

# NHS Lanarkshire

Annual Audit Plan 2017/18



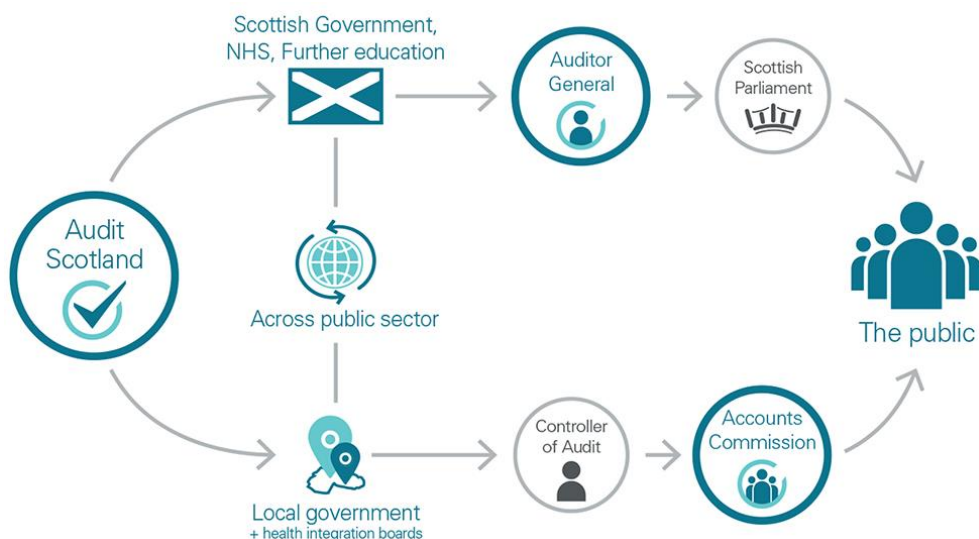
 AUDIT SCOTLAND

Prepared for NHS Lanarkshire  
November 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

3. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for NHS Lanarkshire. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income</b></p> <p>NHS Lanarkshire receives a significant amount of income from other sources other than Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Effective budget monitoring by management.</p> <p>Fraud reports are regularly monitored and information across Scotland is routinely shared.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>

Audit Risk	Source of assurance	Planned audit work
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice requires consideration of risk of fraud over expenditure (excluding payroll costs which are already a core part of all annual audits). NHS Lanarkshire incurs significant expenditure on family health services which require audit coverage.</p>	<p>Fraud reports are regularly monitored and information across Scotland is routinely shared.</p> <p>There are a range of measures in place to prevent and detect fraud, including Standing Financial Instructions, Standing Orders and a Code of Conduct for Staff which incorporates both whistleblowing and fraud policies.</p> <p>The Board has a formal partnership agreement with NHS Scotland Counter Fraud Services and an agreed protocol covering a programme of regular payment verification checks.</p>	<p>Walk-through of controls over family health service expenditure.</p> <p>Audit work on the National Fraud Initiative matches.</p> <p>Obtain assurances from the Counter Fraud Services.</p>
<p><b>4 Management's assessment of fraud risk</b></p> <p>ISA 240 requires auditors to review management's assessment that there may be material misstatements in the financial statements due to fraud. While we recognise that the Board has effective arrangements in place in terms of reporting, recognising and responding to fraud, management should undertake a formal assessment of the risk of fraud to the Board's financial statements.</p> <p>There is a risk that management do not have a clear view of where fraud may impact on the financial statements of the Board.</p>	<p>Periodic completion of structured questionnaire on fraud risk.</p> <p>Consideration of risk from any detected frauds or intelligence from CFS.</p> <p>Participation in NFI exercise.</p> <p>Review of findings of any internal audit reports indicating potential weakness in internal controls in systems impacting on financial transactions.</p> <p>Fraud report indicates potential value range of fraud areas being investigated.</p>	<p>Review of structured questionnaire on fraud risk.</p>
<p><b>5 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Effective budget monitoring by management.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Review of information provided by the Central Legal Office.</p> <p>Focused substantive testing of provisions and non-current asset valuations.</p>
<p><b>6 Implementation of new asset management system (RAM)</b></p> <p>System changes present an audit risk due to the uncertainty</p>	<p>Internal audit will undertake a review of the recording, identification and monitoring of assets in the RAM system</p>	<p>Review of internal audit's planned work on the recording, identification and monitoring of assets in the new system.</p>

Audit Risk	Source of assurance	Planned audit work
<p>over the integrity of migration arrangements and the output from the new system. The Board is implementing the RAM system during 2017/18 to replace its existing system for recording non-current assets.</p> <p>There is a risk that the information from the new system used to prepare the financial statements may contain errors.</p>	<p>during 2017/18.</p>	<p>Focused substantive testing on non-current asset additions, disposals and depreciation charges.</p>

### Wider dimension risks

<p><b>7 Cyber security</b></p> <p>In 2017 the Board experienced outages due to two cyber attacks which impacted on services. The Board took action to learn lessons from the attacks and implement measures to mitigate the risk of future attacks.</p> <p>There is a risk that the Board does not have adequate arrangements in place to prevent future attacks.</p>	<p>The Board undertook a Serious Adverse Event Review (SAER) after the first attack which identified the measures required to safeguard the Board from future attacks.</p>	<p>Review of cyber security arrangements and the actions taken by the Board in response to the SAER.</p>
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### Reporting arrangements

**4.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), 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).

**5.** 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 officer(s) to confirm factual accuracy.

**6.** We will provide an independent auditor's report to NHS Lanarkshire, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

**7.** Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end, i.e. 31 December. Management are required to submit their audited financial statements by 30 June to meet the consolidation timetable.

## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Annual Audit Plan	30 November 2017	5 December 2017
Interim Audit Report	31 March 2018	5 June 2018
Review of Temporary Staffing	31 May 2018	27 June 2018
Annual Audit Report	27 June 2018	27 June 2018
Independent Auditor's Report	27 June 2018	27 June 2018

### Audit fee

**8.** The proposed audit fee for the 2017/18 audit of NHS Lanarkshire will be the subject of a separate fee proposal. In determining the audit fee we will take account of the risk exposure of NHS Lanarkshire, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package, on 7 May 2018.

**9.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

### Responsibilities

#### Audit Committee and Accountable Officer

**10.** Audited bodies have 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 successfully deliver their objectives.

**11.** The audit of the financial statements does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

#### Appointed auditor

**12.** Our responsibilities as independent 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 auditing profession's ethical guidance.

**13.** Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within NHS Lanarkshire to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**14.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of NHS Lanarkshire and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how NHS Lanarkshire will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**15.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of NHS Lanarkshire and its expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- whether the information which comprises the performance report and accountability report is consistent with the financial statements
- the regularity of the expenditure and income.

## Materiality

**16.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

**17.** We calculate materiality at different levels as described below. The calculated materiality values for NHS Lanarkshire are set out in [Exhibit 3](#).





## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018 based on the 2016/17 audited accounts.	£13.316 million
<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 would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 60% of planning materiality.	£7.990 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality rounded to a memorable metric.	£100,000

**18.** If errors in the financial statements are identified during the audit they will also be assessed in relation to the impact that they have on the achievement of the Board's financial objectives.



**19.** We review and report on other information published with the financial statements including the performance report, annual governance statement and the remuneration and staff report. Any issue identified will be reported to the Audit Committee.

#### Timetable

**20.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates.

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	7 May 2018
Latest date for final clearance meeting with the Director of Finance	13 June 2018
Issue of letter of representation and proposed independent auditor's report	20 June 2018
Agreement of audited unsigned annual accounts	20 June 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	20 June 2018

## Internal audit

**21.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided as part of a managed service, overseen by Fife, Tayside and Forth Valley Audit and Management Services (FTF).

### Adequacy of Internal Audit

**22.** We have undertaken a formal review of internal audit and have concluded that internal audit, generally, operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place. Based on a review of the internal audit plan, we intend to place reliance on work as outlined below.

### Areas of Internal Audit reliance

**23.** To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Financial Process Compliance
- Service Contract expenditure

**24.** In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- 2020 Priorities
- Savings programme
- Financial planning
- Information security framework
- eHealth Strategic Planning and Governance
- NHS Scotland Waiting Times Methodology

## Audit dimensions

**25.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

**26.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the board's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

### Financial management

**27.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether NHS Lanarkshire has arrangements in place to ensure systems of internal control are operating effectively
- whether NHS Lanarkshire can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how NHS Lanarkshire has assured itself that its financial capacity and skills are appropriate
- whether NHS Lanarkshire has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### Governance and transparency

**28.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether NHS Lanarkshire can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others)
- whether there is effective scrutiny, challenge and transparency on the decision – making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

### Value for money

**29.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether NHS Lanarkshire can provide evidence that it is demonstrating value for money in the use of its resources.

**30.** The Chief Executive as Accountable Officer of the Board has a formal duty to ensure the achievement of Best Value in the delivery of services within Lanarkshire. We will be reviewing the Board's arrangements to ensure that there is evidence to demonstrate that this duty is being met.

**31.** In 2016/17 we undertook a review of delayed discharges. The Board worked with its Integration Joint Board (IJB) partners to develop an action plan to respond to the recommendations made in our report. We will follow up progress against these actions in 2017/18 and will include comment on the progress made in our Annual Audit Report.

**32.** In discussion with officers, we have identified the use of temporary staffing as an area which continues to present a challenge to the Board. In response we will carry out a review of the range and effectiveness of measures employed to reduce reliance on temporary staff to deliver services. We will report our findings to management and the Board.

**33.** In Autumn 2018 Audit Scotland intends to publish, on behalf of the Auditor General and the Accounts Commission, a second national performance audit report on Health and Social Care Integration. We will contribute to the intelligence for this report as required from the Board's perspective.

**34.** In addition, Audit Scotland has requested auditors to provide information to support Audit Scotland in assessing the impact of the Changing Models of Health and Social Care performance audit (published in March 2016) during 2017/18:

### Independence and objectivity

**35.** Auditors appointed by the Accounts Commission or 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. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**36.** The engagement lead for NHS Lanarkshire is Fiona Mitchell-Knight, Assistant Director of Audit. Auditing and ethical standards require the appointed auditor, Fiona Mitchell-Knight, to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of NHS Lanarkshire.

## Quality control

**37.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**38.** 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 relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**39.** 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.

## Adding Value

**40.** Through our audit work we aim to add value to NHS Lanarkshire. We will do this by ensuring that our Annual Audit Report provides a summary of the audit work carried out in the year together with clear judgements and conclusions on how well NHS Lanarkshire has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# NHS Lanarkshire

## Annual Audit Plan 2017/18

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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