

Healthcare Improvement Scotland

Annual Audit Plan



 AUDIT SCOTLAND

Prepared for Healthcare Improvement Scotland
March 2024

Contents

Introduction	3
Annual report and accounts	5
Wider Scope and Best Value	9
Reporting arrangements, timetable, and audit fee	11
Other matters	14
Appendix 1: Your audit team	16

Introduction

Summary of planned audit work

1. Claire Gardiner has been appointed by the Auditor General for Scotland as the external auditor of Healthcare Improvement Scotland (HIS) for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second year of the five-year audit appointment. A brief biography of the core audit team is provided at [Appendix 1](#).
2. This document summarises the work plan for the 2023/24 audit of HIS. The main elements of the audit include:
 - An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
 - An audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, Remuneration Report, and the Staff Report.
 - Consideration of arrangements in relation to the wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.
 - Provision of an Independent Auditor's Report expressing opinions on the different elements of the Annual Report and Accounts and an Annual Audit Report.

Respective responsibilities of the auditor and Healthcare Improvement Scotland

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and HIS. Key responsibilities are summarised below.

Auditor responsibilities

4. My responsibilities as appointed 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 Financial Reporting Council's Ethical Standard.
5. 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 HIS. In doing this, we aim to support improvement and accountability.

Healthcare Improvement Scotland's responsibilities

6. HIS is responsible for maintaining adequate accounting records and internal controls, preparing financial statements for audit that give a true and fair view, and producing other reports in the annual report and accounts in accordance with applicable requirements.

7. HIS 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.

Adding Value

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

Annual report and accounts

Introduction

9. The annual report and accounts are an essential part of demonstrating HIS' stewardship of resources and its performance in the use of those resources.

10. We are required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

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

Materiality

12. 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 plan our audit to obtain reasonable assurance about 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. We assess materiality at different levels as described in [Exhibit 1](#).

Exhibit 1

2023/24 HIS materiality levels

Materiality	Amount
<p>Planning materiality: 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 the organisation's operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.</p>	£831,000
<p>Performance materiality: 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 are required. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.</p>	£623,000

Materiality	Amount
Reporting threshold (i.e. clearly trivial): We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£42,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

- 13.** Our risk assessment draws on our cumulative knowledge of HIS, its major transaction streams, key systems of internal control, and risk management processes. This is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.
- 14.** 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 audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.
- 15.** Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements which will have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, management's source of assurance, and the audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Risk of material misstatement due to fraud caused by management override of controls:

As stated in ISA (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.

Management's sources of assurance:

Due to the nature of this risk, assurances from management are not applicable in this instance.

Planned audit response:

- Assess the design and implementation of controls over journal entry processing.
- Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- Test journals at the year-end and post-closing entries, focusing on significant risk areas.
- Consider the need to test journal entries and other adjustments throughout the year.
- Evaluate significant transactions outside the normal course of business.
- Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.
- We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.
- Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.

Source: Audit Scotland

16. As set out in ISA (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.

17. We have rebutted this risk as funding is mainly received from the Scottish Government and is clearly communicated and can be readily agreed to third party confirmations. In addition, HIS' other income streams comprise of a high volume of low value transactions, and we have concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements.

18. 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.

19. We have rebutted this risk as the main expenditure streams of HIS can be readily forecast based on a predictable pattern of spend. In addition, more than 80% of expenditure is comprised of employee costs. We consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

20. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Regularity

21. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

22. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Wider Scope and Best Value

Introduction

23. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

24. In summary, the four wider scope areas are:

- **Financial management:** Having sound budgetary processes. 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.
- **Financial sustainability:** Planning effectively to continue to deliver services, including financial sustainability in the medium (two to five years) to longer term (longer than five years). It is recognised that there are significant challenges in delivering a sustainable budget over the longer term within the health sector. We will consider the processes in place at HIS to support decision making when preparing medium to long term budgets.
- **Vision, leadership, and governance:** Clarity of plans in place to deliver the vision, strategy, and priorities adopted by the organisation. Also considers the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes:** How the organisation demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

25. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Duty of Best Value

26. [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 HIS.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

27. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

28. We will provide:

- An Independent Auditor's Report to HIS, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts.
- An Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas to HIS and the Auditor General for Scotland.

29. [Exhibit 3](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. In determining the target reporting date, due regard is paid to the administrative date set by the Scottish Government for the consolidated accounts of 30 June 2024.

30. We plan to issue our Independent Auditor's Report and Annual Audit Report to the relevant committees by the dates noted below.

Exhibit 3

2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee date	Board Meeting
Annual Audit Plan	31 March 2024	7 March 2024	N/A
Independent Auditor's Report	30 June 2024	18 June 2024	26 June 2024
Annual Audit Report	30 June 2024	18 June 2024	26 June 2024

Source: Audit Scotland

31. All Annual Audit Plans and the outputs detailed in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

32. 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 4](#) that has been discussed with management.

33. 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.

Exhibit 4

Proposed annual report and accounts timetable

Key stage	Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	7 May 2024
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	7 May 2024
Latest date for final clearance meeting with the Director of Finance, Planning and Governance	w/c 3 June 2024 ⁷
Agreement of audited and unsigned annual report and accounts	w/c 3 June 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	w/c 3 June 2024
Issue of Annual Audit Report to those charged with governance.	11 June 2024
Audit and Risk Committee date	18 June 2024
Board meeting (signing the accounts)	26 June 2024
Signed Independent Auditor's Report	26 June 2024

Source: Audit Scotland

Audit fee

34. In determining the audit fee, we have taken account of the risk exposure of HIS and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £36,780 (2022/23: £34,680).

35. In setting the fee for 2023/24, we have assumed that HIS has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and 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.

Other matters

Internal audit

36. It is the responsibility of HIS to establish adequate internal audit arrangements. For 2023/24 there was a change in internal audit provider to KPMG (previously Grant Thornton). While we are not planning to place formal reliance on the work of internal audit in 2023/24, 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

37. Claire Gardiner, your appointed auditor, is independent of HIS in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

38. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard 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.

39. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of HIS.

Audit Quality

40. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

41. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

42. To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

43. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

44. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Appendix 1: Your audit team

The core audit team involved in the 2023/24 audit of HIS have significant experience in public sector audit.

Claire Gardiner
Audit Director
cgardiner@audit-scotland.gov.uk

Claire has over 19 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Esther Scoburgh
Senior Audit Manager
escoburgh@audit-scotland.gov.uk

Esther has over 24 years of public sector audit experience and has managed and delivered external audit services to a range of bodies including local authorities and central government bodies.

Emma Brown
Senior Auditor (lead)
ebrown@audit-scotland.gov.uk

Emma has considerable experience in planning and delivering audits across the public sector with the National Audit Office, Deloitte, and Audit Scotland. She qualified with ICAEW in 2021.

Andrew Barrowman
Auditor
abarrowman@audit-scotland.gov.uk

Andrew has gained valuable experience working across a number of central government bodies, and has recently qualified in his ICAS exams. Prior to working at Audit Scotland, Andrew spent 4 years with an actuarial firm working on public sector pension funds.

45. 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.

46. 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.

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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

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