

# NHS Borders

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for NHS Borders

March 2021

## 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

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1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.
3. The public health crisis caused by the coronavirus disease 2019 (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
4. Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before Covid-19. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

## Adding value

5. We aim to add value to NHS Borders (also referred to as the Board) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help NHS Borders promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

6. Based on our discussions with management, attendance at committee meetings and review of supporting information we have identified the following significant risk for NHS Borders. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### 2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p><b>1 Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>International Standards on Auditing (ISA) 240 require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates and accounting policies.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p><b>2 Risk of material misstatement caused by fraud in income and expenditure recognition</b></p> <p>NHS Borders receives income from several sources, in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud. Practice Note 10 expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure for public sector bodies which tend to have an overall net expenditure outturn.</p>	<p>Effective budget monitoring by management.</p> <p>Regular monitoring of national fraud reports.</p> <p>Participation in the National Fraud Initiative.</p> <p>Work of the Counter Fraud Group which oversees the Board's fraud arrangements.</p> <p>Counter Fraud Policy and Whistleblowing Policy in place.</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on income and expenditure streams.</li> <li>• Detailed testing of income and expenditure transactions focusing on the areas of greatest risk.</li> <li>• Cut off testing procedures on income and expenditure transactions at year-end.</li> <li>• Reviewing counter fraud arrangements.</li> </ul>
<p><b>3 Risk of material misstatement due to estimation and judgement</b></p> <p>We have determined there is a significant degree of subjectivity in the measurement and valuation of the account areas: fixed assets, accruals and provisions.</p> <p>In common with many other bodies, NHS Borders' 2019/20 valuer's report contained a 'material valuation uncertainty' clause regarding the impact of Covid-19 on the valuation of land and buildings.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements, particularly due to the continued financial pressures the Board faces.</p>	<p>The Annual Accounts Sub Group will review working papers prepared for audit and areas subject to judgement and estimation before submitting the annual report and accounts for audit.</p>	<ul style="list-style-type: none"> <li>• Focused substantive testing of key account areas.</li> <li>• Review of accounting policies to ensure these are reasonable.</li> <li>• Review of methodology for trade payables and accruals categories.</li> <li>• Review the accounting treatment of assets for appropriateness and consistency.</li> <li>• Review the revaluation accounting entries of the Board's assets in 2020/21.</li> <li>• Review Central Legal Office (CLO) reports covering clinical negligence claims</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
		<ul style="list-style-type: none"> <li>Review of the CLO as a management expert (reliance on central review anticipated).</li> </ul>
<b>Wider dimension risks</b>		
<p><b>4 Performance reporting</b></p> <p>Covid-19 has had a significant impact on performance measures, particularly for services which have been suspended or are operating at a reduced level. Performance reporting has been significantly reduced at the Board, with most targets not being required to be reported on.</p> <p>There is a risk that a large treatment backlog is building and that once services resume there will be a strain on resource and capacity.</p>	<p>Reports on performance against key suite of standards provided to committees during the year.</p> <p>Review of the full impact of missed targets will be carried out in May 2021.</p>	<ul style="list-style-type: none"> <li>Review performance reporting to the Board during the year and at year end.</li> <li>Compare NHS Borders' performance against other boards and average for NHS Scotland and report in our Annual Audit Report.</li> </ul>
<p><b>5 Financial Turnaround programme</b></p> <p>The Board's priority has been its Covid-19 response which has resulted in the Financial Turnaround programme being paused since March 2020. The programme is being reshaped in response to the pandemic and is not expected to be restarted until June 2021.</p>	<p>Executive Management Team reviewing the Financial Turnaround Programme and the level of focus which can be given to its progress.</p> <p>Updates to the Board on the level of turnaround activities which will be possible during 2020/21.</p> <p>Financial impact of Covid-19 is being regularly reported to the Board and Scottish Government and modelled into the Board's Remobilisation Plan and Financial Plan for future years.</p>	<ul style="list-style-type: none"> <li>Review reported progress on restarting the Financial Turnaround programme and financial plans.</li> <li>Review Board's Remobilisation Plan and Financial Plan for future years.</li> <li>Report findings in our Annual Audit Report.</li> </ul>
<p><b>6 Integration Joint Board (IJB) arrangements</b></p> <p>The arrangements to record the sum set aside for hospital acute services, under the control of the IJB, are not yet fully operating as required by legislation and statutory guidance. A figure was agreed in 2019/20 based on the budget agreed at the start of the year between NHS Borders and the IJB, rather than actual expenditure, as allowed under transitional arrangements.</p>	<p>Provide financial data to the IJB for incorporating into their financial plans and annual accounts.</p> <p>Discussions with the Scottish Government on the Board's set aside arrangements.</p>	<ul style="list-style-type: none"> <li>Review the finance team's plans for incorporating the IJB transactions into the annual report and accounts.</li> <li>Review the latest technical guidance and Scottish Government advice regarding the accounting treatment for IJB set aside amounts.</li> <li>Perform specific substantive testing of NHS Borders' income and expenditure relating to the IJB.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
7	<b>ICT risks</b> Cyber resilience continues to be at risk while unsupported systems and aged servers remain in use. Cyber Essentials accreditation, improvements to IT infrastructure and progressing planned programmes are contingent on resolving IM&T staffing vacancies and skills shortages.	The Board's Road to Digital (RTD) programme is progressing with system and security updates.  The IM&T Programme Board will agree the appropriate timing of the disaster recovery test for the resilient facility.	<ul style="list-style-type: none"> <li>We will review the progress of the RTD programme and monitor the Board's continuing IT investment plans.</li> </ul>

Source: Audit Scotland

## Reporting arrangements

- Audit reporting is the visible output for 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).
- 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 officer(s) to confirm factual accuracy.
- We will provide an independent auditor's report to NHS Borders, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. 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 audit.
- 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. The timetable for submitting accounts for 2020/21 has been extended to allow 3 months flexibility, if required, beyond the normal timeframe. Management are required to submit their audited financial statements by 30 September to meet the consolidation timetable.

## Exhibit 2 2020/21 Audit outputs

Audit Output	Target date for formal submission	Audit Committee / Board Date*
Annual Audit Plan	31 March 2021	22 March 2021
Annual Audit Report	30 September 2021	15 June 2021
Independent Auditor's Report	30 September 2021	24 June 2021

\*The impact of lockdown restrictions on the capacity of the audit team and NHS Borders' finance team will be kept under review. As a result, target dates may be subject to change and if so, the audit committee will be kept informed.

Source: Audit Scotland

## Audit fee

11. The audit fee for the 2020/21 audit of NHS Borders is £127,870 (2019/20: £124,770). In determining the audit fee we have taken account of the risk exposure of NHS Borders, the planned management assurances in place and the level of work of internal audit. Our audit approach assumes receipt of the unaudited annual report and accounts, with a complete working papers package on 10 May.
12. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts 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 out with our planned audit activity.

## Responsibilities

### NHS Borders

13. NHS Borders 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 successfully deliver their objectives.
14. The audit of the annual report and accounts does not relieve management or the audit committee, as those charged with governance, of their responsibilities.

### Appointed auditor

15. 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.
16. 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 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

## Annual report and accounts

- 17.** The annual accounts, which include the financial statements, will be the foundation and source for most 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 Borders and the associated risks which could impact on the financial statements
  - assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
  - identifying major transaction streams, balances and areas of estimation and understanding how NHS Borders will include these in the financial statements
  - assessing the risks of material misstatement in the financial statements
  - 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.
- 18.** We will give an opinion on whether the financial statements:
- give a true and fair view of the state of affairs of NHS Borders and its group as at 31 March 2021 and the net expenditure for the year then ended;
  - have been properly prepared in accordance with the financial reporting framework.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual report and accounts

- 19.** We review and report on statutory other information published within the annual report and accounts including the performance report, the accountability report (which includes the governance statement) and the remuneration and staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.
- 20.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## Materiality

- 21.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.
- 22.** We calculate materiality at different levels as described below. The calculated materiality values for NHS Borders are set out in [Exhibit 3](#).

## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2021 based on the latest Financial Performance Return available.	£2.8 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 45% of planning materiality.	£1.2 million
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£55 thousand

Source: Audit Scotland

## Timetable

23. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited annual report and accounts. During the 2019/20 audit there were delays to the audit timetable due to Covid-19 as well as unforeseen staffing circumstances of the Board's finance team. This re-emphasised there were key dependencies on a small number of finance staff, which we reported in our 2019/20 Annual Audit Report. We have included an agreed timetable for 2020/21 at [Exhibit 4](#).

## Exhibit 4

### Financial statements indicative timetable

 Key stage	 Date*
Latest submission date of unaudited annual report and accounts with complete working papers package	10 May 2021
Latest date for receipt of assurances from Group's Component Auditors	17 May 2021
Consideration by management of Service Auditors reports	26 May 2021
Latest date for final clearance meeting with Director of Finance	28 May 2021
Agreement of audited unsigned annual report and accounts	4 June 2021
Issue of Annual Audit Report to those charged with governance (Audit Committee)	15 June 2021
Independent auditor's report signed	25 June 2021
Submission of minimum data set for NHS in Scotland report	1 September 2021

\*The impact of lockdown restrictions on the capacity of the audit team and NHS Borders' finance team will be kept under review. As a result, target dates may be subject to change and if so, the audit committee will be kept informed.

Source: Audit Scotland

## Internal audit

**24.** Internal audit is provided by a joint arrangement between Grant Thornton and NHS Lothian. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA (UK)610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**25.** We will report any significant findings to management on a timely basis.

### Using the work of internal audit

**26.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We plan to use the findings of the work of internal audit to minimise duplication of effort and to ensure resources are used efficiently and effectively.

**27.** From our initial review of internal audit plans and discussions with Grant Thornton, we plan to consider internal audit's work as assurance for our wider dimension audit responsibilities.

## Service auditor assurances for shared systems and functions

**28.** In order to provide efficiencies and avoid duplication of effort, we will draw assurances from service auditor reports for the following national shared systems and functions:

- Practitioner Services Division (host NHS National Services Scotland and service auditor currently KPMG)
- National IT Services Contract (host NHS National Services Scotland and service auditor currently KPMG)
- National Single Instance (host NHS Ayrshire and Arran and service auditor currently BDO UK LLP)

## Audit dimensions

**29.** 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



Source: Code of Audit Practice

### Financial sustainability

**30.** 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 financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- 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
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

### Financial management

**31.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control systems in communicating accurate and timely financial performance can be demonstrated
- how NHS Borders has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

### Governance and transparency

**32.** 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. We will review, conclude and report on:

- whether the board 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.
- the quality and timeliness of financial and performance reporting.

### Value for money

**33.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether NHS Borders can demonstrate :

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered.
- that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

### Best Value

**34.** The Chief Executive, as Accountable Officer of NHS Borders, has a duty to ensure arrangements are in place to secure best value. As part of our audit work, we will assess and report on how NHS Borders assures their stakeholders that Best Value principles are being achieved.

### Independence and objectivity

- 35.** Auditors appointed by the Accounts Commission or Auditor General 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. 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.
- 36.** The engagement lead (i.e. appointed auditor) for NHS Borders is Gillian Woolman, Audit 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 Borders.

### Quality control

- 37.** 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.
- 38.** 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 (and supporting guidance) 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

- 39.** 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 Borders

## Annual Audit Plan 2020/21

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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