

NHS Lanarkshire

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for NHS Lanarkshire
February 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of NHS Lanarkshire. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the 2021/22 annual report and accounts to support our opinions on the financial statements
- work to support our audit opinions on regularity and the other statutory information published within the 2021/22 annual report and accounts, including the Performance Report, the Governance Statement and the audited part of the Remuneration and Staff Report
- review of NHS Lanarkshire's participation in the National Fraud Initiative
- consideration of the arrangements in relation to the four audit dimensions that frame the wider scope of public sector audit: financial management, financial sustainability, governance and transparency and value for money
- consideration of Best Value arrangements.

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 during 2022 and where this impacts on annual audits, revisions to this Annual Audit Plan may be required. Any such changes will be communicated to the board at the earliest opportunity.

Adding value

4. 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. We also attend meetings of the Audit Committee to report the findings of our work and actively participate in discussions where appropriate. In so doing, we intend to help NHS Lanarkshire maintain and enhance good standards of governance, management and decision making and effective use of resources.

Respective responsibilities of the auditor and NHS Lanarkshire

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and NHS Lanarkshire. 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 Lanarkshire's responsibilities

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

9. Also, NHS Lanarkshire has the 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.

10. In NHS Lanarkshire the Chief Executive, as the Accountable Officer, is responsible for the administration of financial affairs. The Board has delegated responsibility for the oversight of internal and external audit to its Audit Committee.

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

Managing the transition to 2022/23 audits

12. 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

Audit of the financial statements

13. Our approach to the audit of the 2021/22 annual report and accounts, including the financial statements, has been designed to support the appointed auditor's opinion as to whether the annual report and accounts give a true and fair view of the board's finances for the year ended 31 March 2022, and have been properly prepared in accordance with International Financial Reporting Standards and the NHS financial reporting framework.

Materiality

14. 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

15. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for NHS Lanarkshire are also set out in [Exhibit 1](#).

Exhibit 1 2021/22 Materiality levels for NHS Lanarkshire

Materiality	Amount
Planning materiality – 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 2022 based on the budget monitoring information.	£16.943 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 a 60% of planning materiality.	£10.165 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.169 million

Cumulative errors and impact on financial targets: We consider all monetary errors identified through the audit process (including those below the reporting threshold) and the impact they have on the board's reported results against its financial targets. If the cumulative errors result in the board failing to meet its financial targets, this could impact on our audit testing and could result in a comment in the independent auditor's report.	Not Applicable
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

16. Our risk assessment draws on our cumulative knowledge of NHS Lanarkshire and consideration of its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management, meetings with internal audit, attendance at committees and review of other relevant information.

17. Based on our risk assessment process, we identify significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. Only one such risk was identified for the 2021/22 financial statements audit. This is shown in [Exhibit 2](#) along with details of 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>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that 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"> • Detailed testing of journal entries with a focus on significant risk areas, including year-end and post-close down entries. • Evaluate any identified significant transactions outside the normal course of business, identified through audit testing of income and expenditure and accruals.

Source: Audit Scotland

18. Based on our assessment of the likelihood and magnitude of the risk, we have assessed that there are currently no other risks of material misstatement for the 2021/22 audit of NHS Lanarkshire. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

Consideration of the risks of fraud in the recognition of income and expenditure

19. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for NHS Lanarkshire as the main source of income is from Scottish Government funding and other public sector transfers and payments. In addition, the board's other income streams comprise of high volume, low value items that are unlikely result in a material misstatement in the accounts.

20. 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. However, we have also rebutted this risk for NHS Lanarkshire as our assessment of the constituent expenditure streams, including consideration of historical levels of fraud, is that the risk of material misstatement is low.

21. We have not, therefore, incorporated specific additional audit procedures into our audit plan in relation to the risks of fraud in the recognition of income and expenditure, over and above our standard audit procedures.

Other areas of audit focus

22. As part of our assessment of audit risks, we have identified other areas where specific audit consideration is required. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks to the financial statements. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

23. The areas of specific audit focus are:

- Estimations and judgements – valuation of land and buildings. We will review the arrangements in place to satisfy the board that the annual revaluation process is complete and is free from material misstatement.

- Staff costs – As has been reported in previous years, issues are continuing around the timeliness with which temporary or permanent changes to staffing are notified to payroll. We will substantively test a sample of employees to ensure that their employment status supports the payments made through payroll.
- Authorisation of journals. The ledger system will allow the same officer to raise and authorise a journal. Arrangements are now in place to ensure that all journals are supported by electronic authorisation. We will substantively test journals to ensure they are supported by appropriate authorisation.

Group Consideration

24. 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.

25. NHS Lanarkshire has a group which comprises component entities, including North and South Lanarkshire Integration Joint Boards and Lanarkshire Health Board Endowment Fund. 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 of Performance Report, Governance Statement, and audited part of the Remuneration and Staff Report

26. In addition to the appointed auditor's opinion of the financial statements, the Auditor General for Scotland prescribes that the appointed auditor should provide opinions as to whether the Performance Report, Governance Statement, and audited part of the Remuneration and Staff Report, have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the financial statements.

27. To inform these opinions we will consider whether the disclosures within each statement comply with the requirements of the applicable guidance, and confirm that relevant information reflects the contents of the financial statements and other supporting documentation, including:

- Performance Report – Performance information reported to the Board and published during the year.
- Governance Statement – Annual assurance statements, including their completeness and accuracy, completed, and prepared by Directors to provide assurances to the Accountable Officer, and Internal Audit's Annual Report.
- Remuneration and Staff Report – Payroll data and HR reports.

28. Based on our knowledge of the audit, and the established procedures in place to produce these statements, we have not identified any specific risks to be

communicated to those charged with governance in relation to the audit of the Performance Report, Governance Statement, and audited part of the Remuneration and Staff Report.

Audit risk assessment process

29. 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

Wider scope of public sector audit

30. 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

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

Exhibit 3 Audit dimensions



Source: Code of Audit Practice

32. 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** – We will comment on the financial sustainability of the board 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, performance and other information.
- **Value for money** – Value for money refers to using resources effectively and continually improving services.

Duty of Best Value

33. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that the Chief Executive of NHS Lanarkshire, as Accountable Officer, has a specific responsibility to ensure that arrangements have been made to secure Best Value (BV). During 2020/21 the board carried out a detailed review of its arrangements to secure Best Value across the seven characteristics set out in the guidance issued to Accountable Officers by the Scottish Government. In our 2020/21 Annual Audit Report, we reported that there were some areas where further work was required, particularly as a result of changing pressures arising from the Covid-19 response. However, the action taken by the board to assess its BV arrangements is considered to be good practice.

Conclusions on wider scope responsibilities

34. The appointed auditor is required to report conclusion on the wider scope responsibilities and consider the audit dimensions specified in the Code of Audit Practice, [Exhibit 3](#).

35. As part of our audit planning work, we have reviewed the wider dimensions of public sector audit applicable to NHS Lanarkshire and identified the risks 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. The conclusions from this work will be reported within our 2021/22 Annual Audit Report.

Exhibit 4

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>There is continued uncertainty around financial sustainability as the wider impact of Covid-19 is not yet known. Although additional funding has been available throughout the pandemic, this is not sustainable going forward. The efficiency programme</p>	<p>Monthly reports to Board or PPRC. Financial Plan paper to be presented to Board in March 2022.</p> <p>Quarterly reports to the Audit Committee.</p>	<p>• Review the impact of the pandemic on NHS Lanarkshire's financial plans and achievement of efficiency savings.</p>

has been significantly impacted by Covid-19 and the constraints on shaping service delivery. Efficiency savings realised to date are generally on a non-recurring basis (e.g. through unfilled staffing vacancies) rather than on a sustainable recurring basis. This will result in added pressure in subsequent years as budgets become increasingly constrained.

2. Sustainability of services

The board is facing unprecedented demand for services alongside trying to manage the backlog of patients awaiting diagnosis and treatment as a result of the service disruption due to Covid-19. As well as increasing patient numbers, patients are presenting with more complex care needs, resulting in lengthier patient journeys. This increases pressure on the board's services.

Monthly reports to Board or PPRC.
Acute Governance Committee papers.

- Review the board's performance reports to assess the extent to which the board is meeting service performance targets and the demand for services in Lanarkshire.

3. Workforce pressures

The board is facing significant workforce pressures due to a combination of being unable to fill vacant posts, and high levels of staff absence.

The pressures on the availability of staffing will have a direct impact on the board's ability to deliver services, both now and also as the focus on recovery of services increases.

Regular reporting to the Silver Workforce Command group on absence levels and current recruitment. This detail is subsequently included in the Silver Workforce update to Gold Command.

Quarterly workforce reports are taken to the Staff Governance Committee.

- Review the level of staff absences in NHS Lanarkshire and the arrangements in place to monitor the position.
- Monitor what action the board is taking to address workforce pressures and the effectiveness of these measures.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

36. This Annual Audit Plan, the outputs set out in [Exhibit 5](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

37. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officers to confirm factual accuracy, prior to the issue and publication of final reports.

38. We will provide an independent auditor's report (i.e. audit certificate) to Lanarkshire Health Board, the Auditor General for Scotland and the Scottish Parliament setting out our opinions on the annual report and accounts. We will provide the NHS Lanarkshire and the Auditor General for Scotland with an annual report on the audit containing observations, conclusions and recommendations on significant matters which have arisen during the audit.

39. [Exhibit 5](#) outlines the target dates for our audit outputs. 2021/22 remains a transitional year, and there is a risk that pre-Covid audit timetables may not be achieved. However, our intention is for the 2021/22 NHS Lanarkshire audit work to be completed in time to enable certification of the annual report and accounts by 30 June 2022.

Exhibit 5 2021/22 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	28 February 2022	1 March 2022
Management Report	31 May 2022	7 June 2022
Independent Auditor's Report	23 June 2022	29 June 2022
Annual Audit Report	29 June 2022	29 June 2022

Source: Audit Scotland

Timetable

40. To support an efficient audit, it is critical that a timetable is agreed with management for the production and audit of the annual report and accounts. The agreed timetable for the 2021/22 annual report and accounts is shown in [Exhibit 6](#).

Exhibit 6

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Submission of the unaudited annual report and accounts with working papers package (in line with local agreement).	9 May 2022
Latest date for final clearance meeting with the Director of Finance	15 June 2022
Agreement of audited and unsigned annual report and accounts	22 June 2022
Issue of Proposed Annual Audit Report to those charged with governance (including Letter of Representation and proposed Independent Auditor's Report)*	22 June 2022
Issue of Annual Audit Report to those charged with governance.	29 June 2022
Signed Independent Auditor's Report	29 June 2022
<i>*The final Annual Audit Report will be issued after the audited 2021/22 Annual Report and Accounts are certified.</i>	

Source: Audit Scotland

Audit fee

41. The agreed audit fee for the 2021/22 audit of NHS Lanarkshire is £203,430 (2020/21: £199,520). 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.

42. Our audit approach assumes receipt of the unaudited annual report and accounts, with a complete working papers package, on 9 May 2022. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, 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

43. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

44. Internal audit is part of a managed service, overseen by Fife, Tayside and Forth Valley Audit and Management Services (FTF). Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and that it complies with the requirements of the Public Sector Internal Audit Standards (PSIAS).

45. We will not be placing formal reliance on the work of internal audit to support our financial statements audit opinion. However, we do plan to use the work of internal audit to inform our audit approach and our conclusions on the wider dimensions' aspects of the audit.

Independence and objectivity

46. 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.

47. The appointed auditor for the audit of NHS Lanarkshire is Fiona Mitchell-Knight, 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 Lanarkshire.

Quality control

48. 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.

49. 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.

50. 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 2021/22

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

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