

NHS Western Isles

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for NHS Western Isles
February 2024

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Introduction

Summary of planned audit work

1. I, Claire Gardiner have been appointed by the Auditor General for Scotland as external auditor of NHS Western Isles for the period from 2023/24 until 2026/27. The 2023/24 financial year is therefore the first of my four-year audit appointment. A brief biography of the audit team is provided at [Appendix 1](#).
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 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 NHS Western Isles

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

NHS Western Isles responsibilities

6. NHS Western Isles 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 Western Isles 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. My team and I aim to add value by: tailoring audit work to the circumstances of NHS Western Isles and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Healthcare Governance and Audit Committee and by recommending and encouraging good practice. In so doing, we will help NHS Western Isles promote improved standards of governance, better management and decision making, and more effective use of resources.

Communication of fraud or suspected fraud

9. In line with auditing standards, in presenting this plan to the Healthcare Governance and Audit 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 have any such knowledge or concerns relating to the risk of fraud within NHS Western Isles, we invite them to communicate this to the appointed auditor for consideration.

Annual report and accounts

Introduction

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

11. 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 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. 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

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. 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

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

Exhibit 1

2023/24 Materiality levels for NHS Western Isles and its group

| Materiality | Single Entity | 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 Western Isles operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure excluding the contribution</p> | £2.3 million | £2.3 million |

to the Integration Joint Board (IJB) based on the audited financial statements for 2022/23.

| | | |
|--|---------------|---------------|
| 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. | £1.7 million | £1.7 million |
| 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. | £115 thousand | £115 thousand |

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of NHS Western Isles, 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.

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 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 |
|--|--|--|
| 1. Risk of material misstatement due to fraud caused by management override of controls | Owing to the nature of this risk, assurances from management are not | <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 |

| Significant risk of material misstatement | Management's sources of assurance | Planned audit response |
|--|---|---|
| <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>applicable in this instance</p> | <p>the processing of journal entries and other adjustments.</p> <ul style="list-style-type: none"> • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments. |
| <p>2.Cyber-attack at Comhairle Nan Eilean Siar- Impact on IJB.</p> <p>NHS Western Isles are joint partners with Comhairle Nan Eilean Siar (CNES) in the Western Isles IJB – (Curam Is Slainte nan Eilean Siar).</p> <p>In November 2023 there was a significant cyber-attack on CNES and they have been unable to access their financial ledger system.</p> <p>At the current time it is not clear what CNES will be able to provide to support the IJB transactions reflected in</p> | <ul style="list-style-type: none"> • Director of Finance will be seeking assurances from the Chief Accountant at Comhairle nan Eilean Siar on the reliance that can be placed on the year end outturn figures that feed into the group account notes. • Will seek assurance that they will receive the year end draft Social Care accounts by 3rd week in May to allow consolidation | <ul style="list-style-type: none"> • Review disclosures included in the annual accounts • Assess the reliability of the IJB transactions and disclosures included in the NHS Western Isles financial statements • Where estimates have been used to inform figures reported in the NHS Western Isles financial statements we will evaluate the appropriateness of assumptions and calculations which underpin key figures. |

| Significant risk of material misstatement | Management's sources of assurance | Planned audit response |
|---|-----------------------------------|------------------------|
| NHS Western Isles accounts. | of the IJB accounts. | |

Source: Audit Scotland

18. 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.

19. We have rebutted this risk as funding received from the Scottish Government is clearly communicated and can be readily agreed to third party confirmations.

20. 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.

21. We have rebutted this risk as the main expenditure streams of NHS Western Isles are 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. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

22. 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

23. As part of our assessment of audit risks, we have identified another area where we consider there is also a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

24. The area of specific audit focus is:

- **Estimations in the valuation of land and buildings** NHS Western Isles hold land and buildings with a NBV (Net Book Value) of £65 million as at 31 March 2023. These assets are revaluated on a five-year rolling basis by external valuers. Valuations are based on specialist and management assumptions and small movements in these can result in material changes to valuations. There is also the risk, for those assets

not subject to revaluation in-year, that the carrying value does not reflect current value. We will review the arrangements in place to satisfy the board that the annual revaluation process is complete and asset values are free from material misstatement.

Regularity

25. 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).

26. 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

27. 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.

28. NHS Western Isles has a group which comprises the Western Isles Integration Joint Board (the IJB) as a joint venture. The audit of the financial information of the IJB is performed by the same core team as NHS Western Isles. We intend to place reliance on the work of the component auditors. As noted however at [Exhibit 2](#) the availability and reliability of information from CNES regarding its share in the IJB is not yet known and we are assessing it as a significant risk of material misstatement for the audit opinion of the group financial statements.

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 the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years). NHS Western Isles' 2023/24 financial monitoring reports indicate that the Board has a projected overspend position of £1 million as at 31 March 2024. There are a number of local and national pressures which can be attributed to this projected overspend. As part of our audit, we will monitor the board's financial position as reported to the board and relevant committees and report on the year-end position as part of our annual audit report.
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by NHS Western Isles. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – Health Boards must make best use of their resources to meet stated outcomes and improvement objectives. We will consider how NHS Western Isles demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

31. 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.

Cyber Security

32. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. The cyber-attacks on CNES and other public sector bodies have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2023/24, we will consider NHS Western Isles' arrangements for managing and mitigating cyber security risks to follow up the recommendation made in our 2022/23 annual audit report.

Duty of Best Value

[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 the Western Isles

Reporting arrangements, timetable, and audit fee

Reporting arrangements

33. 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.

34. We will provide:

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

35. [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.

36. We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

Exhibit 4

2022/23 Audit outputs

| Audit Output | Target date | Audit and Risk Committee/Board Date |
|------------------------------|-------------|-------------------------------------|
| Annual Audit Plan | 21/02/2024 | TBC |
| Independent Auditor's Report | 19/06/2024 | 26/06/2024 |
| Annual Audit Report | 19/06/2024 | 26/06/2024 |

Source: Audit Scotland



37. 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

38. 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.

39. 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. | 7 May 2024 |
| Latest date for final clearance meeting with the Director of Finance | 14 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 | 26 June 2024 |
| Issue of Annual Audit Report to those charged with governance. | 26 June 2024 |
| Signed Independent Auditor's Report following board approval | 26 June 2024 |

Source: Audit Scotland

Audit fee

40. In determining the audit fee, we have taken account of the risk exposure of NHS Western Isles and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The planned audit fee for 2023/24 is £93,730 (2022/23 £88,390).

41. In setting the fee for 2023/24, we have assumed that NHS Western Isles 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

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

43. 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

44. I am independent of NHS Western Isles 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.

45. 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.

46. 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 Western Isles.

Audit Quality

47. 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](#).

48. 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.

49. 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.

50. 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.

51. 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

52. The audit team involved in the audit of NHS Western Isles have significant experience in public sector audit.

Claire Gardiner
Audit Director
cgardiner@audit-scotland.gov.uk

Claire has over 19 years of public sector auditing experience. Claire has worked across the breadth of the public sector on financial audits.

Asif A Haseeb OBE
Senior Audit Manager
ahaseeb@audit-scotland.gov.uk

Asif has over 30 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.

Laura Nelson
Senior Auditor
lnelson@audit-scotland.gov.uk

Laura has considerable experience in planning and delivering audits. Laura will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

53. 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.

54. 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.