

# NHS Lanarkshire

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for NHS Lanarkshire

November 2016

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a Board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive Board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

2. Based on our discussions with staff and a review of supporting information we have identified the following main risk areas for NHS Lanarkshire (the Board). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls in order to change the position disclosed in the financial statements.</p>		<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Review of significant management estimates and evaluation of the impact of any variability in key assumptions.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> <li>• Substantive testing of transactions after the year end to confirm expenditure and income has been accounted for in the correct financial year.</li> </ul>
<p><b>2 Risk of fraud over income</b></p> <p>NHS Lanarkshire receives approximately 6% of income from sources other than Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud that requires an audit response.</p>	<ul style="list-style-type: none"> <li>• Effective budget monitoring by management.</li> <li>• Fraud reports are regularly monitored and information across Scotland is routinely shared.</li> </ul>	<ul style="list-style-type: none"> <li>• Analytical procedures on income streams.</li> <li>• Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>

Audit Risk	Management assurance	Planned audit work
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice requires consideration of risk of fraud over expenditure (excluding payroll costs which are already a core part of all annual audits). NHS Lanarkshire incurs significant expenditure on family health services which require audit coverage.</p>	<ul style="list-style-type: none"> <li>• Fraud reports are regularly monitored and information across Scotland is routinely shared.</li> <li>• There are a range of measures in place to prevent and detect fraud, including Standing Financial Instructions, Standing Orders and a Code of Conduct for Staff which incorporates both whistleblowing and fraud policies.</li> <li>• The Board has a formal partnership agreement with NHS Scotland Counter Fraud Services and an agreed protocol covering a programme of regular payment verification checks.</li> </ul>	<ul style="list-style-type: none"> <li>• Walk-through of controls over family health service expenditure.</li> <li>• Audit work on the National Fraud Initiative matches.</li> <li>• Obtain assurances from the Counter Fraud Service.</li> </ul>
<p><b>4 Estimation and judgements</b></p> <p>There is a degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Effective budget monitoring by management.</li> </ul>	<ul style="list-style-type: none"> <li>• Completion of 'review of the work of an expert' for the professional valuer.</li> <li>• Review of information provided by the Central Legal Office.</li> <li>• Focused substantive testing of provisions.</li> </ul>
<p><b>5 Consolidation of Health and Social Care costs: North Lanarkshire and South Lanarkshire Health and Social Care Partnerships (HSCPs)</b></p> <p>The results of the HSCPs will be consolidated into the accounts of NHS Lanarkshire for the first time in 2016/17 from the integrated joint boards (IJBs) accounts.</p> <p>The Board needs to agree a timetable and approach to obtaining the IJB figures for consolidation, and assurances required for the group governance disclosures. As this is the first year, there is a risk that the timetable may not be achieved. There is also an increased risk of errors in accuracy and disclosure.</p>	<ul style="list-style-type: none"> <li>• Board finance officers are liaising with their local government colleagues regarding the timetable for draft accounts.</li> <li>• Finance officers are taking a common approach to accounting in both IJBs in the NHS Lanarkshire area.</li> </ul>	<ul style="list-style-type: none"> <li>• Consider the timetable and process for consolidation of the group accounts.</li> <li>• Consider the assurances obtained by the Board's Director of Finance for the group governance disclosures</li> <li>• Agree the consolidation adjustment is accurate and correctly disclosed.</li> <li>• Confirm that any balances relating to IJBs have been agreed by the partner bodies.</li> </ul>

Audit Risk	Management assurance	Planned audit work
<p><b>6 Implementation of new asset management system (RAM)</b></p> <p>System changes present an audit risk due to the uncertainty over the integrity of migration arrangements and the output from the new system. The Board is implementing the RAM system during 2016/17 to replace its existing system for recording non-current assets.</p> <p>There is a risk that the information from the new system used to prepare the financial statements may contain errors.</p>	<ul style="list-style-type: none"> <li>Internal audit will undertake a review of the recording, identification and monitoring of assets in the RAM system during 2016/17.</li> </ul>	<ul style="list-style-type: none"> <li>Review of internal audit's planned work on the recording, identification and monitoring of assets in the new system.</li> <li>Focused substantive testing on non-current asset additions, disposals and depreciation charges.</li> </ul>
<p><b>7 System generated accruals</b></p> <p>In the 2015/16 Annual Audit Report the previous auditors, Scott Moncrieff, highlighted concerns that the eFinancials automatic accrual for goods received that have not yet been invoiced (GRNI) may continue to be overstated in 2016/17.</p> <p>There is a risk that the accounts payable amount recorded in the financial statements may be overstated.</p>	<ul style="list-style-type: none"> <li>Overall the Board has reduced the level of GRNI accruals. The Board will continue to review the GRNI accrual during 2016/17 to ensure that the amounts accrued remain reasonable.</li> </ul>	<ul style="list-style-type: none"> <li>Focused substantive testing on the system generated accruals included within accounts payable in the financial statements.</li> </ul>
<p><b>Wider dimension risks</b></p>		
<p><b>8 Financial sustainability</b></p> <p>NHS Lanarkshire set its 2016/17 Financial Plan in March 2016. The plan identified a budget gap of £42.988 million to be addressed by efficiency measures. Although the profile of savings proposals to address the budget gap was established, there were no specific savings measures in place for £10.4 million of the budget gap. The August 2016 financial monitoring report for the Board highlighted that this gap had reduced to £4 million.</p> <p>Delivering recurring efficiency savings is increasingly challenging and represents a risk to the financial sustainability of NHS Lanarkshire.</p>	<ul style="list-style-type: none"> <li>Agreement of the financial plan and dialogue with the Scottish Government.</li> <li>Effective budget monitoring by management.</li> <li>The achievement of savings monitored through reports to the Board.</li> </ul>	<ul style="list-style-type: none"> <li>Review financial monitoring reports and the financial position.</li> <li>Undertake specific audit work on financial planning and governance. This will include assessing the robustness of long term financial planning.</li> </ul>
<p><b>9 Delayed discharges</b></p> <p>Reducing delayed discharges is a key performance target for NHS boards and health and social care providers. The</p>	<ul style="list-style-type: none"> <li>Performance against targets is monitored regularly through the organisational structure to the Board.</li> </ul>	<ul style="list-style-type: none"> <li>Undertake a review of the reasons for delayed discharges in NHS Lanarkshire and assess the Board's arrangements for managing and minimising</li> </ul>

Audit Risk	Management assurance	Planned audit work
<p>performance target was not met consistently by any NHS board throughout 2015/16. In 2015/16 NHS Lanarkshire reported a deteriorating position of a 16.1% increase in delayed discharge bed days compared with 2014/15.</p> <p>On this basis it has been agreed with the Board that this is an area to be considered as part of the audit.</p>	<ul style="list-style-type: none"> <li>Monitoring will determine if specific areas merit more detailed scrutiny or additional actions to be taken.</li> </ul>	<p>these.</p>

## Reporting arrangements

**3.** Audit reporting is the visible output from the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**4.** 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.

**5.** We will provide an independent auditor's report to NHS Lanarkshire and the Auditor General for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will provide the Board (via the Accountable Officer) and Auditor General for Scotland with an annual audit report. This will contain observations and recommendations on significant matters which have arisen during the course of the audit. We expect all audit outputs to be considered by the Board's Audit Committee and other committees depending on the scope of the reports.

**6.** Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end i.e. 31 December. NHS Lanarkshire is required to submit their audited financial statements by 30 June to meet the consolidation timetable.

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit Committee Date
Interim Management Report	31 March 2017	6 June 2017
Review of Delayed Discharges	30 April 2017	6 June 2017
Annual Audit Report, including ISA 260 requirements to communicate significant findings from the audit to those charged with governance	28 June 2017	28 June 2017
Signed Independent Auditor's Report	28 June 2017	28 June 2017

## Audit fee

**7.** The proposed audit fee for the 2016/17 audit of NHS Lanarkshire is yet to be determined and is subject to agreement of Audit Scotland's budget with the Scottish Commission for Public Audit. This agreement includes proposals to rebalance the audit fees across individual audits and change the funding of national performance studies in the NHS sector. In determining the audit fee we will take account of the audit risks for NHS Lanarkshire, the planned management assurances and reliance on the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements and a complete working papers package on 8 May 2017.

**8.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Responsibilities

### Audit Committee and Accountable Officer

**9.** Audited bodies have 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 successfully deliver their objectives.

**10.** The audit of the financial statements does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

**11.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

**12.** Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.



# Audit scope and timing

## Financial statements

**13.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of NHS Lanarkshire and the associated risks which could impact on the financial statements
- obtaining assurances from the outgoing auditors for the opening balances in the financial statements
- completing initial key system evaluations to enhance our understanding and assessing the operation of the key controls
- identifying major transaction streams, balances and areas of estimation and understanding how NHS Lanarkshire will include these in the financial statements
- assessing the risks of material misstatement in the financial statements, and the impact of consolidation of the Integration Joint Boards for North and South Lanarkshire into the group accounts
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement including exploring the use of data analytics.

**14.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of NHS Lanarkshire and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- whether the information which comprises the performance report and accountability report is consistent with the financial statements
- the regularity of the expenditure and income.

## Materiality

**15.** Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for NHS Lanarkshire are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality

Materiality level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure.	£13.090 million
<b>Performance materiality</b> - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of planning materiality.	£6.545 million
<b>Reporting threshold</b> - We are required to report to those charged with governance all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality rounded to a memorable metric.	£0.100 million



16. We review and report on other information published with the financial statements including the performance report, remuneration report and annual governance statement. Any issues identified will be reported to the Audit Committee.

### Timetable

17. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. A proposed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates.

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited financial statements with complete working papers package	8 May 2017
Latest date for final clearance meeting with Director of Finance	14 June 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report, including significant issues to be reported under ISA 260 to those charged with governance	21 June 2017
Independent auditor's report signed	28 June 2017

### Internal audit

18. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. The Board's internal audit

service is provided as part of a managed service, overseen by Fife, Tayside and Forth Valley Audit and Management Services (FTF).

### Adequacy of Internal Audit

**19.** A formal review of internal audit is planned for December 2016. In the meantime, based on a review of internal audit plans, we intend to place specific reliance on internal audit's review of the key controls through their work on Financial Process Compliance in payroll, accounts payable, accounts receivable and banking arrangements. We also intend to place formal reliance on the work of internal audit in relation to asset control.

**20.** In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Board, Operational Committees and Accountable Officer
- NHS Resilience, Business Continuity and Emergency Planning
- 2020 Priorities
- Health and Social Care Integration
- Workforce strategy, operational planning and information
- Savings Programme
- Financial Management.

### Audit dimensions

**21.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

## Exhibit 5

### Audit dimensions



### Financial sustainability

**22.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the

financial sustainability in the medium term (two to five years) and longer term (longer than five years). We will carry out work and conclude on the following in 2016/17:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

### Financial management

**23.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively including:

- the arrangements in place to ensure systems of internal control are operating effectively
- whether NHS Lanarkshire can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how assurance has been gained that the financial capacity and skills are appropriate
- whether appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established.

### Governance and transparency

**24.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. These include:

- whether NHS Lanarkshire can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.

**25.** In 2016/17 Audit Scotland will conduct a follow up of the national report on the Role of Boards which was published in September 2010. We will contribute to the intelligence by conducting a review of local arrangements at the Board.

### Value for money

**26.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether NHS Lanarkshire can provide evidence that it is demonstrating value for money in its achievement of performance targets.

**27.** We have identified delayed discharges as an area in the Board where performance is challenging and has deteriorated over the last year. This is an area of concern for the Board. In response we will carry out a review of the reasons for delayed discharges and an assessment of the Board's arrangements for managing and minimising these. We will report our findings to management and the Board.

### Independence and objectivity

**28.** Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are

overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

**29.** The engagement lead for NHS Lanarkshire is Fiona Mitchell-Knight, Assistant Director of Audit. 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 NHS Lanarkshire.

## Quality control

**30.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**31.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**32.** 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 engagement lead.

# NHS Lanarkshire

## Annual Audit Plan 2016/17

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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