

NHS Borders

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for NHS Borders
27 March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of NHS Borders. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and 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 wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

Audit Appointment

2. We are pleased to be appointed as the external auditor of NHS Borders for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at Appendix 1.

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to NHS Borders through our external audit work by being constructive and forward looking, by attending meetings of the Audit Committee and by recommending and encouraging good practice. In so doing, we will help the NHS Borders promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and NHS Borders

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and NHS Borders. Key responsibilities are summarised below.

Auditor responsibilities

7. 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.

8. 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 wider scope arrangements in place at NHS Borders. In doing this, we aim to support improvement and accountability.

NHS Borders responsibilities

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

10. NHS Borders 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.

Financial statements audit planning

Introduction

11. The annual report and accounts are an essential part of demonstrating NHS Borders' stewardship of resources and its performance in the use of those resources.

12. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that 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 2022/23 audit

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for NHS Borders and its group are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for NHS Borders and its group

Materiality	Amount	Group
<p>Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of NHS Borders' operations. For the year ended 31 March 2023 we have set our materiality at 1.5% of gross expenditure, adjusted for IJB contributions, based on the audited financial statements for 2021/22.</p>	£5.00 million	£5.06 million
<p>Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement,</p>	£3.00 million	£3.27 million

we have assessed performance materiality at 60% of planning materiality.

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. Our reporting threshold is set at 5% overall materiality capped at a maximum of £250,000 as prescribed in the Audit Scotland audit planning guidance.	£250 thousand	£250 thousand
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of NHS Borders, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

16. 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.

17. 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

2022/23 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 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</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"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Detailed testing of journal entries with a focus on significant risk areas, including

Significant risk of material misstatement	Sources of assurance	Planned audit response
of management's ability to override controls that otherwise appear to be operating effectively.		year-end and post-closing entries, where we consider the risk of management override of controls to be the greatest.

Source: Audit Scotland

18. 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. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

19. We have rebutted this risk for NHS Borders as the main source of funding is from Scottish Government funding and other public sector transfers and payments which is agreed to funding confirmations and therefore of low risk of fraud in revenue recognition. In addition, NHS Borders' other income streams comprise of high volume, low value transactions that are unlikely to result in a material misstatement in the accounts. In considering opportunity and incentive for fraud over these revenue streams, and the nature of transactions we consider the risk of material misstatement to be low.

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 Borders as our assessment of the constituent expenditure streams, including the incentive and opportunity for fraud, is that the risk of material misstatement is low.

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

Other area of audit focus

22. As part of our assessment of audit risks, we have identified one other area where we consider there is also a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk. We will keep this area under review as our audit progresses.

23. The area of specific audit focus is:

- Valuations – a full revaluation of all properties as at 31 March 2023 is scheduled. We will review the valuation arrangements to ensure that the process is complete and accurate and that valuation assumptions applied are reasonable to ensure that the valuations recognised in the accounts are free from material misstatement.

New accounting standards – IFRS 16 leases

24. The introduction of IFRS 16 leases is mandatory for NHS bodies from 2022/23 onwards. This may change the way in which NHS Borders accounts for operating leases, including recognising assets and liabilities for the rights and obligations arising from leases previously classified as operating leases. We will carry out our standard audit procedures in this area.

Group Consideration

25. As group auditors, we are required under International Standard on Auditing (ISA) (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.

26. NHS Borders has a group which comprises component entities, the subsidiary 'The Difference' Endowment Fund, and the joint venture, Scottish Borders IJB. As part of our risk assessment, we have considered that NHS Borders itself is the only significant component in the group and have not identified any significant risks relating to the wider group. We will complete an overall analytical review of the group accounts to ensure they are free from material misstatement.

27. 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.

Wider Scope and Best Value

Introduction

28. The [Code of Audit Practice](#) sets out the four areas 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 wider scope areas in audited bodies.

29. In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **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).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by NHS Borders. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the NHS Borders demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope risks

30. We have identified a wider scope audit risk in the areas set out in [Exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risk.

Exhibit 3

2022/23 wider scope risks

Description of risk	Sources of assurance	Planned audit response
1. Financial Sustainability	<ul style="list-style-type: none"> • Updates to the Board and relevant committees on the 	<ul style="list-style-type: none"> • Monitor the board's financial position and plans, including underlying savings plans, as

Description of risk	Sources of assurance	Planned audit response
<p>NHS Borders budget for 2022/23 identified a deficit of £12.2m. Brokerage from the Scottish Government has been agreed for 2022/23. NHS Borders had £8.3 million brokerage before the Covid-19 pandemic which has not yet been repaid to the Scottish Government.</p> <p>In addition, the Board anticipates that further brokerage support will be required in the coming years as the Board, like many NHS boards across Scotland, faces significant financial challenges through rising cost and demand pressures not matched by increases in funding.</p> <p>The recovery plan identifies that brokerage will be needed for the next 3 years, totalling £70.3 million. This position is regularly discussed with the Scottish Government.</p> <p>The Board has also experienced challenges in meeting performance targets. With financial pressures, the Board faces significant challenges in maintaining or improving service delivery in a financially sustainable way.</p>	<p>financial improvement programme and any activities to support this which are possible during 2022/23.</p> <ul style="list-style-type: none"> Regular discussion and reporting to the Board and Scottish Government and financial pressures modelled into the Recovery Plan and future year financial plans. 	<p>reported to the board / relevant committees</p> <ul style="list-style-type: none"> Assess the measures put in place by the board to establish grip and control of both financial and non-financial performance. Review any assessment of the board's future financial position (including outputs from the financial improvement programme and recovery plans) Discussions with senior finance staff on financial position. Assess progress made by NHS Borders in implementing sustainable transformational change to address financial targets while meeting performance targets.

Source: Audit Scotland

31. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider tackling climate change and responding to cyber security threats.

Climate Change

32. Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions

by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

33. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on NHS Borders' arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

34. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider NHS Borders' arrangements for managing and mitigating cyber security risks.

Duty of Best Value

35. [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 Borders.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

36. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), 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 management reports will be issued to the relevant officers to confirm factual accuracy.

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

39. [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 30 June 2023.

Exhibit 4 2022/23 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	31/03/2023	27/03/2023
Independent Auditor's Report	30/06/2023	14/06/2023
Annual Audit Report	30/06/2023	14/06/2023

Source: Audit Scotland

Timetable



40. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

41. 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. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

42. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	9 May 2023
Latest date for final clearance meeting with the Director of Finance	7 June 2023
Agreement of audited and unsigned annual report and accounts	9 June 2023
Issue of Annual Audit Report to those charged with governance.	9 June 2023
Signed Independent Auditor's Report	29 June 2023
Latest date for signing of SG Consolidation return	30 June 2023

Source: Audit Scotland

Audit fee

43. In determining the audit fee, we have taken account of the risk exposure of the NHS Borders and the planned management assurances in place. The proposed audit fee for 2022/23 is £158,760 as set out in [Exhibit 6](#).

44. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

Exhibit 6

Audit fees (including VAT)

Fee component	Fees (£)
External Auditor Remuneration	146,720
Pooled costs	13,280
Contribution to Audit Scotland costs	5,740
Contribution to Performance and Best Value	0
Sectoral Cap Adjustment	-6,980
2022/23 Audit fee	158,760

Source: Audit Scotland

45. Details of the components of the audit fee have been separately communicated to Management. In setting the fee for 2022/23 auditors have the opportunity for agreeing local increases from the baseline fee depending on the risks and anticipated audit work identified during audit planning. The above proposed fee has been retained at the baseline fee, we have assumed that NHS Borders has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

46. It is the responsibility of NHS Borders to establish adequate internal audit arrangements. Internal audit is provided by Grant Thornton UK LLP. We will review the internal audit plan and the results of internal audit's work.

47. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

48. 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.

49. 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

50. The appointed auditor for NHS Borders is John Boyd, 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 Borders.

Audit Quality

51. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

52. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

53. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

54. Audit Scotland is committed to delivering high quality audits. 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 supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

55. 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.

Appendix 1. Your audit team

56. The audit team involved in the audit of NHS Borders have significant experience in public sector audit.

John Boyd
Audit Director
jboyd@audit-scotland.gov.uk

John has overall responsibility for the Audit Engagement. He has considerable audit experience across public sector audits including health, IJB, pension, local government, and central government sectors. John is the Audit Scotland Audit Services Group Lead for local authority audit and is a member of the Local Authority (Scotland) Accounting Advisory Committee (LASAAC).

Stephanie Harold
Senior Audit Manager
sharold@audit-scotland.gov.uk

Stephanie has over 11 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Iain Lochhead
Audit Manager
ilochhead@audit-scotland.gov.uk

Iain has considerable experience in planning and delivering audits across the public sector. Iain will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

Jackie Farmer
Senior Auditor
jfarmer@audit-scotland.gov.uk

Jackie has considerable experience in planning and delivering audits across the public sector. Jackie will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

57. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

58. Where possible and appropriate, we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

NHS Borders

Annual Audit Plan 2022/23

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:

www.audit-scotland.gov.uk/accessibility

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