

NHS Lanarkshire

Annual Audit Plan



 AUDIT SCOTLAND

Prepared for NHS Lanarkshire
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 Lanarkshire 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.
2. This document summarises the work plan for my 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
 - provision of an Independent Auditor's Report expressing my 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 Lanarkshire. Key responsibilities are summarised below.

Auditor responsibilities

4. Responsibilities of the 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 NHS Lanarkshire. In doing this, we aim to support improvement and accountability.

NHS Lanarkshire's responsibilities

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

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

7. NHS Lanarkshire 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 it to deliver its objectives.

Adding Value

8. We aim to add value by: tailoring audit work to the circumstances of NHS Lanarkshire 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 Lanarkshire 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 Lanarkshire's 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. The team will 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.

Materiality levels for the 2023/24 audit

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

Exhibit 1

2023/24 Materiality levels for NHS Lanarkshire

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 NHS Lanarkshire's operations. For the year ended 31 March 2024, we have set our materiality at 1.5% of gross expenditure based on the audited financial statements for 2022/23.</p>	£28.4 million	£28.5 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 75% of planning materiality.	£21.3 million	£21.4 million
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Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£1.4 million	£1.4 million
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. Our risk assessment draws on our cumulative knowledge of NHS Lanarkshire, 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 because of</p>	Owing to the nature of this risk, assurances from management are not applicable in this instance	<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>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. • 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. • Focused testing of accounting accruals and prepayments.
<p>2. 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</p>	<p>Use of clearly defined methodologies and procedures will enable assurance that the expenditure is materially free from error and fraud. Such methodologies include: reviewing variances of expenditure and accruals, reasonable methods for estimations, robust authorisation processes and regular monitoring from internal audit on fraud occurrences.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over expenditure processing via walkthroughs. • 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.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>stakeholders to break-even, particularly around the year end expenditure.</p>		
<p>3. IFRS 16 implementation for PFI/PPP liabilities</p> <p>PFI models used by health boards and their measurement of PFI liabilities need to be adapted to incorporate the relevant IFRS 16 requirements from 1 April 2023. Boards will need to calculate a catch-up adjustment on transition to IFRS 16 on 1 April 2023, which is likely to be material. If this is not carried out correctly, there is a significant risk that NHS Lanarkshire's accounting treatment of this area is not in line with the requirements of the FReM.</p>	<p>A working template has been issued by Scottish Government for transferring existing PFI calculations into an IFRS16 compliant format.</p> <p>NHS Lanarkshire has 4 PFI contracts and these will be calculated prior to year-end with the transition documented in a working paper detailing the transition and how this meets the requirement of the FReM under IFRS16.</p>	<ul style="list-style-type: none"> • Early engagement with NHS Lanarkshire finance officers prior to year-end to review progress against FReM requirements. • Evaluate the extent to which controls have been implemented over the identification and recording of PFI liabilities in accordance with the FReM. • Detailed testing of PFI liabilities recognised under IFRS 16 to ensure compliance with FReM requirements.
<p>4. 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. This subjectivity represents an increased risk of material</p>	<p>NHS Lanarkshire has engaged with an independent property valuer to calculate the value of all land and buildings.</p> <p>Use of clearly defined methodologies and procedures will enable an assessment to be made to ensure the carrying value of assets does not differ materially from that which would be determined using the current value at the end of the reporting period.</p>	<ul style="list-style-type: none"> • Review the work of the valuer, and in particular review the assumptions that have been used and any data used to inform the valuation. • Review the controls in place at the board over the valuation of land and buildings. • Review of reports from the valuer to confirm overall asset valuation movements. • Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. • Test the reconciliation between the financial ledger and the property asset register.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>misstatement in the financial statements.</p>	<p>Any significant changes will be disclosed in the notes to the accounts.</p>	<ul style="list-style-type: none"> • Sample testing of individual asset valuations to confirm the suitability of the basis of valuation, the recognition of the valuation in the accounts and underlying assumptions used. • Critically assess the adequacy of NHS Lanarkshire's disclosures regarding the assumptions in relation to the valuation of land and buildings. • Review BCIS rates used by the valuer.
<p>Non-Significant Risk of material misstatement</p>		
<p>5. Service Level Agreement with NHS Greater Glasgow & Clyde</p> <p>A service level agreement (SLA) is in place between NHS Lanarkshire and NHS Greater Glasgow & Clyde (NHSGGC) for costs associated with treatment provided by an NHSGGC health body to patients living within the NHS Lanarkshire area. The Boards are in the process of reviewing these SLA arrangements as the underlying performance delivery aspects of these have not been in operation since Covid-19. Should the terms and application of the SLAs change, this could have implications for NHS Lanarkshire's income and expenditure recognition in relation to the SLA arrangements.</p>	<p>At present the SLA wording is being adapted to reflect the block access nature of the SLA. This is intended to clarify the position for NHS Lanarkshire, NHSGGC, NHS Ayrshire & Arran regarding the SLA agreement which pre-covid had been based on a 3-year rolling average activity model.</p> <p>An SLA paper has been created in conjunction with Scottish Government. The SLA paper proposes an SG top-slicing arrangement if the rewording is not accepted by either NHS Lanarkshire, NHSGGC, NHS Ayrshire & Arran auditors for IFRS15.</p>	<ul style="list-style-type: none"> • Review the agreed revised wording of the SLA to assess the impact on NHSL's income and expenditure recognition. • Targeted testing of SLA income and expenditure with NHSGGC to ensure correct accounting treatment.

17. 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.

18. We have rebutted this risk for NHS Lanarkshire as the main source of income is 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.

19. We have not, therefore, incorporated specific work into our audit plan in this area over and above our standard audit procedures.

Group consideration

20. As group auditors, we are required under International Standard on Auditing (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.

21. NHS Lanarkshire has a group which comprises component entities, including North and South Lanarkshire Integration Joint Boards and Lanarkshire Health Board Endowment Fund. As part of our risk assessment, we have considered NHS Lanarkshire Board as the only significant component of the group and have not identified any significant risks relating to the wider group. 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. We will 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 Lanarkshire. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how NHS Lanarkshire 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.

Exhibit 3

2023/24 Wider scope risks

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>There is significant financial uncertainty facing NHS Lanarkshire. The board's 2023/24 Financial Plan projected a budget gap of £47.826 million (after potential savings) for 2024/25 representing a significant challenge in delivering services in a financially sustainable way. This is driven through a combination of inflationary pressures on pay and non-pay costs, demand driven pressures and funding allocations not increasing to offset these costs. Potential efficiency savings realised are generally on a non-recurring basis rather than on a sustainable recurring basis. This will result in added pressure in subsequent years as budgets become increasingly constrained.</p>	<ul style="list-style-type: none"> • Monthly reports to Board or Planning, Performance & Resources Committee. • Financial Plan 2023/24 was presented to the Board in March 2023. • Quarterly reports to the Audit & Risk Committee. 	<p>Review NHS Lanarkshire's financial plans and consider underlying savings plans.</p> <p>Assess the progress made by NHS Lanarkshire in implementing sustainable transformational change to address financial targets while meeting performance targets.</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 Lanarkshire.

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 Lanarkshire, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts
- NHS Lanarkshire 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. 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 March 2024	5 March 2024
Independent Auditor's Report	30 June 2024	26 June 2024
Annual Audit Report	30 June 2024	26 June 2024

Source: Audit Scotland

30. 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

31. 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.

32. 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

2023/24 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.	10 May 2024
Latest date for final clearance meeting with the Director of Finance	10 June 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	19 June 2024
Agreement of audited and unsigned annual report and accounts	19 June 2024
Issue of Annual Audit Report to those charged with governance.	26 June 2024
Signed Independent Auditor's Report	26 June 2024

Source: Audit Scotland

Audit fee

33. In determining the audit fee, we have taken account of the risk exposure of the NHS Lanarkshire 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 £262,680 as set out in [Exhibit 6](#).

Exhibit 6

2023/24 Audit fees (including VAT)

Fee component	Fees (£)
External Auditor Remuneration	217,980
Pooled costs	26,350

Fee component	Fees (£)
Sectoral Cap Adjustment	18,280
Total 2023/24 fee	262,680

Source: Audit Scotland

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

35. It is the responsibility of NHS Lanarkshire to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

36. 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. I am independent of NHS Lanarkshire 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. I am not aware of any such relationships pertaining to the audit of NHS Lanarkshire.

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 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.

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.

NHS Lanarkshire

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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