

NHS Western Isles

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for NHS Western Isles

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 Western Isles. 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
Financial statement issues and risks		
<p>1 Risk of management override of controls</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"> • Detailed testing of journal entries. • Focused testing of accruals and prepayments. • Review of significant management estimates and evaluation of the impact of any variability in key assumptions. • Evaluation of significant transactions that are outside the normal course of business. • Substantive testing of transactions after the year end to confirm expenditure and income has been accounted for in the correct financial year.
<p>2 Risk of fraud over income</p> <p>NHS Western Isles receives approximately 5% 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"> • A sound system of budgetary control, including monthly budget monitoring is in place. • A detailed review of income is carried out where material variances are identified. 	<ul style="list-style-type: none"> • Analytical procedures on income streams. • Detailed testing of revenue transactions focusing on the areas of greatest risk.

Audit Risk	Management assurance	Planned audit work
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. NHS Western Isles incurs significant expenditure on patient travel and family health service expenditure.</p>	<ul style="list-style-type: none"> A review of the patient travel policy is underway with the other Island Boards (including NHS Highland) which will bring a more integrated approach. 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. Data for the 16/17 National Fraud Initiative matches has been uploaded. Awaiting availability of the matched data to review. 	<ul style="list-style-type: none"> Walk-through of controls over patient travel. Detailed substantive testing of patient travel expenditure. Audit work on the National Fraud Initiative matches. Obtain assurances from the Counter Fraud Service.
<p>4 Estimation and judgements</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"> Valuations of all the Board's land and building assets are reassessed by valuers under a 5 year programme of professional valuations and adjusted in intervening years to take account of movements in prices since the latest valuation. 	<ul style="list-style-type: none"> Completion of 'review of the work of an expert' for the professional valuer. Review of information provided by the Central Legal Office. Focused substantive testing of provisions.
<p>5 Consolidation of Curam Is Slainte Nan Eilean Siar (CISNES) Integration Joint Board:</p> <p>CISNES will be consolidated into the accounts of NHS Western Isles for the first time in 2016/17. The timing of CISNES accounts may affect the production of the NHS Western Isles group accounts and as the adjustment is being made for the first time, there may be errors in accuracy and disclosure.</p>	<ul style="list-style-type: none"> A detailed year end timetable will be in place incorporating both partners' statutory deadlines, together with detailed procedures for dealing with under and overspends and the reserves of the IJB as set out in the approved Financial Regulations. 	<ul style="list-style-type: none"> Consider the process for consolidation. Agree the consolidation adjustment is accurate and correctly disclosed. Confirm that any balances relating to CISNES have been agreed by the partner bodies.
Wider dimension risks		
<p>6 Financial sustainability</p> <p>NHS Western Isles has developed a 5 year financial plan to 2020/21 which outlines the reliance on identifying and achieving non-recurring efficiency savings to deliver a break even outturn position. Delivering</p>	<ul style="list-style-type: none"> The achievement of savings monitored through reports to the Board. 	<ul style="list-style-type: none"> Review financial monitoring reports and the financial position. Undertake specific audit work on financial planning and governance. This will include assessing the robustness of long term financial planning.

Audit Risk	Management assurance	Planned audit work
efficiency savings is increasingly challenging and represents a risk to the financial sustainability of the health board.		

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.

4. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

5. We will provide an independent auditor's report to NHS Western Isles 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 Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the course of the audit.

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 Western Isles 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	Healthcare Governance and Audit Committee Date
Interim Management Report	31 March 2017	24 May 2017
Annual Audit Report including ISA 260 requirements	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 Western Isles 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 Western Isles, 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 8th 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

Healthcare Governance and 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 Healthcare Governance and 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 Western Isles 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 Western Isles will include these in the financial statements
- assessing the risks of material misstatement in the financial statements, and the impact of consolidation of the CISNES 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 Western Isles 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 Western Isles are set out in [Exhibit 3](#).



Exhibit 3

Materiality

Materiality level	Amount
Planning materiality - 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.	£0.850 million
Performance materiality - 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 75% of planning materiality.	£0.625 million
Reporting threshold - 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 2% of planning materiality rounded to a memorable metric.	£0.020 million



16. It should be noted that we continue to exercise our professional judgement in certain areas of the financial statements such as the performance report, remuneration report and annual governance statement. Any issues identified will be reported to the Healthcare Governance and 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 Healthcare Governance and 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	13 June 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 requirements to those charged with governance	19 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. Internal audit is provided by Scott Moncrieff.

Adequacy of Internal Audit

19. A formal review of internal audit is planned for November 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 within their work on a financial systems health check of income and receivables.

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

- Budget 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 Western Isles 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 Western Isles 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.

Value for money

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

Strategic plan for the five year appointment

26. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (this will be subject to annual review):

Exhibit 6
Strategic plan

Dimension	2016/17	2017/18	2018/19 to 2020/21
Financial sustainability	Financial planning		Financial planning
Financial management	Financial governance	Resource management	
Governance and transparency	Role of Boards follow up		Leadership, governance and scrutiny
Value for money		Delayed discharges	Locum costs Patient travel

Independence and objectivity

27. 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.

28. The engagement lead for NHS Western Isles is Brian Howarth - Assistant Director. 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 Western Isles.

Quality control

29. 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.

30. 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.

31. 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 Western Isles

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