

# NHS Western Isles

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for NHS Western Isles  
February 2023

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of NHS Western Isles. 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 Western Isles 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 audit risk.

## Adding value

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

## Respective responsibilities of the auditor and NHS Western Isles

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

### NHS Western Isles responsibilities

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

10. NHS Western Isles 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.

### Communication of fraud or suspected fraud

11. In line with auditing standards, in presenting this plan to the Healthcare Governance and Audit Committee, we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the committee have any such knowledge or concerns relating to the risk of fraud within NHS Western Isles, we invite them to communicate this to the appointed auditor for consideration.

# Financial statements audit planning

## Introduction

**12.** The annual report and accounts are an essential part of demonstrating NHS Western Isles stewardship of resources and its performance in the use of those resources.

**13.** We focus our work on the areas of highest audit 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

**14.** 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

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

## Exhibit 1

### 2022/23 Materiality levels for NHS Western Isles and its group

Materiality	Amount	Group
<p><b>Planning materiality</b> – 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 Western Isles 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.</p>	£2.5 million	£2.5 million
<p><b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement,</p>	£1.8 million	£1.8 million

we have assessed performance materiality at 70% of planning materiality.

<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£125 thousand	£125 thousand
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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 Western Isles, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, attendance at committees and a review of supporting information.

**17.** 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.

**18.** 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><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on</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>Assess 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 relating to the processing of journal entries and other adjustments.</li> <li>Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
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.		<ul style="list-style-type: none"> <li>• Consider the need to test journal entries and other adjustments during the period.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</li> <li>• Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Undertake focussed testing of accounting accruals and prepayments.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> </ul>

Source: Audit Scotland

**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 as funding received from the Scottish Government is clearly communicated and can be readily agreed to third party confirmations.

**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.

**21.** We have rebutted this risk as the main expenditure streams of NHS Western Isles are in low-risk areas where individual transactions are well-controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale, with management or board approval required for material transactions. 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

**22.** 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.

**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. There is also the risk, for those assets not subject to revaluation in-year, that the carrying value does not reflect current value.
- Repayment of Covid-19 funding from the Western Isles Integration Joint Board to the Scottish Government. In January 2023 the Scottish Government announced its intention to recover unspent Covid-19 funding. The level of funding to be recovered from the Western Isles IJB is still to be confirmed, as is the exact accounting treatment. As part of our audit, we will consider the implications for the NHS entity and group accounts.
- IT risks - under the revised ISA (International Standards on Auditing) 315 we are required to have a greater understanding of the systems and risk arising from the use of IT systems. Our work in this area is ongoing. We will report any risks and our audit response in our annual audit report.

## Group Consideration

**24.** 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.

**25.** NHS Western Isles has a group which comprises the Western Isles Integration Joint Board (the IJB) as a joint venture. The audit of the financial information of the IJB is performed by the same core team as NHS Western Isles. 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.

**26.** 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.



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# Wider Scope and Best Value

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## Introduction

**27.** 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.

**28.** 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, bribery and corruption.
- **Financial sustainability** - means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs. We will consider the extent to which audited bodies have shown regard to financial sustainability and are planning ahead effectively. We look at planning for the medium term (two to five years) and longer term (longer than five years). The audit will include consideration 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.
- **Vision, leadership and governance** - audited bodies must have a clear vision and strategy and work together with partners and communities to improve outcomes and set priorities for improvement. We will consider the arrangements in place to deliver the vision, strategy and priorities adopted by NHS Western Isles. We will also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** - audited bodies must make best use of their resources to meet stated outcomes and improvement objectives. We will consider how NHS Western Isles demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

## Wider scope risks

**29.** We have identified wider scope 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.

**Exhibit 4****2022/23 wider scope risks**

Description of risk	Sources of assurance	Planned audit response
<p><b>1. Financial Sustainability</b></p> <p>NHS Western Isles' 2022/23 financial monitoring reports indicate that the Board has a projected overspend position of £681k as of 31 October 2022. A significant contributing factor is the level of high cost locum and agency staff on which the NHS Board is dependent due to the number of vacancies they are carrying.</p> <p>We have been advised that The Board is using reserves to cover in year cost pressure but will not have the level of reserves to do this in future years. Savings are forecast to be achieved. Whilst there is some underachieving there are other savings overachieving.</p> <p>There is a risk that the Board cannot deliver services over the medium term within budget.</p>	<ul style="list-style-type: none"> <li>• Ongoing discussions with SGHSCD to agree service targets and financial allocations.</li> <li>• Three year work force plan (2022-2025) published.</li> <li>• Effective budget monitoring by finance team.</li> </ul>	<p>Monitor the board's financial position as reported to the board / relevant committees, including progress against the Financial Improvement Programme.</p> <p>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.</p> <p>Attendance and observations at board and relevant committee meetings.</p>

Source: Audit Scotland

**30.** 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 are addressing climate change and the response to cyber security threats.

**Climate Change**

**31.** 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 set an interim target of a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in working towards these targets and in adapting to the impacts of climate change.

**32.** The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on NHS Western Isles' 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**

**33.** 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 Western Isles' arrangements for managing and mitigating cyber security risks.

### **Duty of Best Value**

**34.** [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) states 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 Western Isles.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**35.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 6](#), 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).

**36.** 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.

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

**38.** [Exhibit 6](#) 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 6 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	15/02/2023	15/02/2023
Independent Auditor's Report	21/06/2023	21/06/2023
Annual Audit Report	21/06/2023	21/06/2023

Source: Audit Scotland

## Timetable



**39.** 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 7](#) that has been discussed with management.

**40.** 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.

**41.** We intend to undertake a remote working approach. 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.

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## Exhibit 7 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	28 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

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## Audit fee

**42.** In determining the audit fee, we have taken account of the risk exposure of NHS Western Isles and the planned management assurances in place. The audit fee for 2022/23 is £88,390 (2021/22: £72,590).

**43.** 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.

**44.** In setting the fee for 2022/23 we have assumed that NHS Western Isles 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.

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# Other matters

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## Internal audit

**45.** It is the responsibility of the NHS Western Isles to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

**46.** While we are not planning to formally use the work of internal audit in 2022/23 for our financial statements audit, 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

**47.** Auditors appointed by the Auditor General for Scotland 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.

**48.** 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.

**49.** The appointed auditor for NHS Western Isles is Gillian Woolman, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of NHS Western Isles.

**50.** The appointed auditor for NHS Western Isles will be changing, effective from 31 March 2023. Audit Scotland has put in place a hand over process to ensure a smooth transition. NHS Western Isles will be advised of the new appointed auditor in due course.

## 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 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.



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# Appendix 1. Your audit team

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**56.** The audit team involved in the audit of NHS Western Isles have significant experience in public sector audit.

**Gillian Woolman**  
Audit Director  
gwoolman@audit-scotland.gov.uk

Gillian has 27 years of public sector audit experience. She has been an engagement lead since 2001 in the local government, central government and NHS sectors. She is a member of ICAEW and CIPFA UK-wide committees.

**Asif A Haseeb**  
Senior Audit Manager  
ahaseeb@audit-scotland.gov.uk

Asif joined Audit Scotland in October 2001. Before this he was chief auditor in a Scottish council. Asif has over 29 years of public sector audit experience and substantial financial management and board level experience in the public sector gained through non-executive membership of various boards (currently member of Court of Glasgow Caledonian University). He is also a Justice of the Peace (lay magistrate).

**Laura Nelson**  
Senior Auditor  
lnelson@audit-scotland.gov.uk

Laura has 15 years public sector audit experience. Laura 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 Western Isles

## Annual Audit Plan 2022/23

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

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