

NHS Tayside

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for NHS Tayside
March 2024

Contents

Introduction	3
Annual report and accounts	5
Wider Scope and Best Value	11
Reporting arrangements, timetable, and audit fee	13
Other matters	15

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 external audit of NHS Tayside. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the 2023/24 annual report and accounts to support our opinions on the financial statements
- an audit of regularity and the other statutory information published within the 2023/24 annual report and accounts, including the Performance Report, the Governance Statement, and the audited part of the Remuneration and Staff Report
- consideration of arrangements in relation to the wider scope of public sector audit: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

Respective responsibilities of the auditor and NHS Tayside

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

Auditor responsibilities

3. Our responsibilities as independent auditors 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 Tayside. In doing this, we aim to support improvement and accountability.

NHS Tayside's responsibilities

5. NHS Tayside is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view. It must prepare other reports in the annual report and accounts in accordance with applicable requirements.

6. NHS Tayside also has responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and

establishing effective arrangements for governance, propriety, and regularity that enables it to deliver its objectives.

7. The audit of the annual report and accounts does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Communication of fraud or suspected fraud

8. 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 Tayside, 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

9. We aim to add value to NHS Tayside by tailoring audit work to NHS Tayside's circumstances and the audit risks identified, by being constructive and forward looking, by attending meetings of the Audit and Risk Committee and by recommending and encouraging good practice. In so doing, we will help NHS Tayside promote improved standards of governance, better management and decision making and more effective use of resources.

Annual report and accounts

10. The annual report and accounts are an essential part of demonstrating NHS Tayside's stewardship of resources and its performance in the use of those resources.

11. As part of our audit we 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.

12. 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

13. 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

14. We assess materiality at different levels as detailed in [Exhibit 1](#) on page [6](#). We have concluded that the same materiality levels should apply for both NHS Tayside and its Group.

Exhibit 1

Materiality levels for 2023/24 audit

Materiality	Amount
<p>Planning materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set based on our assessment of the needs of the users of the financial statements and the nature of NHS Tayside's operations. For the year ended 31 March 2024, we have set our materiality at 2 per cent of gross expenditure for the group based on the audited 2022/23 financial statements.</p>	£38 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 65 per cent of planning materiality.</p>	£25 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>	£0.5 million

Source: Audit Scotland

Significant risks of material misstatement and other risks of material misstatement for the 2023/24 financial statements

15. Our risk assessment draws on our cumulative knowledge of NHS Tayside and consideration of its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management, meetings with internal audit, attendance at committees and review of other relevant information.

16. 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.

17. Based on our risk assessment process, we identify significant risks of material misstatement to the financial statements. These are the risks which have the greatest impact on our planned audit procedures. We also identify any other non-significant risks of material misstatement that require a specific audit response over and above our standard audit procedures. [Exhibit 2](#) on page [7](#) 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

Significant and non-significant risks of material misstatement for the 2023/24 financial statements

Nature of risk	Sources of assurance	Planned audit response
Significant risks of material misstatement		
<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>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Detailed testing of transactions and journals with a focus on significant risk areas, including year-end and post-close down entries. • Review of significant accounting estimates. • Assess any changes to the methods and underlying assumptions used to prepare significant accounting estimates compared to the prior year. • Focussed testing of accruals and prepayments. • 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. • Evaluate significant transactions outside the normal course of business.
Other non-significant risks of material misstatement		
<p>2. 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 Tayside 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</p>	<ul style="list-style-type: none"> • Accounting treatment has been reviewed in line with national guidance. Working papers will be shared with audit for review in advance of the year end audit and initial discussions have already taken place. 	<ul style="list-style-type: none"> • Assess NHS Tayside's arrangements for adopting this new accounting requirement. • Review detailed working papers to support the evaluation and assess the conclusions reached by NHS Tayside. • Assess the adequacy of NHS Tayside's financial statements disclosures regarding service concession arrangements.

Nature of risk	Sources of assurance	Planned audit response
<p>reflect the impact of the revised IFRS 16 accounting arrangements.</p>		
<p>3. Carseview PFI scheme – accounting for end of contract arrangements</p> <p>The existing contract for Carseview PFI scheme expires on 11 June 2026. A number of options are available to NHS Tayside at the end of the contract and a decision has to be taken by 11 June 2024 (23rd anniversary of contract commencement date) as to which option will be exercised.</p> <p>The proposed option is that NHS Tayside will purchase the equipment and ground lease at the end of the contract but this remains subject to Scottish Government approval.</p>	<ul style="list-style-type: none"> Accounting treatment will be reviewed by management as part of the preparation of the 2023/24 Annual Report and Accounts to ensure it accurately reflects the decision taken about the end of contract options. 	<ul style="list-style-type: none"> Review proposed accounting treatment with a view to agreeing the correct treatment prior to NHS Tayside submitting the 2023/24 Annual Report and Accounts for audit.
<p>Source: Audit Scotland</p>		

18. As set out in *International Standard on Auditing (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. We have considered the risk over income recognition and the risk of fraud over expenditure (in accordance with *Practice Note 10 (Audit of Financial Statements and Regularity in Public Sector Bodies in the UK)*).

19. We have rebutted the presumption that a risk of material misstatement exists, with the exception of management override of controls, as detailed at point 1 in [Exhibit 2](#) above. Our assessment is on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting (although Revenue Resource Limit targets are relevant to our assessment of management override of controls)
- most income is provided by the Scottish Government and other public bodies and is easily verifiable
- most expenditure is in low risk areas where individual transactions are well-controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale, with management or board approval required for material transactions

- evidence of external fraud from Counter Fraud Services and the National Fraud Initiative does not indicate material risks
- experience in the sector and of the audit of NHS Tayside, including a review of past misstatements, does not indicate a significant risk.

20. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Regularity

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

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

Group Consideration

23. 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.

24. NHS Tayside has a group which comprises component entities, including the Tayside NHS Board Endowment Fund and the three Tayside associated Integration Joint Boards. The audits of the financial information of some of the components are performed by other auditors. We plan to place reliance on the work of the component auditors. 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.

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

25. 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, the Governance Statement, and the 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.

26. 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.

27. 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

28. 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.

29. In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider these arrangements and comment in financial management in our Annual Audit Report.
- **Financial sustainability:** We will consider whether the body is planning effectively to continue to deliver services and comment on financial sustainability in the medium (two to five years) to longer term (longer than five years) in our Annual Audit Report.
- **Vision, leadership, and governance:** We will conclude on the arrangements in place to deliver the vision, strategy, and priorities of NHS Tayside. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes:** We will consider how NHS Tayside demonstrates economy, efficiency, and effectiveness through the use of financial and other resources. [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 Tayside.

Wider scope risks

30. Our planned work on our wider scope responsibilities is risk based and proportionate. We have identified two areas for specific focus as part of the 2023/24 audit of NHS Tayside.

Financial Sustainability

31. As detailed above, the Code of Audit Practice requires auditors to consider the financial sustainability of audited bodies in the medium to longer term.

32. In 2022/23 NHS Tayside achieved a surplus of £0.1 million against its Revenue Resource Limit (RRL) of £1 billion, but only after recognising financial flexibility of £9.6 million which is required to be met by underspends across 2023/24 and 2024/25 to provide breakeven over the three-year flexibility period.

33. The draft Three Year Financial Plan for 2023/24 to 2025/26 identified an initial budget gap of £57 million for 2023/24. This budget gap has been managed down during the year but the most recent financial projections in February 2024 forecast a deficit of £19.7 million for 2023/24. Brokerage will be required to fund this budget shortfall for 2023/24.

34. The level of brokerage funding required to balance NHS Tayside's budget for 2023/24 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 Tayside's financial plans and report on these within our Annual Audit Report.

Mental Health Services in Tayside

35. The final report of the Independent Oversight and Assurance Group (IOAG) on Tayside's Mental Health Services was published on 11 January 2023. The final report followed a 12-month period of engagement with a range of key stakeholders across Tayside. The IOAG's remit was to provide independent assurance to the Minister for Mental Wellbeing and Social Care about progress being made against 49 recommendations made in 'Trust and Respect', the report of the Independent Inquiry into Mental Health Services in Tayside, Dr David Strang, published in February 2020.

36. The IOAG report set out six priority areas for improvement, which correspond closely to the reprioritisation of the Living Life Well workstreams. The Minister for Mental Wellbeing and Social Care requested a detailed action plan setting out how these priorities will be addressed. The Mental Health and Learning Disability Improvement Plan has been developed in response to the Minister's request. A draft was prepared by end of February 2023, and following consideration by a number of important groups and stakeholders, the action plan was approved by the three IJBs and NHS Tayside Board in March 2023.

37. NHS Tayside has been formally escalated by the Scottish Government to stage 3 enhanced monitoring and support for mental health performance. We have previously reported our concerns on NHS Tayside's mental health services and there is a pending risk to be added to the strategic risk profile in relation to the delivery of the mental health strategy. There is a risk that the board and its partners fail to deliver the required improvements to mental health services across Tayside. We will continue to monitor and report on progress in delivering improvements in mental health services.

National risks

38. 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 affect the public sector as a whole. We have not been asked to consider any specific risks for the 2023/24 audits, over and above those areas covered by the Code of Audit Practice, but we will remain cognisant of challenges identified in prior years such as climate change.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

39. Audit reporting is the visible output for the annual audit. This Annual Audit Plan and the outputs set out in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on Audit Scotland's website: www.audit-scotland.gov.uk.

40. 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, prior to the issue and publication of final reports.

41. We will provide an Independent Auditor's Report to NHS Tayside, the Auditor General for Scotland and the Scottish Parliament setting out our opinions on the annual report and accounts. We will also provide NHS Tayside and the Auditor General for Scotland with an Annual Audit Report containing observations, conclusions and recommendations on significant matters which have arisen during the audit.

42. [Exhibit 3](#) outlines the target dates for our audit outputs and reflects our intention to complete the audit in time to enable certification of the 2023/24 annual report and accounts by 30 June 2024.

Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee
Proposed Independent Auditor's Report	13 June 2024	20 June 2024
Proposed Annual Audit Report	13 June 2024	20 June 2024 (Board meeting on 27 June 2024)



Source: Audit Scotland

Timetable

43. To support an efficient audit, it is critical that the timetable is agreed with management for the production and audit of the accounts. The agreed timetable for the 2023/24 annual report and accounts is shown in [Exhibit 4](#) on page [13](#).

Exhibit 4

Annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date of unaudited annual report and accounts (Board only) with complete working papers package	3 May 2024
Latest date of consolidated (Board and Group) unaudited annual report and accounts	17 May 2024
Latest date for final clearance meeting with the Director of Finance	11 June 2024
Agreement of audited annual report and accounts for consideration by the Audit and Risk Committee	13 June 2024
Issue of proposed Annual Audit Report to those charged with governance (along with letter of representation and proposed independent auditor's report)	13 June 2024
Audit and Risk Committee meeting to consider proposed Annual Audit Report and audited annual report and accounts	20 June 2024
Board meeting to approve and sign audited annual report and accounts	27 June 2024
Independent auditor's report certified by the appointed auditor and Annual Audit Report finalised and issued	27 June 2024

Source: Audit Scotland

44. We intend to take a hybrid approach to the 2023/24 audit with a blend of onsite and remote working, as this worked well last year. 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 management and finance officers over the course of the audit.

Audit fee

45. In determining the audit fee, we have taken account of the risk exposure of NHS Tayside and the planned management assurances in place. The fee for 2023/24 is £243,950 (£230,050 in 2022/23), an increase of 6 per cent. NHS Tayside will receive a fee rebate of £912 in respect of unspent 2022/23 travel budgets. This can be offset against the 2023/24 audit fee meaning the net charge to NHS Tayside for the year will be £243,038.

46. In setting the fee we have assumed that NHS Tayside has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in the risks and scope of the audit during the year. Where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

47. It is the responsibility of NHS Tayside to establish adequate internal audit arrangements. The internal audit function at NHS Tayside is provided by Fife, Tayside and Forth Valley Audit and Management Services (FTF). We will review the internal audit plan and the results of internal audit's work. This will include consideration of internal audit's work on the Scottish Standard Payroll system uprating process, to confirm that this has not identified material issues that could impact on the accuracy of the staff costs figures of NHS bodies that use this system. We will inform other NHS external auditors of the outcome of this review.

External audit team

48. There is a change in the engagement lead for the NHS Tayside audit this year as Brian Howarth, Audit Director, is retiring. The engagement lead (i.e. the appointed auditor) from the 2023/24 audit will be Rachel Browne, Audit Director. Rachel has over 25 years of public sector audit experience in NHS, local government and central government audits. The incoming and outgoing engagement leads are holding handover discussions to ensure a smooth transition.

49. Richard Smith, Senior Audit Manager, and Lauryn Graham, Senior Auditor, will continue to lead and manage the external audit team on a day-to-day basis.

Independence and objectivity

50. Auditors appointed by the Auditor General for Scotland must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

51. Audit Scotland has robust arrangements in place to ensure compliance with these standards 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.

52. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the IJB.

Audit Quality

53. 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](#).

54. 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.

55. 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.

56. 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.

57. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the appointed auditor.

NHS Tayside

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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:

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