

NHS Lothian

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for NHS Lothian
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Introduction

Summary of planned audit work

1. This document summarises the work plan for the 2023/24 external audit of NHS Lothian. The main elements 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 Remuneration and Staff Report
- consideration of arrangements in relation to the wider scope areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- provision of an Annual Audit Report setting out conclusions on all aspects of the audit.

2. There has been no change to the audit team as we move into the second year of our audit appointment. Carole Grant remains the appointed auditor.

Respective responsibilities of the auditor and NHS Lothian

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and NHS Lothian. 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 NHS Lothian. In doing this, we aim to support improvement and accountability.

NHS Lothian responsibilities

6. NHS Lothian 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 Lothian 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 by being constructive and forward looking and providing independent conclusions on all aspects of the audit. We will attend committee and Board meetings and recommend and encourage good practice. In so doing, we will help NHS Lothian 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 Lothian's stewardship of resources and its performance in the use of those resources.

10. As appointed auditor, I am 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. Our audit work is conducted in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 and guidance from Audit Scotland.

11. My team and I 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. I am required to plan my 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 and the materiality values for NHS Lothian are set out in [Exhibit 1](#). We have concluded that the same materiality levels should apply for both NHS Lothian and its Group.

Exhibit 1**2023/24 Materiality levels for NHS Lothian and its group**

Materiality	NHS Lothian and its 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 Lothian’s operations. For the year ended 31 March 2024, we have set materiality at 1.5 per cent of gross expenditure based on the 2022/23 audited financial statements.</p>	£40 million
<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 per cent of planning materiality.</p>	£30 million
<p>Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold’ amount.</p>	£500,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. Our risk assessment draws on our cumulative knowledge of NHS Lothian, 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 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 risks, management’s sources of assurance and the further audit procedures we plan to perform to gain the necessary assurance.

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 management's ability to override controls that otherwise appear to be operating effectively.</p> <p>This is presumed to be a significant risk in every audit.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable</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 journal. • 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 during the year. • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates. • 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. 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 any changes can have a material impact on the valuations.</p> <p>All non-current assets are revalued on a five-year</p>	<ul style="list-style-type: none"> • Competent valuers with significant experience, good knowledge of the Board and its property portfolio and good understanding of the complexities of the sector • Ongoing communication with the valuers throughout the year, with the support from colleagues from 	<ul style="list-style-type: none"> • Review the information provided from NHS Lothian to the external valuer to assess for completeness. • Review detailed working papers to support asset reviews impairments. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of the management's involvement in the valuation process to assess

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>rolling basis within indexation applied in interim years. NHS Lothian must ensure that its valuation process for land and buildings adequately reflects changes in the property market so that they are not materially misstated.</p>	<p>Estates and Capital Planning, regarding the ongoing capital programme and developments to establish the best valuation approach to the Board property portfolio within any given year</p> <ul style="list-style-type: none"> Professional valuers have access to all sites and all required documentation 	<p>if appropriate oversight has occurred.</p> <ul style="list-style-type: none"> Assess the approach NHS Lothian has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. Assess the adequacy of NHS Lothian's disclosures regarding the assumptions in relation to the valuation of land and buildings.
<p>3. Accounting for service concession arrangements</p> <p>The 2023/24 Government Financial Reporting Manual (FReM) has changed the accounting treatment for indexation linked payments in liabilities for service concession arrangements.</p> <p>NHS Lothian must remeasure if there is a change in future lease payments resulting from a change in an index / rate used to determine those payments and ensure that the financial statements accurately reflect the impact of the revised IFRS16 accounting arrangements.</p>	<ul style="list-style-type: none"> Close engagement through TAG IFRS 16 sub-group with SG and other health boards with similar arrangements Engagement with an external specialist for more complex schemes 	<ul style="list-style-type: none"> Assess the approach NHS Lothian has adopted to address this new accounting requirement. Review the information provided from NHS Lothian to the expert to assess for completeness. Review detailed working papers to support the evaluation and assess the conclusions reached by the expert and / or NHS Lothian. Assess the adequacy of NHS Lothian's disclosures regarding service concession arrangements disclosed in the financial statements.

Source: Audit Scotland

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. We have rebutted this risk as funding received from the Scottish Government and other NHS can be readily agreed to third party confirmations. In addition, NHS Lothian's other material income stream comprises the integrated joint boards which are a notional amount and can be agreed to confirmation from the relevant parties.

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 for revenue. We have rebutted this risk as the main expenditure streams of NHS Lothian comprise a high volume of relatively low value items. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

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

Other areas of audit focus

20. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude, we do not consider these to be significant risks. We will keep these areas under review as our audit progresses.

21. The area of specific audit focus relates to the degree of estimation in the provision for clinical and medical negligence claims. NHS Lothian holds provisions for estimated costs relating to these claims and participation in CNORIS (Clinical Negligence and Other Risks Indemnity Scheme). At 31 March 2023, the combined balance was £269.5 million. Reliance on the former is placed on the details provided by the NHS Scotland Central Legal Office (CLO) to quantify amounts provided. There is a significant amount of professional judgement applied by the CLO in arriving at these figures. As part of our work we shall consider the review of the CLO's methodology by Audit Scotland's Innovation and Quality team.

Regularity

22. 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).

23. 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.

Group consideration

24. 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. NHS Lothian has a group which comprises component entities, including subsidiaries and joint ventures.

25. 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

26. Reflecting the fact that public money is involved the Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to conclude on the effectiveness and appropriateness of the arrangements in place for each area.

27. Our planned work on our wider scope responsibilities is risk based and proportionate. In addition to local risks we consider challenges which are impacting the public sector as a whole. In summary we will be considering:

- **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 NHS Lothian is planning effectively to continue to deliver services. We will comment on financial sustainability in the medium (two to five years) and longer term (greater than five years). NHS Lothian's most recent Financial Outlook 2024/25 to 2028/29 highlights the scale of the challenge and reports significant future funding gaps, ranging from £111 million to £177 million by 2028/29.
- **Vision, leadership, and governance** – we will conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by NHS Lothian. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how NHS Lothian demonstrates economy, efficiency, and effectiveness through the use of financial and other resources. We will again consider NHS Lothian's approach to the Scottish Hospital's Enquiry and will monitor performance in key areas such as waiting times.

Duty of Best Value

28. [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 continue to monitor how NHS Lothian is assuring itself that it has sound arrangements in place to ensure best value is achieved in the use of its resources.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

29. Audit reporting is the visible output for the annual audit. All audit outputs on matters of public interest, including those detailed in [Exhibit 4](#), will be published on our website: www.audit-scotland.gov.uk.

30. 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.

31. We will provide an Independent Auditor's Report to NHS Lothian, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will also provide NHS Lothian 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.

32. [Exhibit 4](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. We will issue our outputs in sufficient time to enable scrutiny by the Audit and Risk Committee at the meeting date detailed below.

Exhibit 4 2023/24 Audit outputs

Audit output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31/03/2024	19/02/2024
Independent Auditor's Report	30/06/2024*	17/06/2024
Annual Audit Report	30/06/2024*	17/06/2024

Source: Audit Scotland


* These dates represent the date for the independent auditor's report to be signed and the final annual audit report issued. We will provide copies to those charged with governance in advance of the appropriate Audit and Risk Committee to enable them to be considered.

Timetable

33. 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](#).

34. We will continue to work closely with management to identify the most efficient approach and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with 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	7 May 2024
Receipt of the unaudited annual report and accounts with complete working papers package	7 May 2024
Issue draft annual audit report for clearance discussions	31 May 2024
Audit clearance meeting with the Director of Finance	4 June 2024
Agreement of audited and unsigned annual report and accounts	7 June 2024
Issue of annual audit report, independent auditor's report and letter of representation to those charged with governance.	10 June 2024
Signed Independent Auditor's Report	27 June 2024

Source: Audit Scotland

Audit fee

35. In determining the audit fee, we have taken account of the risk exposure of NHS Lothian and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The audit fee for 2023/24 is set at the baseline level of £359,570.

36. The audit fee assumes that NHS Lothian has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts 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

37. It is the responsibility of NHS Lothian to establish adequate internal audit arrangements. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities.

38. We will review internal audit reports and assess the impact of the findings on our audit responsibilities. In particular we will consider the findings from the reviews of medicines management, information security, movers and starters, risk management, financial sustainability, recovery of scheduled care, core financial controls and backlog maintenance / estates planning.

Independence and objectivity

39. I am independent of NHS Lothian 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.

40. Audit Scotland has robust arrangements in place to ensure compliance with the 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.

41. 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 Lothian.

Audit quality

42. 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](#).

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

- ISQM (UK) 1 deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM includes our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit and ensuring we have robust quality monitoring arrangements in place.

- ISQM (UK) 2 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.

44. 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.

45. 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.

46. 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 Lothian

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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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