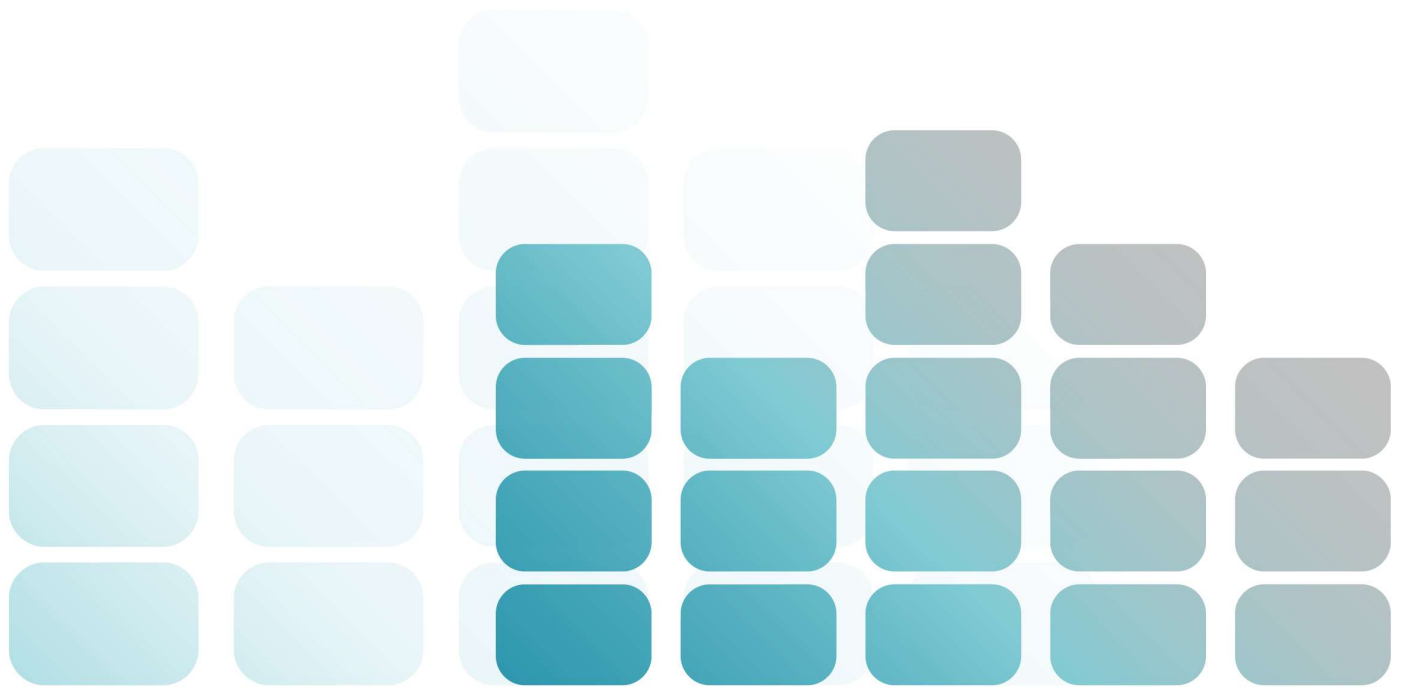


NHS Ayrshire and Arran

Annual Audit Plan 2025/26



Prepared for NHS Ayrshire and Arran
March 2026

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Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2025/26 audit of NHS Ayrshire and Arran's annual report and accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

Appointed auditor and independence

2. Fiona Mitchell-Knight FCA, of Audit Scotland, has been appointed by the Auditor General for Scotland as external auditor of NHS Ayrshire and Arran for 2025/26, the fourth of the five-year audit appointment.

3. Fiona Mitchell-Knight FCA and the audit team are independent of the body 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. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of the body to communicate.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- 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 opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Performance Report and the Governance Statement.
- An opinion on the audited part of the Remuneration and Staff Report.
- Conclusions on the body's arrangements in relation to the wider scope areas: Financial Management, Financial Sustainability, Vision, Leadership, and Governance, and Use of Resources to Improve Outcomes.
- Reporting on the body's arrangements for securing Best Value.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual report and accounts and the wider scope areas specified in the Code of Audit Practice.

Responsibilities

6. The Code of Audit Practice sets out the respective responsibilities of the body and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts and concluding on the body's arrangements in place for the wider scope areas.

NHS Ayrshire and Arran responsibilities

8. NHS Ayrshire and Arran has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements that give a true and fair view and other information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

9. 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 instance of actual, suspected or alleged fraud that should be brought to our attention. During the audit, should members of the Committee have any such knowledge or concerns relating to the risk of fraud within NHS Ayrshire and Arran, we invite them to communicate this to us for our consideration.

Audit of the annual report and accounts

Introduction

10. The audit of the annual report and accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

Materiality

11. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

12. Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

13. The materiality levels determined for the audit of the body and its group are outlined in [Exhibit 1](#).

Exhibit 1

2025/26 Materiality levels for the body and its group

Materiality	The Board	Group
Materiality – based on an assessment of the needs of users of the financial statements and the nature of the body operations, the benchmark used to determine materiality is gross expenditure less contributions to the Integration Joint Boards (IJBs) based on the audited 2024/25 financial statements. Materiality has been set at 2% of the benchmark.	£25.345 million	£25.355 million

Materiality	The Board	Group
Performance materiality – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 60% of planning materiality.	£15.205 million	£15.210 million
Reporting threshold – all misstatements greater than the reporting threshold will be reported.	£0.500 million	£0.505 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. The risk assessment process draws on the audit team’s cumulative knowledge of the body, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

15. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in [Exhibit 2](#).

16. The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan and [Exhibit 2](#) may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to the body and those charged with governance, where relevant.

Exhibit 2**Significant risks of material misstatement to the financial statements**

Risk of material misstatement	Planned audit response
<p>Fraud caused by management override of controls</p> <p>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>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate 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. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias. • Substantive testing of income and expenditure around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

17. In 2024/25 we reported that the number of adjustments made in the audited accounts to reflect our audit findings was outwith the norm and that the arrangements for preparing the accounts needed to improve. The board has confirmed that a quality assurance review will be completed on the accounts before they are provided for audit on 4 May 2026. As all 2024/25 audit findings were ultimately corrected and this assurance has been provided, this is not considered a significant risk of material misstatement for the 2025/26 accounts.

Key audit matters

18. The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

19. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

20. The matters determined to be key audit matters will be communicated in the Annual Audit Report. [Exhibit 2](#) outlines the significant risks of material misstatement to the financial statements that have been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.

Group audit

21. NHS Ayrshire and Arran is part of a group and prepares group financial statements. The group is made up of seven components, including the body which is the parent of the group. Risk assessment procedures have been performed on the group audit to identify if there are any risks of material misstatement to the group financial statements, or any components where audit procedures are required for the purposes of the group audit. The outcome of the risk assessment procedures on the group audit are outlined in [Exhibit 3](#).

Exhibit 3

Outcome of risk assessment procedures on the group audit

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
NHS Ayrshire and Arran	Consolidated on a line-by-line basis	Yes – Exhibit 2	Yes – full scope audit	Audit Scotland

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
Ayrshire and Arran Health Board Endowment Fund	Consolidated on a line-by-line basis	No, not material to group financial statements	Yes – analytical procedures at group level	William Duncan + Co (audit) Ltd
East Ayrshire IJB	Accounted for on equity basis	No, not material to group financial statements	Yes – analytical procedures at group level	Audit Scotland
North Ayrshire IJB	Accounted for on equity basis	No, not material to group financial statements	Yes – analytical procedures at group level	Audit Scotland
South Ayrshire IJB	Accounted for on equity basis	No, not material to group financial statements	Yes – analytical procedures at group level	Audit Scotland
Cumnock SPV	Not consolidated on the basis of materiality	No, not consolidated	No, the component is not consolidated.	Azets Audit Services
Cumnock SPV Holdings Limited	Not consolidated on the basis of materiality	No, not consolidated	No, the component is not consolidated.	Azets Audit Services

Source: Audit Scotland

Wider scope and Best Value

Introduction

22. Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual report and accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on the body being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering the body's medium to longer-term planning for service delivery.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering the body's arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

23. A conclusion on the effectiveness and appropriateness of arrangements the body has in place for each of the wider scope areas will be reported in the Annual Audit Report.

Duty of Best Value

24. The [Scottish Public Finance Manual](#) (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have

been made to secure Best Value. [Best Value in public services: guidance for Accountable Officers](#) is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

25. Consideration of the arrangements NHS Ayrshire and Arran has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the arrangements the body has in place will be reported in the Annual Audit Report.

26. Auditors may also carry out specific audit work covering the seven Best Value themes set out in the SPFM. The risk assessment process did not identify a need to carry out specific audit work on any of the themes. However, auditors are required to carry out a review of the 'fairness and equality' theme at least once during the audit appointment, and this will be carried out later in the audit appointment.

Significant wider scope and Best Value risks

27. The risk assessment process has identified one significant risk in the wider scope areas as outlined in Exhibit 4, and this includes the planned audit procedures in response to the risks.

Exhibit 4

Significant wider scope and Best Value risk

Description of risk	Planned audit response
<p>Financial sustainability</p> <p>In November 2025 a statutory report (S22 report) was published by the Auditor General for Scotland. This covered the board's concerning financial position, as reported in our 2024/25 annual audit report.</p> <p>The financial position has deteriorated further and from 13 February 2026 the board has moved to level 4 of the Scottish Government's escalation framework. This involves senior external support and monitoring and includes the establishment of an Assurance Board, to be chaired by a Scottish Government Director. This Assurance Board will report directly to the Chief Operating Officer for NHS Scotland and the DG for Health and Social Care.</p> <p>It was reported at period nine that the board's 2025/26 estimated outturn would be a £40.2 million deficit, at period 10 we are told this has been revised to a £30 million deficit. The Scottish Government have not agreed to provide this additional financial support, termed brokerage. The maximum allowable deficit for 2025/26 has been set at £25 million. This will take the total amount of Scottish Government brokerage provided to £154.9 million which will be repayable when the board is in financial balance.</p> <p>The current draft three-year financial plan shows that the board does not expect to deliver financial balance in the medium term with total projected deficits of £186.581 million over the three-year period from 2026/27 to 2028/29.</p> <p>If the board's cost base is to be sustainable in the future, transformational change is required to services provided.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Review budget management reports presented to the Performance Governance Committee and Board reporting on the board's financial position. • Monitor progress in achieving the 2025/26 revenue budget and 3% recurrent savings target. • Review the final 2026/27 Financial Plan and 2026/27 Delivery Plan and assess plans to address forecasted budget deficits. • Evaluate progress in developing the Whole System Plan incorporating the Caring for Ayrshire ambitions and approach. Assess whether the board is able to deliver the transformational change at the pace that is required. • Ensure future delivery plans demonstrate how services will change and efficiencies will be realised to meet the growing needs of patients within the financial constraints the board faces. • Keep the Auditor General informed of the boards financial position to assess whether further S22 reports are appropriate.

Source: Audit Scotland

Reporting arrangements, timetable and audit fee

Audit outputs

28. The outputs from the 2025/26 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to the body, the Auditor General for Scotland, and the Scottish Parliament setting out opinions on the Choose an item.
- An Annual Audit Report to the body and the Auditor General for Scotland setting out significant matters identified from the audit of the annual report and accounts, conclusions from the wider scope and Best Value audit, recommendations, where required, and any good practice identified.

29. The matters to be reported in the outputs will be discussed with the body for factual accuracy before they are issued. All outputs from the audit will be published on [Audit Scotland's website](#), apart from the Independent Auditor's Report, which is included in the audited annual report and accounts.

30. Target dates for the audit outputs are set by the Auditor General for Scotland. In setting the target dates for the audit outputs, consideration is given to the statutory date for laying the annual report and accounts, which is 30 June 2026 for NHS bodies.

31. The Independent Auditor's Report and Annual Audit Report are planned to be issued by the target date of 30 June 2026.

Audit timetable

32. Achieving the timetable for production of the annual report and accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 5](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with the body and reported to those charged with governance, where required.

Exhibit 5

2025/26 audit timetable

Audit activity	NHS A&A target date	Audit team target date	Relevant committee date
Issue of Annual Audit Plan		12 March 2026	19 March 2026
Annual report and accounts:			
<ul style="list-style-type: none"> Submission of unaudited annual report and accounts and all working papers to audit team 	4 May 2026		
<ul style="list-style-type: none"> Latest date for audit clearance meeting 	9 June 2026	9 June 2026	
<ul style="list-style-type: none"> Agreement of audited and unsigned annual report and accounts. Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report 		16 June 2026	23 June 2026
<ul style="list-style-type: none"> Approval by those charged with governance and signing of audited annual report and accounts 			Audit and Risk Committee – 23 June 2026 Board – 30 June 2026
<ul style="list-style-type: none"> Signing of Independent Auditor's Report and issue of Annual Audit Report 		30 June 2026	

Source: Audit Scotland

Audit fee

33. The board's audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed fee for the 2025/26 audit is £255,390 (£245,690 in 2024/25). Information on the components that make up the total fee can be found in Audit Scotland's Audit management and quality guidance.

34. In setting the audit fee, it is assumed that for the standard expected fee to be charged, the body has effective governance arrangements in place and the complete annual report and accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be

no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

35. In 2024/25 the total fee included an additional audit fee of £20,000 above the original expected fee due to the extent of additional work required to identify the large number of errors in the accounts, and audit the corrections made in response. Given the range of issues identified in the prior year's audit, we estimate that a similar level of additional work will be required to complete the 2025/26 audit of the accounts and to address the significant risk in the wider scope areas as outlined in Exhibit 4. We have reflected this in the level of proposed fee set for 2025/26. If the quality of the accounts and working papers improves in 2025/26 this will be revisited for setting the 2026/27 fee.

Other matters

Internal audit

36. NHS Ayrshire and Arran is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

37. While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2025/26 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

38. Internal audit issued a report on non-pay expenditure which was presented to the January 2026 Audit and Risk Committee. The conclusion of this report was an audit rating of immediate major improvement required. Given the significant weaknesses highlighted by this report, we would expect progress to continue to be reported on the recommendations made in the report, together with internal audits views on the status of the actions. We will review the disclosure of internal audit findings and progress with actions in the 2025/26 Annual Governance Statement, to ensure there is adequate disclosure of the weaknesses identified.

Audit quality

39. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

40. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2025/26 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. Audit Scotland's SoQM consists of a variety of components, such as governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing

arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.

- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

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

42. 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 monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

43. Audit Scotland may periodically seek the views of the body on the quality of audit services provided. The audit team would also welcome feedback at any time.

NHS Ayrshire and Arran

Annual Audit Plan 2025/26



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