

# NHS Lanarkshire

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

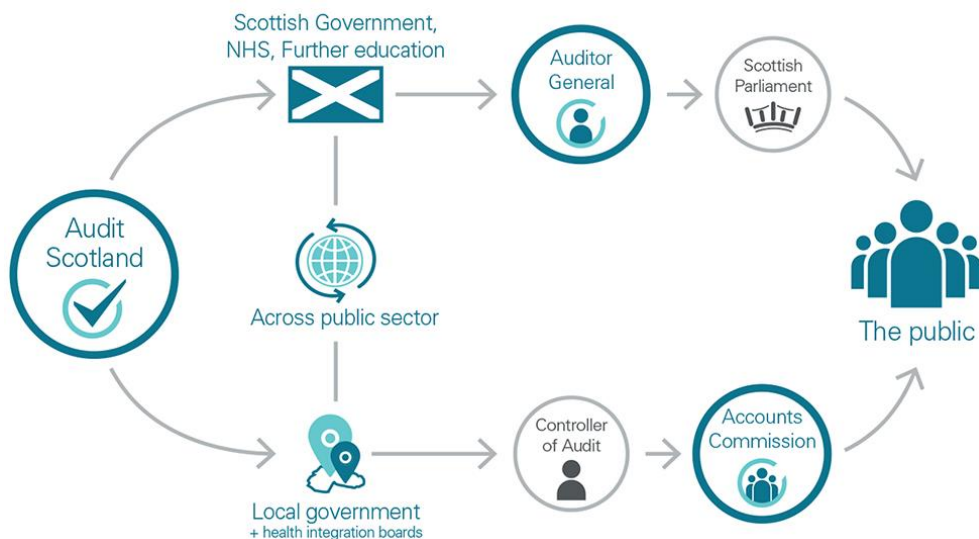
Prepared for NHS Lanarkshire  
January 2020



## 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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

## Adding value


3. We aim to add value to the NHS Lanarkshire through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help NHS Lanarkshire promote improved standards of governance, better management and decision making and more effective use of resources.


## Audit risks


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

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p>1 <b>Risk of material misstatement caused by management override of controls</b></p> <p>Auditing standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p>2 <b>Risk of material misstatement caused by fraud in income recognition.</b></p>	<p>Effective budget monitoring by management.</p> <p>Fraud reports are regularly monitored and information</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on income streams.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. NHS Lanarkshire receives a significant amount of income from sources other than the Scottish Government. There is therefore a risk that income may be misstated, resulting in a material misstatement in the financial statements.</p>	<p>across Scotland is routinely shared.</p>	<ul style="list-style-type: none"> <li>Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>
3	<p><b>Risk of material misstatement caused by fraud in expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. 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>	<ul style="list-style-type: none"> <li>Walk-through of controls over family health services expenditure.</li> <li>Audit work on the National Fraud Initiative matches.</li> <li>Obtain assurances from the Counter Fraud Services.</li> <li>Assurances from Auditor of NHS National Services Scotland over the work of the Service Auditor in respect of Practitioner Services.</li> </ul>
4	<p><b>Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account area, provisions. In 2018/19 we identified some errors in provisions calculations. This subjectivity and the prior year errors, represent an increased risk of misstatement in the financial statements.</p>	<p>The Scottish Government intends to issue a pro-forma to support boards in calculating provisions.</p> <p>The board will ensure that provisions are calculate in accordance with the relevant guidance.</p>	<ul style="list-style-type: none"> <li>Review of information provided by the Central Legal Office.</li> <li>Focused substantive testing of provisions.</li> </ul>
5	<p><b>Authorisation of overtime payments</b></p> <p>In 2018/19, the board spend in excess of £4.5 million on overtime payments to employees. In 2019 a suspected fraud was identified in respect of overtime payments. The board undertook a review of internal controls which resulted in a revised approach being developed for authorising overtime payments. The revised arrangements are being piloted in one department with a view to</p>	<p>The board is actively investigating the fraud allegations and is working to learn lessons from the findings and consider the impact of this case.</p> <p>A significant exercise is underway to review authorisation arrangements for overtime payments to ensure that these are as robust as possible.</p>	<ul style="list-style-type: none"> <li>Substantive testing of overtime payments.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>rolling them out across all sites before the end of 2019.</p> <p>Given that the revised, enhanced arrangements will not be in place throughout 2019/20 there is a risk that payroll costs are overstated.</p>		
6	<p><b>eESS – HR/Payroll System</b></p> <p>Regular checks to confirm the existence of employees are fundamental for ensuring that only valid employees are being paid. Although checks are now in place, employing departments do not provide positive confirmation that the listings provided are correct which means that errors may not be identified.</p> <p>We have previously reported that there have been some delays in updating eESS when an employee has left the organisation resulting in overpayment of salary. This delay, coupled with the absence of positive confirmation of payroll listings means there is a risk that invalid employees are being paid through the payroll, thereby overstating payroll costs.</p>	<p>A monthly validation exercise is now being undertaken which requires managers to review the staffing list for their department. To date there has been no requirement to provide positive confirmation of the accuracy of the employee listing, but we plan to introduce positive confirmation to strengthen this control.</p>	<ul style="list-style-type: none"> <li>• Substantive testing on the existence of employees included on the payroll.</li> </ul>
<b>Wider dimension risks</b>			
6	<p><b>Governance and transparency</b></p> <p>Internal audit is currently working with a reduced staffing complement compared to the resources needed to deliver the 2019/20 Internal Audit plan. The Internal Audit plan will be revised to ensure that resources are targeted to deliver the highest priority audits.</p> <p>There is a risk that the revised Internal Audit plan will not provide sufficient coverage to provide the necessary assurances, to the Board's Audit Committee, for the Annual Governance Statement.</p>	<p>The Director of Finance is actively engaging with Internal Audit to ensure that available resources are targeted on priority areas. Overall, the approach being taken to revising the 2019/20 audit plan appears appropriate. The audit committee will be kept updated on the Internal Audit position.</p>	<ul style="list-style-type: none"> <li>• Review the revised Internal Audit Plan to assess the Internal Audit Coverage.</li> <li>• Review of arrangements in place to ensure that the Board has the necessary assurances to sign-off the Annual Governance Statement.</li> </ul>
7	<p><b>Impact of EU withdrawal</b></p> <p>The board faces uncertainty around its funding and capacity for service delivery beyond the 31 January 2020 when the United Kingdom leaves the European Union. Work is ongoing with the Scottish Government to ensure that the board is adequately</p>	<p>The corporate risk register includes a risk that the board will not be in full operational readiness for EU withdrawal.</p> <p>The board is working with the Scottish Government to ensure that all practical steps are taken ahead of EU withdrawal to</p>	<ul style="list-style-type: none"> <li>• Review board's assessment of impact of EU withdrawal on its operations and the mitigating controls in relation to this risk as set out in the board's corporate risk register.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>prepared but there is still significant uncertainty around the impact of EU withdrawal.</p> <p>There is a risk that the board is unable to deliver services efficiently following EU withdrawal.</p>	safeguard service delivery in NHS Lanarkshire.	

Source: Audit Scotland

## Reporting arrangements

**5.** 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).

**6.** 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.

**7.** 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 report and 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 during the audit.

**8.** 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 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	28 February 2020	3 March 2020
Management Report	30 April 2020	2 June 2020
Independent Auditor's Report	24 June 2020	24 June 2020
Annual Audit Report	24 June 2020	24 June 2020

Source: Audit Scotland

## Audit fee

**9.** The agreed audit fee for the 2019/20 audit of NHS Lanarkshire is £194,670 [2018/19: £191,520]. In determining the audit fee, we have taken 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 annual report and accounts, with a complete working papers package on 11 May 2020.

**10.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts 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

**11.** 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.

**12.** The audit of the annual report and accounts does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.

### Appointed auditor

**13.** Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**14.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the 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

## Annual report and accounts

**15.** The annual accounts, which include the financial statements, will be the foundation and source for most 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.

**16.** We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of affairs of the board and its group as at 31 March 2020 and of the income and expenditure of the board and its group for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, as interpreted and adapted by the 2019/20 Financial Reporting Manual (FRoM).
- have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

## Statutory other information in the annual report and accounts

**17.** We also review and report on statutory other information published within the annual report and accounts including the performance report, governance statement and the remuneration and staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**18.** We also review the content of the annual report and accounts other than the financial statements and audited part of the remuneration and staff report and report any uncorrected material misstatements in statutory other information.

## Materiality

**19.** 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



characteristics



responsibilities



principal activities



risks



governance arrangements

uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

20. 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	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess 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 2020 based on the budget monitoring information for 2019/20.	£15.487 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.	£9.292 million
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£0.155 million

Source: Audit Scotland

### Timetable

21. To support the efficient use of resources it is critical that the annual report and accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

### Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	11 May 2020
Latest date for final clearance meeting with Director of Finance	10 June 2020
Issue of Letter of Representation and proposed independent auditor's report	17 June 2020
Agreement of audited unsigned annual report and accounts	17 June 2020
Issue of draft Annual Audit Report to those charged with governance	17 June 2020
Independent auditor's report signed	24 June 2020
Issue of Annual Audit Report to those charged with governance	24 June 2020

## Internal audit

**22.** Internal audit is provided as part of a managed service, overseen by Fife, Tayside and Forth Valley Audit and Management Services (FTF). As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**23.** The 2019/20 Internal Audit Plan was approved by the audit committee in June 2019. This set out a resource requirement of 695 days to deliver the audit plan. We understand that the resource available to the internal audit section is now significantly depleted from that available at the planning stage due to staff absence and vacancies in the team. While the audit plan is normally subject to review at this stage of the year to ensure resources are targeted in the most appropriate way, this is even more significant for 2019/20 and some planned reviews will need to be deferred until a later date. It is essential that this is done in a measured way to ensure coverage of high risk areas and those which are necessary to allow Internal Audit to provide the necessary assurances to the Audit Committee for the Governance Statement.

### Using the work of internal audit

**24.** 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 to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

**25.** From our initial review of internal audit plans we plan to place formal reliance on internal audit work in the following areas:

- Financial Process Compliance - Compliance testing of travel, accounts payable, account receivable, bank arrangements
- Financial Planning

## Audit dimensions

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

## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

**27.** 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 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

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

### Governance and transparency

**29.** 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

**30.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether NHS Lanarkshire can demonstrate :

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered.
- that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

**31.** The Chief Executive as Accountable Officer of NHS Lanarkshire has a duty to ensure arrangements are in place to secure Best Value (BV). During 2017/18 the board carried out a review of its arrangements to secure BV across the seven characteristics of BV. The board now intends to formally review its arrangements for securing BV every three years with annual update reviews to reflect any changes to board arrangements in the interim. We will review and report on these arrangements as required.

**32.** In 2017/18 we undertook a review of the use of temporary staffing. The board developed an action plan to take forward the recommendations from the report. We will review progress against these actions and the use of temporary staffing in 2019/20 and will include comment in our Annual Audit Report.

**33.** In 2016/17 we undertook a review of delayed discharges which was subsequently followed up in 2018/19. We will continue to monitor progress in respect of delayed discharges and will include comment in our Annual Audit Report.

**34.** During 2019/20 Audit Scotland will undertake, on behalf of the Auditor General and Accounts Commission, a national performance audit in relation to children and young people's mental health. The local audit team will support PABV colleagues throughout the audit as appropriate.

## Independence and objectivity

**35.** 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 robust arrangements in place 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 (i.e. appointed auditor) for NHS Lanarkshire is Fiona Mitchell-Knight, Audit Director. 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out 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.

# NHS Lanarkshire

## Annual Audit Plan 2019/20

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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