

# Healthcare Improvement Scotland

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Healthcare Improvement Scotland

March 2023

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Healthcare Improvement Scotland. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the Annual Report and Accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the Annual Report and Accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the wider scope areas of financial management and financial sustainability
- consideration of Best Value arrangements.

## Audit Appointment

2. We are pleased to be appointed as the external auditor of Healthcare Improvement Scotland for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on audit risk.

## Adding value

5. We aim to add value to Healthcare Improvement Scotland through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Risk Committee (ARC) and by recommending and encouraging good practice. In so doing, we will help Healthcare Improvement Scotland promote improved standards of governance, better management and decision making and more effective use of resources.

## Respective responsibilities of the auditor and Healthcare Improvement Scotland

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and Healthcare Improvement Scotland. Key responsibilities are summarised below.

### Auditor responsibilities

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

8. 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 wider scope arrangements in place at Healthcare Improvement Scotland relating to financial management and financial sustainability. In doing this, we aim to support improvement and accountability.

### Healthcare Improvement Scotland's responsibilities

9. Healthcare Improvement Scotland is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. Healthcare Improvement Scotland has 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 deliver their objectives.

# Financial statements audit planning

## Introduction

**11.** The Annual Report and Accounts are an essential part of demonstrating Healthcare Improvement Scotland's stewardship of resources and its performance in the use of those resources.

**12.** We focus our work on the areas of highest audit risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**13.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that 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 2022/23 audit

**14.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Healthcare Improvement Scotland is set out in [Exhibit 1](#).

## Exhibit 1

### 2022/23 Materiality levels for Healthcare Improvement Scotland

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of Healthcare Improvement Scotland's operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.	£720,000
<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 could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.	£500,000

**Reporting threshold (ie clearly trivial)** – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £36,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**15.** Our risk assessment draws on our cumulative knowledge of Healthcare Improvement Scotland, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, a review of committee minutes and a review of supporting information.

**16.** Audit risk assessment is an iterative and dynamic process. Our assessment of audit 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.

**17.** Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. This audit risk has the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, reference to management sources of assurance and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2022/23 Significant risk 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 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>Assess the design and implementation of the key controls over journal entry processing.</li> <li>Test journal entries through the year, at the year-end and post-closing entries, with a focus on significant risk areas.</li> <li>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
		<p>processing of journal entries and other adjustments.</p> <ul style="list-style-type: none"> <li>• Focussed testing of accounting accruals and prepayments.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> </ul>

Source: Audit Scotland

**18.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities 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 as the majority of Healthcare Improvement Scotland's revenue is in the form of funding from the Scottish Government which can be readily agreed to third party confirmations. Additionally, the other income streams comprise of a high volume of low value transactions. We have concluded there is limited opportunity or incentive to manipulate the recognition of revenue in the financial statements.

**19.** 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 rebutted this risk 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.

### Other matter

**20.** Between 20<sup>th</sup> and 23<sup>rd</sup> January 2023, the eFinancials system (the financial ledger used by health boards across Scotland) was updated from version 5 to version 6. Following the upgrade some functionality issues emerged, relating to the posting of large journals, electronic registration of invoices, ability to raise sales invoices, management of aged debt, and the ability to run financial information reports (commonly referred to as BOXI reports). Progress has been made to resolve the issues.

**21.** Whilst we are currently not aware of specific control weaknesses, there is a risk

that the control environment was disrupted during the period of interruption and there may be a backlog in processing supplier payments. Consequently, we will seek information from Healthcare Improvement Scotland's Finance Team on the level of impact on Healthcare Improvement Scotland directly, and what mitigating actions were required. We will keep the area under review as our audit progresses.



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# Wider Scope and Best Value

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## Introduction

**22.** The [Code of Audit Practice](#) sets out the four areas 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 wider scope areas in audited bodies related to: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

**23.** The [Code of Audit Practice](#) also includes provision for a tailored audit approach where an audited body is less complex owing to its size and its limited financial activity. The provision permits the wider scope audit work to be focussed on a review of the annual governance statement, associated with the related audit opinion expressed in the independent auditor's report; and concluding on the financial sustainability of the body and the services that it delivers over the medium to longer term.

**24.** We have considered both quantitative and qualitative factors in our assessment of audit risk at Healthcare Improvement Scotland. We have gained an understanding of the entity through our planning work, the nature of its business and its current circumstances. In view of the lack of complexity of its financial transactions, and similar to the 2021/22 audit approach, we plan to apply the less complex provision from the [Code of Audit Practice](#) to the 2022/23 audit of Healthcare Improvement Scotland. As part of the 2022/23 audit, we will also consider Healthcare Improvement Scotland's financial management arrangements.

**25.** In summary, the wider scope areas of audit work we will cover are the following:

- **Financial management** - means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial sustainability** - means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs. We will consider the extent to which audited bodies have shown regard to financial sustainability and are planning ahead effectively. We look at planning for the medium term (two to five years) and longer term (longer than five years). The audit will include consideration 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.

## Wider scope risk

**26.** We have identified a wider scope audit risk in the area set out in [Exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risk.

### Exhibit 3 2022/23 Wider scope risk

Description of risk	Sources of assurance	Planned audit response
<p><b>1. Financial Sustainability</b></p> <p>Healthcare Improvement Scotland (HIS), similar to other public sector bodies, is facing challenges to its financial sustainability, including its ability to plan related to the timing and uncertainty around non-recurring funding streams.</p> <p>Whilst reflective of the usual nature of HIS's business (relatively low level of non-current and current assets), HIS's financial sustainability position is exacerbated in part due to its general fund deficit (net liabilities position) as reported in its Statement of Financial Position.</p>	<ul style="list-style-type: none"> <li>• Effective budget monitoring by finance team.</li> <li>• Frequent re-forecasting of budgets.</li> <li>• Regular review of aged debtors and creditors and cash management balances.</li> <li>• Regular financial reporting to the Audit and Risk Committee and Board.</li> <li>• Ongoing communication with Scottish Government sponsor division.</li> <li>• Formal assurances from the Scottish Government on HIS's continued existence.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of financial plans and budgets.</li> <li>• Review of year end aged debtors and creditors listings.</li> <li>• Consideration of assurances from the Scottish Government.</li> <li>• Report findings in our Annual Audit Report.</li> </ul>

Source: Audit Scotland

**27.** Our planned work on our wider scope responsibilities is risk based and proportionate and, in addition to local risks, we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider how Healthcare Improvement Scotland is tackling climate change and responding to cyber security threats, as referenced below.

## Climate Change

**28.** Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**29.** The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on Healthcare Improvement Scotland's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

## Cyber Security

**30.** There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider Healthcare Improvement Scotland's arrangements for managing and mitigating cyber security risks.

## Duty of Best Value

**31.** [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within Healthcare Improvement Scotland.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

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

**33.** 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.

**34.** We will provide an independent auditor's report to Healthcare Improvement Scotland, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the Annual Report and Accounts. We will provide Healthcare Improvement Scotland and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**35.** [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the 2022/23 Audit Planning Guidance deadline of 30 June 2023.

## Exhibit 4 2022/23 Audit outputs

Audit Output	Target date	ARC / Board Date
Annual Audit Plan	23 February 2023	2 March 2023
Independent Auditor's Report (proposed)	13 June 2023	20 June 2023
Annual Audit Report (proposed)	13 June 2023	20 June 2023
Annual Audit Report (final)	23 June 2023	28 June 2023 (Board)

Source: Audit Scotland

## Timetable



**36.** To support an efficient audit, it is critical that the timetable for producing the Annual Report and Accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

**37.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintain high standards of audit quality.

**38.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working, where it is assessed onsite work will provide benefit to the audit process. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

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### Exhibit 5 Proposed Annual Report and Accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited Annual Report and Accounts with complete working papers package	9 May 2023
Latest date for final clearance meeting with the Director of Finance and Planning and Governance	8 June 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	8 June 2023
Agreement of audited and unsigned Annual Report and Accounts	13 June 2023
Issue of proposed Annual Audit Report to those charged with governance	13 June 2023
Audit and Risk Committee meeting to consider proposed Annual Audit Report and audited Annual Report and Accounts	20 June 2023
Board meeting to approve and sign audited Annual Report and Accounts	28 June 2023
Independent Auditor's Report certified by appointed auditor	28 June 2023

Source: Audit Scotland

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## Audit fee

**39.** In determining the audit fee, we have taken account of the risk exposure of Healthcare Improvement Scotland and the planned management assurances in place. The agreed audit fee for 2022/23 is £34,680 (£27,254 in 2021/22).

**40.** Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

**41.** In setting the fee for 2022/23 we have assumed that Healthcare Improvement Scotland has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**42.** It is the responsibility of Healthcare Improvement Scotland to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

**43.** While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

## Independence and objectivity

**44.** 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.

**45.** 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**46.** The appointed auditor for Healthcare Improvement Scotland is Gillian Woolman, 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 Healthcare Improvement Scotland.

**47.** The appointed auditor for Healthcare Improvement Scotland will be changing, effective from 31 March 2023. Audit Scotland has put in place a hand over process to ensure a smooth transition. Healthcare Improvement Scotland will be advised of the new appointed auditor in due course.

## Audit Quality

**48.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

**49.** Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

**50.** ISQC (UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM (UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

**51.** Audit Scotland is committed to delivering high quality audits. 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 [supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

**52.** 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.



# Appendix 1. Your audit team

The core audit team members involved in the audit of Healthcare Improvement Scotland have significant experience in public sector audit.

Gillian Woolman Audit Director	Gillian has 27 years of public sector audit experience. She has been an engagement lead since 2001 in the local government, central government and NHS sectors. She is a member of ICAEW and CIPFA UK-wide committees.
Anne Marie Machan Audit Manager	Anne Marie has over 23 years of public sector audit experience and has delivered external audit services to a range of bodies including health boards, local government bodies, and central government bodies. Anne Marie will manage the team and work alongside the Audit Director to deliver the audit.
Andrew Barrowman Trainee Auditor	Andrew joined Audit Scotland in 2019 as a graduate trainee and has gained valuable experience working across a number of central government bodies, including the Scottish Government. Prior to working at Audit Scotland, Andrew spent 4 years with an actuarial firm working on public sector pension funds.
Przemyslaw Lipa Trainee Auditor	Przemyslaw is an accounting graduate who joined Audit Scotland's graduate trainee scheme in 2021. Since then, he has gained auditing experience through working on external audits of local government bodies and a health board.

The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies. Other audit staff will complement the core team at peak periods of audit activity.

Where possible and appropriate, we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

# Healthcare Improvement Scotland

## Annual Audit Plan 2022/23

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

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

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