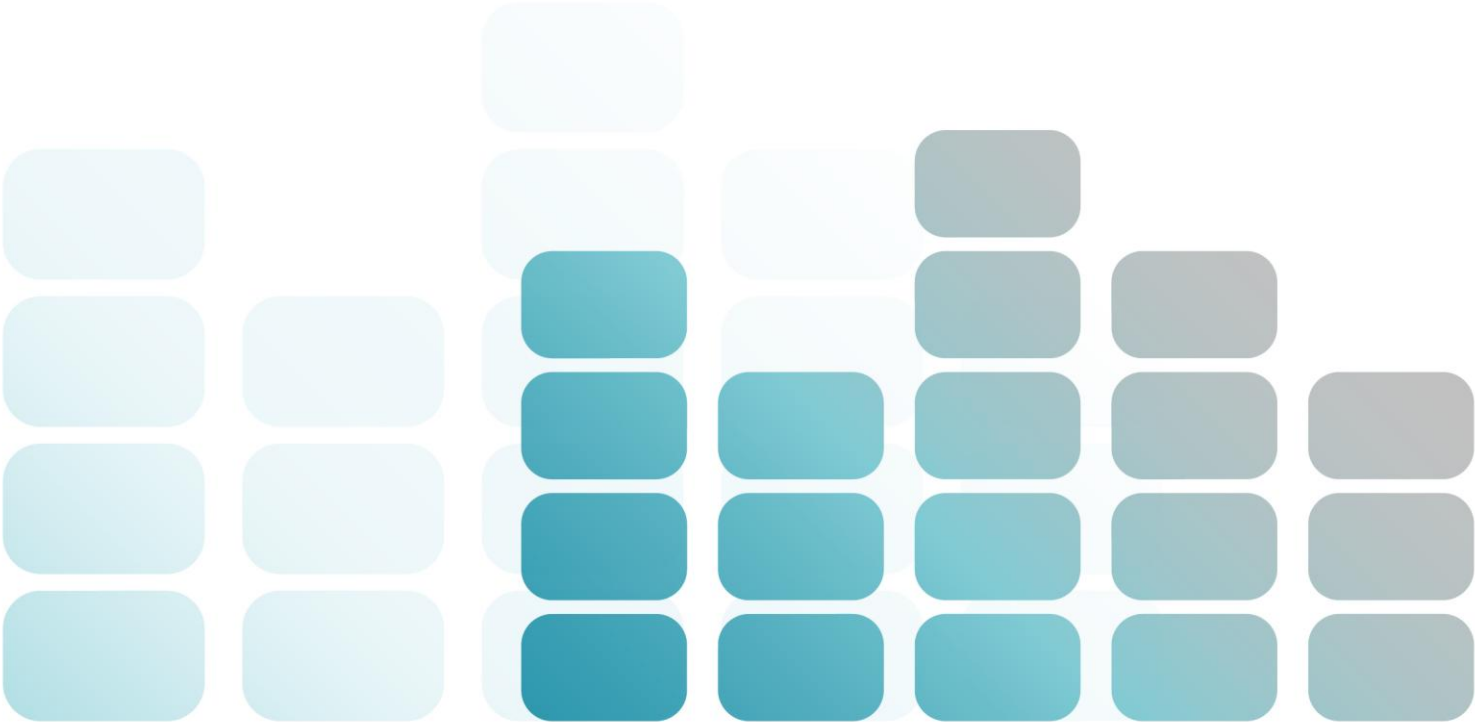


NHS Lanarkshire

Annual Audit Plan 2025/26



Contents

Introduction	3
Audit scope and responsibilities	4
Audit of the annual report and accounts	6
Wider scope and Best Value	12
Reporting arrangements, timetable and audit fee	14
Other matters	17

Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

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 Lanarkshire'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. John Boyd, of Audit Scotland, has been appointed by the Auditor General for Scotland as external auditor of NHS Lanarkshire for the period from 2022/23 until 2026/27. The 2025/26 financial year is therefore the fourth of the five-year audit appointment.

3. John Boyd and the audit team are independent of NHS Lanarkshire 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 NHS Lanarkshire 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 the regularity of income and expenditure.
- 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 NHS Lanarkshire'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 NHS Lanarkshire'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 NHS Lanarkshire 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 NHS Lanarkshire's arrangements in place for the wider scope areas.

NHS Lanarkshire's responsibilities

8. NHS Lanarkshire 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.

Audit of the annual report and accounts

Introduction

9. 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

10. 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.

11. 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.

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

Exhibit 1

2025/26 Materiality levels for NHS Lanarkshire and its group

Materiality	NHS Lanarkshire	Group
Materiality – Based on an assessment of the needs of users of the financial statements and the nature of NHS Lanarkshire's operations, the benchmark used to determine materiality is gross expenditure based on the audited 2024/25 financial statements. Materiality has been set at 1.5 per cent of the benchmark.	£31.54 million	£31.55 million
Performance materiality – This acts as a trigger point. If the aggregate of misstatements identified during the audit	£23.65 million	£23.66 million

Materiality	NHS Lanarkshire	Group
exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 75 per cent of planning materiality.		
Reporting threshold – All misstatements greater than the reporting threshold will be reported.	£1 million	£1 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. The risk assessment process draws on the audit team’s cumulative knowledge of NHS Lanarkshire, 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.

14. 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.

15. 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 NHS Lanarkshire 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 of fraud.

Risk of material misstatement	Planned audit response
<p>Fraud in expenditure recognition</p> <p>There is a presumed risk of fraud in expenditure recognition in public bodies as management may fraudulently recognise expenditure to achieve a desired financial position.</p> <p>NHS Lanarkshire incurs expenditure on a variety of expenditure streams. We have reviewed these expenditure streams and identified those where we consider there to be less opportunity and/or incentive for manipulation. These include payroll expenditure, independent primary care services expenditure, expenditure with other NHS bodies, contributions to Integration Joint Boards including resource transfer, expenditure with voluntary organisations and private providers, audit fees and depreciation and amortisation. Therefore, the presumed risk is not considered to exist for these expenditure streams.</p> <p>However, we have concluded that the remaining expenditure streams are not routine in nature or there is a greater opportunity and/or incentive to manipulate these expenditure streams, therefore the presumed risk is considered to exist in these expenditure streams. Our audit focus is around the financial year end where there is greatest incentive for manipulation. We will therefore focus on the completeness of these expenditure streams.</p>	<ul style="list-style-type: none"> • 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. <p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over non-pay expenditure where there is an increased risk of fraud. • Carry out substantive testing of non-pay expenditure transactions, focusing on completeness of those expenditure streams where we have identified an increased risk of fraud, to ensure expenditure has been recognised in line with accounting policies and in the correct period. • Carry out substantive testing of year-end accruals and payables to ensure expenditure has been recognised in line with accounting policies and in the correct period.

Risk of material misstatement	Planned audit response
<p>Valuation of property, plant and equipment</p> <p>NHS Lanarkshire held £722.044 million of property, plant, and equipment (PPE) at 31 March 2025, of which £587.420 million was land and building assets.</p> <p>NHS Lanarkshire is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated replacement cost (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over the valuation process. • Review the information provided to the valuer and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the valuer. • Review reports from the valuer to confirm overall asset valuations at 31 March. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the appropriateness of the key data and assumptions used in the 2025/26 valuation process, and challenge these where required. • Review management's assessment that the value of assets in the Statement of Financial Position not subject to a valuation process in 2025/26 is not materially different to current value at the year end, and challenge this where required.

Source: Audit Scotland

Key audit matters

16. 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.

17. 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.

18. 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.

Assurance gaps in general IT controls with third party service providers

19. In our 2024/25 Annual Audit Report, we noted that service auditor assurance reporting identified assurance gaps in general IT controls in relation to the NSI eFinancials service. We also noted that NHS Lanarkshire had not received any assurances around the hosting arrangements in relation to the PECOS purchase to pay application. As part of our 2025/26 audit, we will review progress in this area.

Group audit

20. NHS Lanarkshire is part of a group and prepares group financial statements. The group is made up of four components, including NHS Lanarkshire 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 Lanarkshire	Consolidated on a line-by-line basis	Yes – Exhibit 2	Yes – full scope audit	Audit Scotland
Lanarkshire Health Board Endowment Fund	Consolidated on a line-by-line basis	No – not material to group financial statements	No	Azets Audit Services
North Lanarkshire Integration Joint Board	Accounted for on equity basis	No, but is material to group financial statements	Yes – analytical procedures at group level; confirmation of debtor/creditor between parent and component	Audit Scotland

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
South Lanarkshire Integration Joint Board	Accounted for on equity basis	No – not material to group financial statements	No	Audit Scotland

Source: Audit Scotland

21. Where audit procedures are required on a component's financial statements, and the component auditor is different to NHS Lanarkshire's appointed auditor, group audit instructions will be issued to the component auditor outlining expectations and requirements in performing these audit procedures.

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 NHS Lanarkshire 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 NHS Lanarkshire'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 NHS Lanarkshire'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 NHS Lanarkshire 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 Lanarkshire has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on the arrangements NHS Lanarkshire 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.

Wider scope and Best Value risks

27. The risk assessment process has identified risks in the wider scope areas and Best Value as outlined in [Exhibit 4](#) along with the planned audit procedures in response to the risks.

Exhibit 4

Wider scope and Best Value risks

Description of risk	Planned audit response
<p>Financial sustainability</p> <p>NHS Lanarkshire faces significant financial uncertainty over the medium- to longer-term. The 2026/27 to 2028/29 Financial Plan projects a breakeven position for 2026/27 with projected gaps (after potential savings) of £35.675 million for 2027/28 and £31.596 million for 2028/29, representing a significant challenge in delivering services in a financially sustainable way.</p> <p>This is driven through a combination of inflationary pressures on pay and non-pay expenditure, demand driven pressures and funding allocations which have not increased to offset these costs. Potential efficiency savings are on a non-recurring basis which will result in added pressure in subsequent years as budgets become increasingly constrained.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Review NHS Lanarkshire's annual budget-setting arrangements. • Review and assess NHS Lanarkshire's budget monitoring arrangements. • Review NHS Lanarkshire's medium- to longer-term financial planning, including how NHS Lanarkshire aligns savings plans and transformation activity with strategic priorities. • Review NHS Lanarkshire's ongoing financial position and delivery of planned savings.

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 NHS Lanarkshire, the Auditor General for Scotland, and the Scottish Parliament setting out opinions on the annual report and accounts.
- An Annual Audit Report to NHS Lanarkshire 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 NHS Lanarkshire 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 NHS Lanarkshire and reported to those charged with governance, where required.

Exhibit 5

2025/26 audit timetable

Audit activity	NHS Lanarkshire target date	Audit team target date	Audit and Risk Committee date
Issue of Annual Audit Plan	N/A	24 February 2026	3 March 2026
Annual report and accounts:			
• Submission of unaudited annual report and accounts and all working papers to audit team	5 May 2026	N/A	N/A
• Latest date for audit clearance meeting	12 June 2026	12 June 2026	N/A
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report	N/A	15 June 2026	22 June 2026
• Agreement of audited and unsigned annual report and accounts	15 June 2026	15 June 2026	N/A
• Approval by those charged with governance and signing of audited annual report and accounts	22 June 2026	N/A	22 June 2026 25 June 2026 (Board approval)
• Signing of Independent Auditor's Report and issue of Annual Audit Report	N/A	25 June 2026	N/A

Source: Audit Scotland

Audit fee

33. NHS Lanarkshire's audit fee is determined in line with Audit Scotland's fee setting arrangements. The agreed audit fee for the 2025/26 audit is set out in [Exhibit 6](#).

34. In setting the audit fee, it is assumed that NHS Lanarkshire 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.

Exhibit 6

Audit fee

Fee component ¹	Fee (£)
External auditor remuneration	235,540
Pooled costs	25,770
Adjustment for average audit price increase	18,110
Total 2025/26 fee	279,420

Source: Audit Scotland

¹ Information on the components that make up the total fee can be found in Audit Scotland's [Audit management and quality guidance](#).

Other matters

Internal audit

35. NHS Lanarkshire 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.

36. 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.

Audit quality

37. 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](#).

38. 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.

39. 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.

40. 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.

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

NHS Lanarkshire

Annual Audit Plan 2025/26



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN

Phone: 0131 625 1500

www.audit.scot