

NHS Shetland

Annual Audit Plan 2023/24 -



 AUDIT SCOTLAND

Prepared for NHS Shetland
March 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 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 my opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wide scope areas.

Respective responsibilities of the auditor and Audited Body

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

Auditor responsibilities

3. Our 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.

4. 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 Shetland. In doing this, we aim to support improvement and accountability.

NHS Shetland's responsibilities

5. NHS Shetland 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.

6. NHS Shetland 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.

Communication of fraud or suspected fraud

7. In line with ISA 240, in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the committee or board have any such knowledge or concerns relating to the risk of fraud within NHS Shetland or their service organisations, we invite them to communicate this to the appointed auditor for consideration. Similar assurances will be sought as part of the audit completion process.

Adding Value

8. We aim to add value by tailoring audit work to the circumstances of NHS Shetland 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 Shetland 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 Shetland's stewardship of resources and its performance in the use of those resources.

10. As appointed auditor, 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. Our work is focussed 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 are 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 as described in [Exhibit 1](#). The materiality values for NHS Shetland are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for NHS Shetland

Materiality	Amount
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 Shetland'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.	£2.5 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality,	£1.75 million

this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.

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.	£125 thousand
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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 and consideration of 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 International Standard on Auditing (UK) 240, management is in a</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. Detailed testing of transactions and journals with a focus on significant risk areas, including year-end and post-close down entries. 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. Consider the need to test journal entries and other adjustments throughout the period.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.		<ul style="list-style-type: none"> • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Focussed testing of accruals and prepayments. • 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.

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.

18. We have rebutted this risk as funding received from the Scottish Government is clearly communicated and can be readily agreed to third party confirmations. In addition, NHS Shetland's 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.

19. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

20. We have rebutted this risk as the main expenditure streams of NHS Shetland are from low-risk areas where individual transactions are well-controlled and are relatively low-value with management and/or board approval required for material transactions. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

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

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.

25. NHS Shetland has a group which comprises component entities, including the NHS Shetland Health Board Endowment Funds and the Shetland Islands Integration Joint Board. The audit of the financial information of NHS Shetland Board Endowment Funds is performed by another auditor. None of the component entities are assessed as significant. We will obtain sufficient appropriate audit evidence in relation to the consolidation process including analytical review on which to base our group audit opinion.

Audit of Performance Report, Governance Statement, and audited part of the Remuneration and Staff Report

26. In addition to the appointed auditor's opinion of the financial statements, the Auditor General for Scotland prescribes that the appointed auditor should provide opinions as to whether the Performance Report, Governance Statement, and audited part of the Remuneration and Staff Report, have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the financial statements.

27. To inform these opinions we will consider whether the disclosures within each statement comply with the requirements of the applicable guidance and confirm that relevant information reflects the contents of the financial statements and other supporting documentation.

28. Based on our knowledge of the audit, and the established procedures in place to produce these statements, we have not identified any specific risks to be communicated to those charged with governance.

Wider Scope and Best Value

Introduction

29. 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.

30. 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 NHS Shetland 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 Shetland. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how NHS Shetland demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

31. Our planned work on our wider scope responsibilities is risk based and proportionate. We have identified one area of focus for the 2023/24 audit of NHS Shetland.

Financial Sustainability

32. In 2022/23 we reported that NHS Shetland's core revenue funding decreased from the prior year in real terms by 11.8 per cent. We further noted that the health board identified a recurrent financial gap of £3.1million for 2023/24 and had significant challenges around staff recruitment and retention leading to higher agency staff/ locum costs.

33. The most recent Financial Performance Report presented to the Finance and Performance Committee in February 2024 highlighted financial issues – including underlying work force pressures – which are likely to result in circa £1.2 million over spent position for 2023/24.

34. The Board's saving target for 2023/24 is £3.66 million with projected year-end outturn of £3.07 million of which only £0.5 million is on recurring basis, creating significant challenges to achieve financial balance. There is a further 7% funding gap identified for 2024/25.

35. Brokerage will likely be needed from the Scottish Government to fund the budget shortfall for 2024/25. However, a risk exists that brokerage might not be granted and decisions on service provision may have to be made to stay within the financial resources available to the Board. This highlights the extent of the financial challenges facing the Board and presents a significant risk to the sustainability of services in the future. As part of the audit, we will assess NHS Shetland's financial plans and report on these within our Annual Audit Report.

National risks

36. 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 cyber security and climate change.

Duty of Best Value

37. [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 Shetland.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

38. 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.

39. We will provide:

- an Independent Auditor's Report to NHS Shetland, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts
- NHS Shetland 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.

40. [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.

41. 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	12 March 2024	26 March 2024
Proposed Independent Auditor's Report	11 June 2024	18 June 2024
Proposed Annual Audit Report	11 June 2024	18 June 2024 (Board meeting 25 June 2024)

Source: Audit Scotland



42. 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

43. 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.

44. 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
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	06 May 2024
Latest date for final clearance meeting with the Director of Finance	06 June 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	11 June 2024
Agreement of audited and unsigned annual report and accounts	11 June 2024
Issue of proposed Annual Audit Report to those charged with governance	11 June 2024
Signed Independent Auditor's Report	25 June 2024

Source: Audit Scotland

Audit fee

45. In determining the audit fee, we have taken account of the risk exposure of NHS Shetland 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 £100,740 (2022/23: £95,000).

46. In setting the fee for 2023/24, we have assumed that NHS Shetland 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

47. It is the responsibility of NHS Shetland to establish adequate internal audit arrangements. The internal audit function at NHS Shetland is provided by Azets Audit Services Limited.

48. 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

49. We are independent of NHS Shetland 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.

50. 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.

51. 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 Shetland.

Audit Quality

52. 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](#).

53. 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.

54. 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.

55. 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.

56. 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 audit team involved in the audit of NHS Shetland have significant experience in public sector audit.

Rachel Browne
Audit Director
rbrowne@audit-scotland.gov.uk

Rachel has over 25 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.

Stephen O'Hagan
Senior Audit Manager
sohagan@audit-scotland.gov.uk

Stephen joined Audit Scotland's predecessor organisation as a senior auditor over 25 years ago and has been a senior audit manager for over 17 years. He has extensive experience in the delivery of local and central government sectors, most recently leading on a portfolio of audits including Glasgow City Council and Strathclyde Pension Fund.

Wojciech Kuzma
Senior Auditor
wkuzma@audit-scotland.gov.uk

Wojciech joined Audit Scotland's Professional Trainee scheme in 2015 and qualified as a Chartered Accountant in 2019. Most recently Wojciech worked on European Agricultural Funds Accounts and Food Standards Scotland audits. Prior to this he worked on a number of other audits in the Central Government sector.

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.

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.

NHS Shetland

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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