions



Source: Code of Audit Practice

**25.** In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

## Duty of Best Value

**26.** [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 Greater Glasgow and Clyde.

## Audit dimension risks

**27.** We have identified audit risks in the areas set out in [Exhibit 4](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

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### Exhibit 4

#### 2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p><b>1. Financial sustainability</b></p> <p>Whilst the board is projecting a year end breakeven position, financial challenges going forward remain significant. The board is heavily reliant on non-recurring funding from Scottish Government to achieve financial balance and has a significant underlying recurring deficit. The risk of financial sustainability remains, and the Financial Improvement Programme will be important in driving forward the identification and achievement of future efficiency savings within the board.</p>	<ul style="list-style-type: none"> <li>• Financial Improvement Programme ongoing work, weekly Delivery Board meetings and monthly Performance Board meetings with Chief Executive.</li> <li>• Detailed finance reports prepared for budget holders.</li> <li>• Covid LMP returns.</li> <li>• Financial Planning return.</li> <li>• Regular reports presented to Finance SMT, CMT, FP&amp;P and the Board.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor the board's financial position as reported to the board / relevant committees, including progress against the Financial Improvement Programme.</li> <li>• Review any assessment of the board's future financial position (including medium term financial plan when available) and consider whether appropriate arrangements are in place to address the underlying recurring deficit.</li> <li>• Attendance at board and relevant committee meetings.</li> </ul>

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- 2. Queen Elizabeth University Hospital (QEUh) and Royal Hospital for Children (RHC)**
- NHS Greater Glasgow and Clyde continues to face exceptional challenges; continued special measure status, the ongoing public inquiry into the Queen Elizabeth University Hospital (QEUh), a police investigation and litigation against the QEUh contractor. A significant amount of work and uncertainty exists around these issues and this is placing additional demands on the board, senior management, and staff. There is a risk that this could impact on the board's ability to deliver its objectives.
- Additional resources in place to support this work.
  - Additional governance arrangements/groups in place Executive Oversight Group (EOG), QEUh Governance Group and Rectification Programme Board.
  - Regular update reports to CMT, FP&P and Board meetings.
  - Scottish Government supervisory arrangements.
  - Attendance at board and relevant committee meetings.
  - Ongoing engagement with senior management.
  - Review of QEUh / RHC updates, performance reports and other relevant papers.
  - Assess the potential accounting implications of any developments.

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Source: Audit Scotland

# Reporting arrangements, timetable, and audit fee

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## Reporting arrangements

**28.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 5](#), 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).

**29.** 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.

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

**31.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward to 31 August 2022 although we hope to deliver the audit by 30 June 2022. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

**32.** [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by 30 June 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

## Exhibit 5

### 2021/22 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	28/02/2022	15/03/2022
Receipt of the unaudited annual report and accounts with complete working papers package	09/05/2022	N/A
Independent Auditor's Report	30/06/2022	21/06/2022
Annual Audit Report	30/06/2022	21/06/2022

Source: Audit Scotland

## Audit fee

**33.** The agreed audit fee for the 2021/22 audit of NHS Greater Glasgow and Clyde is £415,810 (2020/21: £407,810). In determining the audit fee, we have taken account of the risk exposure of the NHS Greater Glasgow and Clyde and the planned management assurances in place.

**34.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts or the absence of adequate supporting working papers, 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.

# Other matters

## Internal audit

**35.** From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We will review the findings of internal audit work to support our wider dimension audit conclusions.

## Independence and objectivity

**36.** 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. 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 Greater Glasgow and Clyde is John Cornett, 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 Greater Glasgow and Clyde.

## Quality control

**38.** International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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 Greater Glasgow and Clyde

## Annual Audit Plan 2021/22

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

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

Phone: 0131 625 1500 Email: **[info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)**

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