

NHS Ayrshire and Arran

Annual Audit Plan 2023/24



Prepared for NHS Ayrshire and Arran

March 2024

Contents

Introduction	3
Annual report and accounts	5
Wider Scope and Best Value	11
Reporting arrangements, timetable, and audit fee	14
Other matters	17

Introduction

Summary of planned audit work

1. Fiona Mitchell-Knight, Audit Scotland has been appointed by the Auditor General for Scotland as external auditor of NHS Ayrshire and Arran for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of the five-year audit appointment.

2. This document summarises the work plan for the 2023/24 audit. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, 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
- provision of an Independent Auditor's Report expressing opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wider scope areas
- consideration of Best Value arrangements.

Respective responsibilities of the Auditor and Audited Body

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

Auditor responsibilities

4. The responsibilities of the appointed auditor 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.

5. 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 Ayrshire and Arran. In doing this, we aim to support improvement and accountability.

NHS Ayrshire and Arran's responsibilities

6. NHS Ayrshire and Arran is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

7. NHS Ayrshire and Arran 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

8. In line with ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan to the Audit and Risk 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. During our audit, should members of the Board have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration.

Adding Value

9. We aim to add value by: tailoring audit work to the circumstances of NHS Ayrshire and Arran and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Audit and Risk Committee; and by recommending and encouraging good practice. In so doing, we aim to help NHS Ayrshire and Arran promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual report and accounts

Introduction

10. The annual report and accounts are an essential part of demonstrating NHS Ayrshire and Arran's stewardship of resources and its performance in the use of those resources.

11. We perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

12. We focus our work on the areas of highest risk. As part of our planning process, we perform 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 the audit to obtain reasonable assurance about 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 2023/24 audit

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

Exhibit 1

2023/24 Materiality levels for NHS Ayrshire and Arran and its group

Materiality	Board and 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 Ayrshire and Arran's operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure less contributions to</p>	£21.7 million

Integration Joint Boards (IJBs) based on the audited financial statements for 2022/23.

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 are required. Using our professional judgement, we have assessed performance materiality at 60% of planning materiality.	£13.0 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. We have set this at approximately 1% of planning materiality.	£200 thousand

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of NHS Ayrshire and Arran, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, and 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 risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's 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	<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

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>As stated in ISA (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>not applicable in this instance.</p>	<p>the processing of journal entries and other adjustments.</p> <ul style="list-style-type: none"> • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Evaluate significant transactions outside the normal course of business. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.
<p>2. Application of IFRS 16 to Service Concession Arrangements</p> <p>International Financial Reporting Standards (IFRS) 16 Leases and its application to the board's service concession arrangements (PFI and NPD) is effective for 2023/24.</p> <p>The board has two material service concession arrangements: Woodland View and the Ayrshire Maternity</p>	<p>An IFRS 16 model has been produced for use by NHS Boards to assist in complying with the new accounting requirements.</p>	<ul style="list-style-type: none"> • Assess whether service concession arrangements have been accounted for in accordance with the requirements of IFRS 16. • Test the IFRS 16 transitional accounting adjustments and confirm these are accurate and comply with the financial reporting framework.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>Unit. Accounting for these arrangements is complex.</p> <p>There is a risk that the application of this new accounting standard results in a material misstatement to the financial statements.</p>		

Source: Audit Scotland

18. As set out in ISA (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. We have rebutted this risk as most of the board's funding is received from the Scottish Government, and other material income streams are considered to be in low risk areas with limited opportunity to manipulate the recognition of income in the financial statements. Scottish Government funding is clearly communicated and can be readily agreed to third party confirmations.

19. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for the main expenditure streams of NHS Ayrshire & Arran. Most expenditure is 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. Management or board approval is required for transactions greater than £4 million. 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

20. 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 risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

21. The areas of specific audit focus are:

- **Estimation and judgement in the valuation of land and buildings:** This is an area of audit focus, given the significant degree of subjectivity in the

valuation of this category of assets. The value of land and buildings subject to specialist revaluations was £496.9 million at 31 March 2023. A full revaluation is expected to be conducted at 31 March 2024. We will review the arrangements in place to satisfy the board that the annual revaluation process is complete and is free from material misstatement.

- **Service Level Agreements (SLA) Income and Expenditure:** Boards deliver a number of patient services to patients on behalf of other health boards under annual SLAs. In line with IFRS 15, the board is required to identify at the inception of the contract each performance obligation within the contract. Income should be recognised when the board satisfies each performance obligation. Where a performance obligation is satisfied over time, income should be recognised by measuring the progress towards complete satisfaction of that performance obligation. Where SLAs are based on activity level, if a board has not delivered the full activity during the year, the board should recognise any shortfall in activity as a contract liability. If the board has paid for delivery of activity at another board, and this has not delivered at the year-end, an expenditure prepayment should be recognised. There are discussions ongoing between health boards in the West of Scotland as since 2019 the SLA with NHS Greater Glasgow and Clyde has been on a block contract basis. Due to issues identified in the accounting treatment of SLA income at other boards in 2022/23, this will be an area of audit focus.

NSI service auditor assurances

22. We reported in our 2022/23 Annual Audit Report that the board's NSI service auditor report does not cover eFinancials general IT controls, controls over the ATOS server which the financial ledger sits, and the backup of financial ledger data. The board agreed to engage with NHS NSS to address this assurance gap over eFinancials general IT controls. While the board have engaged in discussions with NHS NSS, it has been unable to extend the scope of the NSI service auditor report in 2023/24 to address the assurance gap identified. This remains a business risk for both the board and NHS Scotland. This will not impact on our audit approach if the system produces the information required by the board for the 2023/24 year end accounts.

Regularity

23. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

24. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Group Consideration

25. As group auditors, we are required under 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 Ayrshire & Arran has a group comprised of the North Ayrshire Integration Joint Board, East Ayrshire Integration Joint Board, South Ayrshire Integration Joint Board, all joint ventures, and the Ayrshire & Arran Health Board Endowment Fund which is a subsidiary. Based on our discussions with management and assessment of the group we have concluded that there are no significant group components for audit purposes and therefore we do not require additional audit work to be performed. Our planned audit approach for the components is informed by our assessment of risk at the Endowment Fund and IJBs and our consideration of the size and nature of assets, liabilities, and transaction streams.

27. The audit of the financial information of the Endowment Fund is performed by other auditors with the audits of the IJBs performed by the same core team as NHS Ayrshire & Arran. The external audits of the accounts of other group entities will not be concluded by 30 June 2024. 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. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

29. In summary, the four wider scope areas are:

- **Financial management** – this 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** – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by NHS Ayrshire and Arran. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how NHS Ayrshire and Arran demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

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

Exhibit 3**2023/24 wider scope risk**

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>The board is on level 3 of the Scottish Government's escalation framework due to its financial position and is receiving tailored Scottish Government support for its financial recovery.</p> <p>It is estimated that the board will require additional financial support from the Scottish Government of £38.2 million in 2023/24. The board will be required to repay any financial support received, in addition to the £40.1 million of Scottish Government financial support received in prior years. This will be repayable when the board achieves financial balance.</p> <p>The Scottish Government have advised the board that financial support in 2024/25 cannot exceed £27.7 million. The current draft revenue plan and financial plan shows a projected deficit for 2024/25 of £62.9 million. Radical changes will need to be made in how services are delivered if the board's cost base is to be sustainable in the future. There is a significant risk of financial sustainability at the board.</p>	<ul style="list-style-type: none"> • Robust budget setting process identifies source of funding, unavoidable cost pressures, realistic and risk assessed cash releasing efficiency savings. • Scrutiny of draft budget proposals for 2024/25 by expert groups, CMT, Performance Governance Committee and Board. • The budget setting process was subject to an internal audit review in 2024. • First draft 3 year financial plan submitted January 2024 with SG response in February and updated draft submitted 11 March. • Service review involving clinicians on diabetes, respiratory, palliative, frailty, rehabilitation. • Monthly scrutiny by CMT and either Board or Performance Governance Committee of spend against budget. • Whole system plan is in development 	<ul style="list-style-type: none"> • Review of the required three year financial plan to be submitted to the Scottish Government and assessment of plans to address any forecasted budget deficits. • Review of budget management reports presented to the Performance Governance Committee and Board. • Monitor progress in achieving the 2023/24 revenue budget, 2023/24 cash releasing efficiency savings (CRES) and cost avoidance plans. • Evaluate progress with the Board's 2023/24 Annual Delivery Plan. • Review of performance reports to assess the extent to which the Board is meeting service performance targets. • Evaluate the board's progress with the development of key strategic planning documents and assess how this contributes to the achievement of the board's organisation priorities.

Source: Audit Scotland

31. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Duty of Best Value

32. [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 Ayrshire and Arran.

National Fraud Initiative

33. The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland and overseen by the Public Sector Fraud Authority for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error.

34. The delivery model for NFI in Scotland has always involved appointed auditors who have reported on participation and outcomes. Auditors have an important role to play in the success of the 2022/23 NFI exercise. In order to assist auditors with their reporting responsibilities, central Audit Scotland arrangements have recently been revised to provide auditors with enhanced support.

35. Participating bodies received matches for investigation in Spring 2023. Most matches should have been investigated by 30 September 2023 and the results recorded on the NFI system. However, some investigations may continue beyond this date, and we are required to monitor the board's participation and progress during 2023/24 and include references in our Annual Audit Report.

36. We issued an information return in February 2024 detailing the board's progress investigating matches. The information provided is a key source of evidence for Audit Scotland's next NFI report, due to be published in Summer 2024.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

37. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

38. We will provide:

- an Independent Auditor's Report to NHS Ayrshire and Arran, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts.
- NHS Ayrshire and Arran and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

39. [Exhibit 4](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. In determining the target reporting date, due regard is paid to the administrative date set by the Scottish Government for the consolidated accounts of 30 June 2024.

40. We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

Exhibit 4

2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee (ARC) Date
Annual Audit Plan	31 March 2024	20 March 2024
Independent Auditor's Report	30 June 2024	20 June 2024 ARC 27 June 2024 Board
Annual Audit Report	30 June 2024	20 June 2024 ARC 27 June 2024 Board

Source: Audit Scotland



41. All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

42. 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.

43. 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 Board annual report and accounts with complete working papers package.	7 May 2024
Latest submission date for the receipt of the unaudited consolidated annual report and accounts with complete working papers package.	20 May 2024
Latest date for final clearance meeting with the Director of Finance with draft annual audit report issued 24 hours in advance.	11 June 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	20 June 2024
Agreement of audited and unsigned annual report and accounts	20 June 2024
Issue of Annual Audit Report to Board	27 June 2024
Signed Independent Auditor's Report	27 June 2024

Source: Audit Scotland

Audit fee

44. In determining the audit fee, we have taken account of the risk exposure of NHS Ayrshire and Arran and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit

delivery. The proposed total audit fee for 2023/24 is £221,290 (2022/23 £208,680).

45. In setting the fee for 2023/24, we have assumed that NHS Ayrshire and Arran has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and 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

The audit team

46. Key contacts in the audit team are:

- Fiona Mitchell-Knight FCA, Audit Director
- David Jamieson CPFA, Senior Audit Manager
- Jack Kerr CA, Senior Auditor

Internal audit

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

48. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope responsibilities.

Independence and objectivity

49. Auditors are independent of NHS Ayrshire and Arran in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

50. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard 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.

51. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of NHS Ayrshire and Arran.

Audit Quality

52. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the Audit Scotland website.

53. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits and ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews.

54. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

55. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

56. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

NHS Ayrshire and Arran

Annual Audit Plan 2023/24

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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