

NHS Western Isles

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

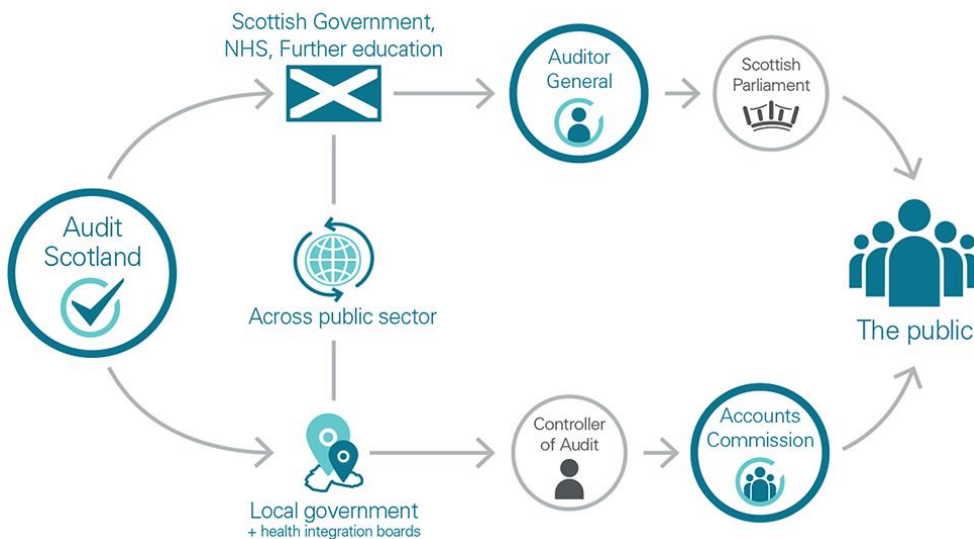
Prepared for NHS Western Isles

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 Western Isles. 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
Financial statement issues and risks		
<p>1 Risk of management override of controls</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 including the holiday pay accrual.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Substantive testing of transactions after the financial year end to ensure income and expenditure is accounted for in the correct financial year.</p>
<p>2 Risk of fraud over expenditure</p> <p>Audit Scotland's Code of Audit Practice extends the scope of ISA240 and we are required to consider the risk of fraud over</p>	<p>Internal controls over expenditure which operate effectively.</p> <p>Effective budgetary control procedures.</p>	<p>Substantive Testing of a sample of payments.</p> <p>Confirm operation of key controls</p> <p>Assurance from Counter Fraud</p>

Audit Risk	Source of assurance	Planned audit work
<p>expenditure in NHSWI.</p> <p>Significant expenditure items include FHS, pay and non pay expenditure, including patient travel expenditure.</p>	<p>Appropriate and effective measures to detect and prevent fraud.</p> <p>Partnership with NHS Scotland Counter Fraud Services.</p>	<p>Services.</p> <p>Review of Internal Audit work on the Financial Systems Health Check.</p>
<p>3 Non Current Asset</p> <p>Our audit of the 2016/17 financial statements identified the following issues:</p> <ul style="list-style-type: none"> – Differences between disclosures in categories of assets and the fixed asset register – A net difference in the calculation of depreciation charge. – Incorrect treatment of revaluation adjustments <p>There is a risk that the value of non current assets is materially misstated.</p>	<p>Our findings were considered by the Healthcare Governance and Audit Committee on 28 June 2017.</p> <p>Updated internal procedures.</p> <p>Current work is ongoing (Oct 17 – Jan 18) on revising the Fixed Asset Register to address the previously raised audit issues.</p> <p>Ongoing discussion with finance staff to ensure adjustments to revaluation reserve are as expected and in line with audit expectations.</p>	<p>Early consideration of revisions made to the Fixed Asset Register by Finance staff.</p> <p>Review of the proposed adjustments for the Revaluation Reserve.</p> <p>Substantive Testing of a sample of transactions and balances</p>
<p>4 Transactions with Curam Is Slainte Nan Eilean Siar (CISNES) Integration Joint Board</p> <p>The timing of CISNES accounts is later than the required timing on NHSWI. This may impact on the accuracy of NHSWI group accounts.</p>	<p>NHSWI Director of Finance is also the IJB's Chief Finance Officer.</p> <p>Regular meetings and discussions with Curam Is Slainte Nan Eilean Siar.</p>	<p>Ongoing discussion about the treatment of funding of overspends.</p> <p>Early discussion with NHS Board officers on the year end process for agreement of IJB transactions and balances.</p> <p>Year end confirmation that the balances have been agreed by bodies.</p>
<p>5 Implementation of JAC e Prescribing</p> <p>A new system has been implemented in NHSWI for the management of pharmacy stock. There is a risk that discrepancies may exist in reconciling the new system with the previous system used by the board.</p>	<p>A comprehensive process to ensure balancing and testing was put in place to provide assurance prior to the go live date. This was signed off by management and the system provider.</p>	<p>Initial system review of the new system.</p> <p>Agreement of balances transferred to the new system.</p> <p>Review of work planned by finance staff prior to the financial year end.</p> <p>Verification and agreement of values disclosed in the financial statements.</p>
Wider dimension risks		
<p>6 Financial sustainability</p> <p>Our 2016/17 Annual Audit Report included comment that NHSWI does not have a long term financial plan but has</p>	<p>Agreement of the medium term financial plan with SGHSCD.</p> <p>Scenario planning of possible</p>	<p>Undertake specific audit work on financial planning which will include consideration of scenario planning, assumptions, savings identified</p>

Audit Risk	Source of assurance	Planned audit work
<p>produced a limited medium term financial plan as part of the LDP.</p> <p>We also commented on the increasing reliance on non recurring savings to achieve financial balance.</p>	<p>financial positions.</p> <p>Ongoing discussions with SGHSCD to agree service targets and financial allocations.</p> <p>Ongoing support from SGHSCD for national projects and initiatives.</p>	<p>and level of non recurring savings.</p> <p>Monitor updates to the financial plan.</p> <p>Monitor outcomes of discussions with SGHSCD</p>
<p>7 Financial position</p> <p>The Financial Monitoring Report for month 6 is predicting a potential overspend of £556k. The Report also notes that some savings will not be achieved and that savings of £781k remain to be identified.</p> <p>There is a risk that NHSWI may not achieve financial balance in year.</p>	<p>Timely and accurate monthly financial monitoring.</p> <p>Ongoing review of the forecast outturn.</p>	<p>Review of monthly financial reports and projections prepared by the Director of Finance.</p> <p>Monitor the development of the budget projection outturn for the remainder of the financial year.</p> <p>Consider any contingency actions if financial balance is not to be achieved</p>
<p>8 Governance and transparency</p> <p>Our 2016/17 Annual Audit Report included comment that papers from some committees are not routinely made available on the Board's website.</p> <p>There is a risk that the unavailability of information to public and stakeholders leads to the Board not being sufficiently transparent.</p>	<p>Review at Board level of the risks and benefits of all meetings being open to public attendance.</p>	<p>Obtain an update on the consideration by the Board of whether all papers/ meetings should be open to the public with sensitive or confidential items held in private session/ restricted.</p>

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.

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 officers to confirm factual accuracy.

6. We will provide an independent auditor's report to NHS Western Isles, 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	Healthcare Governance and Audit Committee Date
Annual Audit Plan	6 Dec 2017	13 December 2017
Management Report	31 March 2018	23 May 2018
Annual Audit Report	27 June 2018	27 June 2018
Independent Auditor's Report	27 June 2018	NHS Board 27 June 2018

Audit fee

8. The proposed audit fee for the 2017/18 audit of NHS Western Isles is yet to be determined and is subject to agreement of Audit Scotland's budget with the Scottish Commission for Public Audit. In determining the audit fee we will take account of the risk exposure of NHS Western Isles, 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 14 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 outwith our planned audit activity.

Responsibilities

Healthcare Governance and 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 Healthcare Governance and 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 the audited body 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 Western Isles 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 Western Isles 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 Western Isles and its group and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income
- whether the auditable part of the remuneration report and staff report has been properly prepared in accordance with relevant legislation and other reporting requirements
- whether the information in the performance report and governance report is consistent with the financial statements.



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 Western Isles are set out in [Exhibit 3](#).

Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality – 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 2017.	£1.3 million
Performance materiality – 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 40% of planning materiality.	£0.5 million
Reporting threshold – 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 2% of planning materiality.	£25,000



18. We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration report. Any issue identified will be reported to the Healthcare Governance and Audit Committee.

Timetable

19. 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 Healthcare Governance and Audit Committee dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete electronic working papers package	14 May 2018
Latest date for final clearance meeting with Director of Finance	14 June 2018
Issue of letter of representation and proposed independent auditor's report	18 June 2018
Agreement of audited unsigned annual accounts	18 June 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	27 June 2018
Independent auditor's report signed	28 June 2018

Internal audit

20. 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 by Scott-Moncrieff.

Adequacy of Internal Audit

21. A formal review of internal audit is planned for December 2017. Based on a review of internal audit's annual plan, we have identified the areas we intend to place specific reliance. These are outlined below.

Areas of Internal Audit reliance

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

- Financial Systems health check – review of financial ledger and cash and treasury management.
- IT Security and BCP arrangements.

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

- Clinical Governance – Delayed Discharges.

Audit dimensions

24. 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

25. 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 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 specific work in this area and consider:

- the effectiveness of financial planning and the assumptions made in identifying and addressing risks to the financial sustainability in short, medium and long term
- the effectiveness of the processes in place to address identified funding gaps
- the level of non recurring savings.

Financial management

26. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively and include:

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

Governance and transparency

27. 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. These include:

- whether NHS Western Isles can demonstrate that the governance arrangements in place are appropriate and operating effectively
- 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

28. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether NHS Western Isles can provide evidence that it is demonstrating value for money in its achievement of performance targets.

Strategic plan for the five year appointment

29. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (this will be subject to annual review):

Exhibit 6

Strategic Plan

Dimension	2017/18	2018/19	2019/20 to 2020/21
Financial sustainability	Financial planning – including scenario planning, planning assumptions and savings plans.	Financial planning	
Financial management	Resource management – including financial capacity within the Board	Financial reporting and budgeting	
Governance and transparency			Leadership, governance and scrutiny
Value for money		Locum and Agency costs	Patient travel

Independence and objectivity

30. Auditors appointed by the Accounts Commission or Auditor General 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 Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

31. The engagement lead for NHS Western Isles is Brian Howarth, Assistant Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of NHS Western Isles.

Quality control

32. 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.

33. 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.

34. 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

35. Through our audit work we aim to add value to the Audited Body. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the Audited Body 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 Western Isles

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