

NHS Borders

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for NHS Borders
March 2024

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Introduction

Summary of planned audit work

1. John Boyd has been appointed by the Auditor General for Scotland as external auditor of NHS Borders for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of his five-year audit appointment.

2. This document summarises the work plan for the 2023/24 audit. 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, and the Remuneration and Staff Report
- consideration of arrangements in relation to 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 setting out conclusions on the wider scope areas.

Respective responsibilities of the auditor and Audited Body

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

Auditor responsibilities

4. The appointed auditor's responsibilities 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 the NHS Borders. In doing this, we aim to support improvement and accountability.

NHS Borders responsibilities

6. NHS Borders is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and

fair view. They are also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

7. NHS Borders 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. Throughout the audit we aim to add value by: tailoring audit work to the circumstances of NHS Borders and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Audit and Risk Committee; and by recommending and encouraging good practice. In so doing, we will help NHS Borders 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 NHS Borders' stewardship of resources and its performance in the use of those resources.

10. The appointed auditor is 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 the 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.

Materiality levels for the 2023/24 audit

13. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for NHS Borders and its group are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for NHS Borders

Materiality	Amount	Group
<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 NHS Borders' operations. For the year ended 31 March 2024, we have set our materiality at 1.5% of gross expenditure less IJB contributions, based on the audited financial statements for 2022/23.</p>	£4.9 million	£5.0 million

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 60% of planning materiality.	£2.9 million	£3.0 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£245 thousand	£250 thousand

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. Our risk assessment draws on our cumulative knowledge of NHS Borders, 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, attendance at committees, and a review of supporting information.

15. 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.

16. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

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

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud</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"> 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.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>because of management's ability to override controls that otherwise appear to be operating effectively.</p>		<ul style="list-style-type: none"> • Test journals at the year-end and post-closing entries and focus 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 relationship 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. • Focussed testing of accounting accruals and prepayments.
<p>2. Estimation in the valuation of land and buildings.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions, and changes in these can result in material changes to valuations.</p> <p>A full revaluation is commissioned every 5 years or when the Board consider there is a potential significant movement in year.</p> <p>The latest full revaluation was carried out as at 31 March</p>	<ul style="list-style-type: none"> • Correspondence from the appointed Property Advisor regarding the valuation and recommended indexation uplift to the Board's land and buildings as at 31/03/2024 • Review and discussion of the information shared to the Advisor regarding RAAC and any impact to the valuation of the properties where RAAC has been identified and the detail and cost of any remedial works which may be required. 	<ul style="list-style-type: none"> • Review the information provided to the external valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. • Consider whether the valuation frequency is appropriate. • Critically assess the approach NHSB has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. • Challenge management's assessment of why it considers that the land and buildings not revalued in 2023/24 are not materially misstated. We will critically assess the appropriateness of any assumptions. • Critically assess the adequacy of NHSB's disclosures regarding the assumptions in

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>2023. A full revaluation is not planned for 31 March 2024.</p> <p>It is important that the NHSB ensures the financial statements accurately reflect the value of the land and buildings.</p>		<p>relation to the valuation of land and buildings.</p>
<p>3. Risk over fraud over expenditure</p> <p>In line with <i>Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom</i>, 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.</p> <p>Our audit focus is on transactions around the year end where we consider greatest incentive for management to understate expenditure due to significant pressure from stakeholders to break-even, particularly around the year end expenditure.</p>	<ul style="list-style-type: none"> • Year-end internal controls (double sign off and full back up documentation) for the processing of expenditure and income journals • Explanation and accrual/provision calculations and back up documentation for significant estimates included in the accounts as described in Section 29 of the Accounting Policies – Key Sources of Judgement and Estimation Uncertainty 	<ul style="list-style-type: none"> • Assess the design and implementation of controls over expenditure processing via walkthroughs, specifically those around the year end. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of expenditure transactions and other adjustments. • Detailed testing of expenditure transactions with a focus on significant risk areas, including year-end and post-close-down entries. • Evaluate any identified significant transactions outside the normal course of business, identified through audit testing of income and expenditure and accruals.

17. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, 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.

18. We have rebutted this risk for NHS Borders as the main source of funding is from Scottish Government funding and other public sector transfers and payments which is agreed to funding confirmations and therefore of low risk of fraud in revenue recognition. In addition, NHS Borders' other income streams comprise of high volume, low value transactions that are unlikely to result in a material misstatement in the accounts. In considering opportunity and incentive for fraud over these revenue streams, and the nature of transactions we consider the risk of material misstatement to be low. We have not, therefore, incorporated specific work into our audit plan in relation to recognition of revenue over and above our standard audit procedures.

Group Consideration

19. As group auditors, we are required under ISA (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.

20. NHS Borders has a group which comprises component entities, the subsidiary 'The Difference' Endowment Fund, and the joint venture, Scottish Borders IJB. As part of our risk assessment, we have considered that NHS Borders itself is the only significant component in the group and have not identified any significant risks relating to the wider group. We will complete an overall analytical review of the group accounts to ensure they are free from material misstatement.

21. 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.

Wider Scope and Best Value

Introduction

22. 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.

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

- **Financial management** – this 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.
- **Financial sustainability** – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by NHS Borders. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how NHS Borders demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

24. We have identified significant risks in the wider scope areas set out in [Exhibit 3](#). This exhibit sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks (if there are no significant risks then this must be explicitly stated).

Exhibit 3

2023/24 wider scope risks

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial Sustainability</p> <p>Prior to the Covid-19 pandemic NHSB had received £8.3m in brokerage loans from the Scottish Government.</p> <p>In 22/23 NHSB received a further £11.7m of brokerage loans.</p> <p>The latest forecast 23/24 outturn position is a £20.1m deficit.</p> <p>The 23/24 financial plan identified projected recurring savings of £5m as well as non-recurring savings of £5m for 2023/24. Current plans identify savings of £3.6m with a further £1.4m remaining unidentified.</p> <p>NHSB has developed a three-year financial plan for 2023/24 to 2025/26, which identifies that a further £66.0m in brokerage loans will be required.</p> <p>NHS Borders is working with the Scottish Government to address the sustainability challenges. However, it is unclear how the Board will return to a break-even position or how this level of brokerage will be repaid.</p> <p>The Board has also experienced challenges in meeting performance</p>	<ul style="list-style-type: none"> • Updates to the Board and relevant committees on the financial improvement programme and any activities to support this which are possible during 2023/24. • Regular discussion and reporting to the Board and Scottish Government and financial pressures/savings plans modelled into future years financial plans 	<ul style="list-style-type: none"> • Monitor the board's financial position and plans, including underlying savings plans, as reported to the board / relevant committees. • Assess the measures put in place by the board to establish grip and control of both financial and non- financial performance. • Review any assessment of the board's future financial position (including outputs from the financial improvement programme and recovery plans) • Discussions with senior finance staff on financial position. • Assess progress made by NHS Borders in implementing sustainable transformational change to address financial targets while meeting performance targets.

Description of risk	Management's sources of assurance	Planned audit response
<p>targets. With the current level of financial pressures, the Board faces significant challenges in maintaining or improving service delivery in a financially sustainable way.</p>		

Source: Audit Scotland

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 NHS Borders.

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 NHS Borders, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts
- NHS Borders and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

29. [Exhibit 4](#) 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 by the target date.

Exhibit 4

2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31/03/2024	25/03/2024
Independent Auditor's Report	30/06/2024	20/06/2024
Annual Audit Report	30/06/2024	20/06/2024

Source: Audit Scotland



31. All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), 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 5](#) 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 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	w/b 27 May 2024
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	8 May 2024
Latest date for final clearance meeting with the Director of Finance (or equivalent)	12 June 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	12 June 2024
Agreement of audited and unsigned annual report and accounts	20 June 2024
Issue of Annual Audit Report to those charged with governance.	20 June 2024
Signed Independent Auditor's Report	30 June 2024

Source: Audit Scotland

Audit fee

34. In determining the audit fee, we have taken account of the risk exposure of NHS Borders 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 £168,350 as set out in [Exhibit 6](#).

Exhibit 6**Audit fees (including VAT)**

Fee component	Fees (£)
External Auditor Remuneration	155,530
Pooled costs	18,800
Contribution to Audit Scotland costs	0
Contribution to Performance and Best Value	0
Sectoral Cap Adjustment	-5,980
Total 2023/24 fee	168,350

Source: Audit Scotland

35. In setting the fee for 2023/24, we have assumed that NHS Borders 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 NHS Borders to establish adequate internal audit arrangements. Internal audit is provided by Grant Thornton UK LLP. We will review the internal audit plan and the results of internal audit's work.

37. 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

38. The audit team is independent of NHS Borders 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.

39. 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.

40. 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 NHS Borders.

Audit Quality

41. 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](#).

42. 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.

43. To monitor quality at an individual audit level, Audit Scotland also 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.

44. 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.

45. 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.

NHS Borders

Annual Audit Plan 2023/24

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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