

# NHS Tayside

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for NHS Tayside  
March 2022

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of NHS Tayside. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the 2021/22 annual report and accounts to support our opinions on the financial statements
- work to support our audit opinions on regularity and the other statutory information published within the 2021/22 annual report and accounts, including the Performance Report, the Governance Statement and the audited part of the Remuneration and Staff Report
- review of NHS Tayside's participation in the National Fraud Initiative
- consideration of the arrangements in relation to the four audit dimensions that frame the wider scope of public sector audit: financial management, financial sustainability, governance and transparency, and value for money
- consideration of Best Value arrangements.

## Impact of Covid-19

2. The coronavirus (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary during the course of 2022 and where this impacts on annual audits, revisions to this Annual Audit Plan may be required. Any such changes will be communicated to the board at the earliest opportunity available.

## Adding value

4. We aim to add value to NHS Tayside through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. We also attend meetings of the Audit and Risk Committee and actively participate in discussions. In so doing, we intend to help NHS Tayside promote improved standards of governance, better management and decision making, and more effective use of resources.

## Respective responsibilities of the auditor and NHS Tayside

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and NHS Tayside. Key responsibilities are summarised below.

### Auditor responsibilities

6. 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.

7. 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.

### NHS Tayside's responsibilities

8. NHS Tayside is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, NHS Tayside has 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 deliver their objectives.

10. In NHS Tayside the Chief Executive, as the Accountable Officer, is responsible for the administration of financial affairs. The Board has delegated responsibility for the oversight of internal and external audit to its Audit and Risk Committee.

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

### Communication of fraud or suspected fraud

12. In line with ISA 240, in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected or alleged fraud that should be brought to our attention. Should members of the Committee or Board have any such knowledge or concerns relating to the risk of fraud within NHS Tayside, we invite them to communicate this to the appointed auditor for consideration.

### Managing the transition to 2022/23 audits

13. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Financial statements audit planning

## Audit of the financial statements

**14.** Our approach to the audit of the 2021/22 annual report and accounts, including the financial statements, has been designed to support the appointed auditor's opinion as to whether the annual report and accounts give a true and fair view of the board's finances for the year ended 31 March 2022, and have been properly prepared in accordance with International Financial Reporting Standards and the NHS financial reporting framework.

## Materiality

**15.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

## Materiality levels for the 2021/22 audit

**16.** We assess materiality at different levels as detailed in [Exhibit 1](#), along with the levels set for the 2021/22 audit of NHS Tayside.

## Exhibit 1

### Materiality levels for 2021/22 audit

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 2021 based on the latest audited annual report and accounts.	£12.459 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 assessed performance materiality at 60% of planning materiality.	£7.476 million
<b>Reporting threshold:</b> We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting	£0.250 million

threshold' amount. This has been capped at the maximum amount allowable under Audit Scotland's audit approach.

<b>Cumulative errors and impact on financial targets:</b> We consider all monetary errors identified through the audit process (including those below the reporting threshold) and the impact they have on the board's reported results against its financial targets. If the cumulative errors result in the board failing to meet its financial targets, this could impact on our audit testing and could result in a comment in the independent auditor's report.	Not applicable
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Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**17.** Our risk assessment draws on our cumulative knowledge of NHS Tayside and consideration of its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management, meetings with internal audit, attendance at committees and review of other relevant information.

**18.** Based on our risk assessment, we identify significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. Only one such risk was identified for the 2021/22 financial statements audit. This is shown in [Exhibit 2](#) along with details of the further audit procedures we plan to perform to gain assurance over this risk.

### Exhibit 2

#### 2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, 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>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 with a focus on significant risk areas, including year-end and post-close down entries.</li> <li>• Focussed testing of accruals and prepayments.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they have been accounted for in the correct financial year.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> </ul>

Source: Audit Scotland

**19.** Based on our assessment of the likelihood and magnitude of the risk, we have assessed that there are currently no other risks of material misstatement for the 2021/2 audit of NHS Tayside. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

## Consideration of the risks of fraud in the recognition of income and expenditure

**20.** As set out in *International Standard on Auditing (UK) 240: The auditor's responsibility relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for NHS Tayside as the main source of income is from Scottish Government funding and other public sector transfers and payments. In addition, the board's other income streams comprise of high volume, low value items that are unlikely to result in a material misstatement in the accounts.

**21.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. However, we have also rebutted this risk for NHS Tayside as our assessment of the constituent expenditure streams, including consideration of historical levels of frauds, is that the risk of a material misstatement due to fraud is low.

**22.** We have not, therefore, incorporated specific additional audit procedures into our audit plan in relation to the risks of fraud in the recognition of income and expenditure, over and above our standard audit procedures.

## Group Consideration

**23.** As group auditors, we are required under *International Standard on Auditing (UK) 600: Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

**24.** NHS Tayside has a group which comprises component entities, including the Tayside NHS Board Endowment Fund and the three Tayside associated Integration Joint Boards. The audits of the financial information of some of the components are performed by other auditors. We plan to place reliance on the work of the component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

## Audit of Performance Report, Governance Statement, and audited part of the Remuneration and Staff Report

**25.** In addition to the appointed auditor's opinion of the financial statements, the Auditor General for Scotland prescribes that the appointed auditor should provide

opinions as to whether the Performance Report, Governance Statement, and audited part of the Remuneration and Staff Report, have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the financial statements.

**26.** To inform these opinions we will consider whether the disclosures within each statement comply with the requirements of the applicable guidance, and confirm that relevant information reflects the contents of the financial statements and other supporting documentation, including:

- Performance Report – Performance information reported to the Board and published during the year.
- Governance Statement – Annual assurance statements, including their completeness and accuracy, completed and prepared by Directors to provide assurances to the Accountable Officer, and Internal Audit's Annual Report.
- Remuneration and Staff Report – Payroll data and HR reports.

**27.** Based on our knowledge of the audit, and the established procedures in place to produce these statements, we have not identified any specific risks to be communicated to those charged with governance in relation to the audit of the Performance Report, Governance Statement, and audited part of the Remuneration and Staff Report.

### **Audit risk assessment process**

**28.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.



# Audit dimensions and Best Value

## Wider scope of public sector audit

29. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

## Audit dimensions

30. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

### Exhibit 3 Audit dimensions



Source: Code of Audit Practice

31. In summary, the four dimensions cover the following:

- **Financial management** – Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – We will comment on the board's financial sustainability in the longer term. We define this as medium term (two to five years) and long term (longer than five years).

- **Governance and transparency** – Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership, and decision-making and transparent reporting of financial, performance and other information.
- **Value for money** – Value for money refers to using resources effectively and continually improving services.

## Duty of Best Value

**32.** [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that the Chief Executive of NHS Tayside, as the Accountable Officer, has a specific responsibility to ensure that arrangements have been made to secure Best Value (BV).

**33.** In our 2019/20 Annual Audit Report we recommended that the board review its BV framework to ensure it provides explicit and comprehensive assurance that BV is being delivered. This activity was delayed due to the impact of the Covid-19 pandemic but is now being progressed and a revised BV Framework mapping the board's response to the Good Governance Blueprint is scheduled to be completed by the end of March 2022. We will review the revised BV Framework and report on it in our 2021/22 Annual Audit Report.

## Conclusions on wider scope responsibilities

**34.** The appointed auditor is required to report conclusions on the wider scope responsibilities and consider the audit dimensions specified in the Code of Audit Practice, [Exhibit 3](#).

**35.** As part of our audit planning work we have reviewed the wider dimensions of public sector audit applicable to NHS Tayside and identified the risks set out in [Exhibit 4](#) on pages 11 and 12. This exhibit sets out the risks, sources of assurance from management and the further audit procedures we plan to perform to gain assurances over the risks. The conclusions from this work will be reported within our 2021/22 Annual Audit Report.

**Exhibit 4****Audit dimension risks for the 2021/22 audit**

Description of risk	Sources of assurance	Planned audit response
<p><b>1. Covid-19 recovery and transformation</b></p> <p>NHS Tayside continues to deal with the operational and financial impact of the Covid-19 pandemic. There remain major challenges for the board across a range of areas, including:</p> <ul style="list-style-type: none"> <li>• financial sustainability of services</li> <li>• capacity to deliver services and manage patient backlog, compounded by higher than normal levels of staff absence</li> <li>• staff care and wellbeing concerns</li> <li>• recruitment and retention issues in certain specialisms.</li> </ul> <p>To deliver the board's longer-term recovery plans there will be a requirement to transform services and deliver them more efficiently and effectively. Key to this will be ensuring clear links between the recovery plans and the board's financial planning, overarching clinical strategy, workforce planning, asset management and the digital strategy.</p>	<ul style="list-style-type: none"> <li>• The 2021/22 forecast outturn is break-even with the balance of outstanding brokerage repaid.</li> <li>• The 2022/23 one-year financial plan is another year of transition for the NHS, recognising the impact of Covid-19.</li> <li>• Recurring impact of Covid-19 and remobilisation identified and reported to SG</li> <li>• The Board will revert to a three-year planning cycle, aligned to workforce and performance plans, due to be submitted in July 2022.</li> </ul>	<ul style="list-style-type: none"> <li>• Review the impact of the pandemic on NHS Tayside's performance and finances and the response of the board.</li> <li>• Monitor the delivery of the board's recovery plans.</li> </ul>

## 2. Mental health services

In July 2021, Dr. Strang reported on the progress of the improvements made in mental health services in Tayside in response to report published in February 2020. This follow-up review identified areas of positive changes however, it also stated that there had been missed opportunities for listening to people and engaging with partners in order to build trust. We reported in 2020/21 that the board was considering its response to the progress report.

The Director of Mental Health post has been vacant since March 2021, with the Director of Nursing providing the directorate leadership for this area on an interim basis to strengthen and support the leadership team.

There is a risk that the board, and its partners, fail to deliver the required improvements to mental health services across Tayside.

- The Oversight & Assurance Group has been established, the role is to provide challenge and support to the Tayside Executive Partners (TEP).

- Initial focus is to seek an update on progress of the implementation of the 51 Strang recommendations. A collective progress review has been submitted to the Group.

- Monitor and report on progress in delivering improvements in mental health services.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**36.** This Annual Audit Plan, the outputs set out in [Exhibit 5](#), and any other outputs on matters of public interest will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**37.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officers to confirm factual accuracy, prior to the issue and publication of final reports.

**38.** We will provide an independent auditor's report (i.e. audit certificate) to Tayside Health Board, the Auditor General for Scotland and the Scottish Parliament setting out our opinions on the annual report and accounts. We will also provide NHS Tayside and the Auditor General for Scotland with an annual report on the audit containing observations, conclusions and recommendations on significant matters which have arisen during the audit.

**39.** [Exhibit 5](#) outlines the target dates for our audit outputs. 2021/22 remains a transitional year, and there is a risk that pre-Covid audit timetables may not be achieved. However, our intention is for the 2021/22 NHS Tayside audit work to be completed in time to enable certification of the annual report and accounts by the 30 June 2022.

## Exhibit 5 2021/22 Audit outputs



Audit Output	Target date	Audit and Risk Committee Date
Interim Management Report	30 April 2022	19 May 2022
Independent Auditor's Report	16 June 2022	23 June 2022
Annual Audit Report	30 June 2022	30 June 2022 (Board meeting date)

Source: Audit Scotland

## Timetable

**40.** To support an efficient audit, it is critical that a timetable is agreed with management for the production and audit of the annual report and accounts. The agreed timetable for the 2021/22 annual report and accounts is shown in [Exhibit 6](#).

## Exhibit 6 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date of unaudited annual report and accounts (Board only) with complete working papers package	5 May 2022
Latest date of consolidated (Board and Group) unaudited annual report and accounts	20 May 2022
Latest date for final clearance meeting with Director of Finance and Chief Executive	13 June 2022
Agreement of audited annual report and accounts for consideration by the audit and risk committee	16 June 2022
Issue of Proposed Annual Audit Report to those charged with governance (including Letter of Representation and proposed independent auditor's report) *	16 June 2022
Audit and Risk Committee meeting to consider Proposed Annual Audit Report and audited annual report and accounts	23 June 2022
Agreement of final changes to audited annual report and accounts for the consideration by Board	27 June 2022
Board meeting to approve and sign audited annual report and accounts	30 June 2022
Independent auditor's report certified by appointed auditor	30 June 2022

\* *The finalised Annual Audit Report will be issued after the audited 2021/22 Annual Report and Accounts are certified.*

Source: Audit Scotland

## Audit fee

**41.** The agreed audit fee for the 2021/22 audit of NHS Tayside is £197,064 (£201,228 in 2020/21), a reduction of 2.1 per cent. In determining the fee we have taken account of the risk exposure of NHS Tayside, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

**42.** Our audit approach assumes receipt of the unaudited annual report and accounts, with a complete working papers package, by 5 May 2022. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, 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.

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# Other matters

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## Internal audit

**43.** International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

**44.** The internal audit function at NHS Tayside is provided by FTF Audit and Management Services (FTF). Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

**45.** We will not be placing formal reliance on FTF work to support our financial statements audit opinion this year. However, we do plan to use the work of internal audit where relevant in respect of our wider dimension audit responsibilities.

## Independence and objectivity

**46.** Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

**47.** The appointed auditor for the audit of NHS Tayside is Fiona Mitchell-Knight, Audit 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 Tayside.

## Quality control

**48.** International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

**49.** 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.

**50.** 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 appointed auditor.



# NHS Tayside

## Annual Audit Plan 2021/22

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[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
Phone: 0131 625 1500 Email: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)