

NHS Lanarkshire

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for NHS Lanarkshire
7 March 2023

Contents

| | |
|--|----|
| Introduction | 3 |
| Financial statements audit planning | 5 |
| Wider Scope and Best Value | 9 |
| Reporting arrangements, timetable, and audit fee | 12 |
| Other matters | 15 |
| Appendix 1. Your audit team | 17 |

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 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 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 Lanarkshire 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 Lanarkshire through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Risk Committee and by recommending and encouraging good practice. In so doing, we will help NHS Lanarkshire promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Audited Body

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and NHS Lanarkshire. 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 Lanarkshire. In doing this, we aim to support improvement and accountability.

NHS Lanarkshire responsibilities

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

10. NHS Lanarkshire 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 Lanarkshire's 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 Lanarkshire are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for NHS Lanarkshire

| Materiality | NHS Lanarkshire Board | Group |
|--|-----------------------|---------------|
| 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 Lanarkshire's operations. For the year ended 31 March 2023 we have set our materiality at 1.5% of gross expenditure based on the audited financial statements for 2021/22. | £26.7 million | £26.8 million |

| | | |
|--|---------------|---------------|
| 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, we have assessed performance materiality at 75% of planning materiality. | £20 million | £20.1 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 | £250 thousand |

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of NHS Lanarkshire, 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 |
|--|---|---|
| 1. Risk of material misstatement due to fraud caused by management override of controls | Owing to the nature of this risk, assurances from management are not applicable in this instance. | <ul style="list-style-type: none"> 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. |

| Significant risk of material misstatement | Sources of assurance | Planned audit response |
|--|---|--|
| <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> | | <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 where we consider greatest risk of management override. • Evaluate any identified significant transactions outside the normal course of business, identified through audit testing of income and expenditure and accruals. |
| <p>Valuation of land and buildings</p> <p>We will review the arrangements in place to satisfy the board that the annual revaluation process is complete and is free from material misstatement. In particular, we will focus on the reasonableness of the valuers' assumptions.</p> | <p>Use of clearly defined methodologies and procedures will enable an assessment to be made to ensure the carrying value of assets does not differ materially from that which would be determined using the current value at the end of the reporting period.</p> | <ul style="list-style-type: none"> • Review the work of the valuer, and in particular review the assumptions that have been used and any data used to inform the valuation. • Review of reports from the valuer to confirm overall asset valuation movements. • Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. • Test the reconciliation between the financial ledger and the property asset register. • Sample testing of individual asset valuations to confirm the suitability of the basis of valuation, the recognition of the valuation in the accounts and underlying assumptions used. |

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 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 to 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 work into our audit plan in these areas over and above our standard audit procedures.

Group Consideration

22. 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.

23. NHS Lanarkshire has a group which comprises component entities, including North and South Lanarkshire Integration Joint Boards and Lanarkshire Health Board Endowment Fund. As part of our risk assessment, we have considered that NHS Lanarkshire Board as the only significant component of the group and have not identified any significant risks relating to the wider group. 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

24. 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.

25. 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 Lanarkshire. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how NHS Lanarkshire demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope risks

26. We have identified wider scope audit risks in the areas set out in [Exhibit 3](#). 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.

Exhibit 3

2022/23 wider scope risks

| Description of risk | Sources of assurance | Planned audit response |
|--|--|---|
| <p>1. Financial Sustainability</p> <p>There is significant financial uncertainty facing the health board. The Board has projected a budget gap of 72.540m for 2023/24 representing a significant challenge for the Board in order to deliver services in a financially sustainable way. This is driven through a combination of inflationary pressures on pay and non-pay costs, demand driven pressures and funding allocations not increasing to offset these costs. 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.</p> | <ul style="list-style-type: none"> Monthly reports to Board or PPRC. Financial Plan 22/23 paper was presented to the Board in March 2022. Quarterly reports to the Audit and Risk Committee. | <p>Review NHS Lanarkshire's financial plans and consider underlying savings plans.</p> <p>Assess the progress made by NHS Lanarkshire in implementing sustainable transformational change to address financial targets while meeting performance targets.</p> |

Source: Audit Scotland

27. 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

28. 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.

29. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on NHS Lanarkshire's 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

30. 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 Lanarkshire's arrangements for managing and mitigating cyber security risks.

Duty of Best Value

31. [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 Lanarkshire.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

32. 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.

33. 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.

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

35. [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 and Risk Committee Date |
|------------------------------|-------------|-------------------------------|
| Annual Audit Plan | 31/03/2023 | 07/03/2023 |
| Independent Auditor's Report | 28/06/2023 | 28/06/2023 |
| Annual Audit Report | 28/06/2023 | 28/06/2023 |

Source: Audit Scotland



Timetable

36. 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.

37. 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.

38. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. 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. | 8 May 2023 |
| Latest date for final clearance meeting with the Director of Finance | 16 June 2023 |
| Issue of draft Letter of Representation and proposed Independent Auditor's Report | 21 June 2023 |
| Agreement of audited and unsigned annual report and accounts | 21 June 2023 |
| Issue of Annual Audit Report to those charged with governance | 28 June 2023 |
| Signed Independent Auditor's Report | 28 June 2023 |

Source: Audit Scotland

Audit fee

39. In determining the audit fee, we have taken account of the risk exposure of NHS Lanarkshire and the planned management assurances in place. The proposed audit fee for 2022/23 is £247,710 as set out in [Exhibit 6](#).

40. 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 | 205,450 |
| Pooled costs | 18,590 |
| Contribution to Audit Scotland costs | 8,030 |
| Sectoral Cap Adjustment | 15,640 |
| Total 2022/23 Audit fee | 247,710 |

Source: Audit Scotland

41. In setting the fee for 2022/23 we have assumed that NHS Lanarkshire 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

42. It is the responsibility of NHS Lanarkshire to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

43. 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).

44. 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

45. 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.

46. 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.

47. The appointed auditor for NHS Lanarkshire 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 Lanarkshire.

Audit Quality

48. 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.

49. 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.

50. 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.

51. 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.

52. 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

53. The audit team involved in the audit of NHS Lanarkshire have significant experience in public sector audit.

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

John is the Audit Director, with overall responsibility for the Audit Engagement. John has considerable audit experience across public sector audits including health, local government and central government sectors. John is engagement lead for a portfolio of engagements including: NHS Borders, North Lanarkshire Council, South Lanarkshire Council and North and South Lanarkshire Integration Joint Boards.

Mark Ferris
Senior Audit Manager
Mferris@audit-scotland.gov.uk

Mark has over 30 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.

Fiona Owens
Audit Manager
Fowens@audit-scotland.gov.uk

Fiona has 10 years of experience in planning and delivering audits and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies. Fiona will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

Amanda Fitzpatrick
Senior Auditor
Afitzpatrick@audit-scotland.gov.uk

Amanda has considerable experience in planning and delivering audits across the public sector. Amanda will work alongside the Audit Manager to deliver the audit.

Emma Carrigan
Senior Auditor
Ecarrigan@audit-scotland.gov.uk

Emma has considerable experience in planning and delivering audits across the public sector. Emma will work alongside the Audit Manager to deliver the audit.

54. 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.

55. 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 Lanarkshire

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

For the latest news follow us on social media or [subscribe to our email alerts.](#)



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
