

# NHS Forth Valley

Annual Audit Plan 2021/22



Prepared for NHS Forth Valley  
March 2022

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# Contents

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Introduction	3
Financial statements audit planning	5
Audit dimensions and Best Value	9
Reporting arrangements, timetable, and audit fee	13
Other matters	15

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of NHS Forth Valley. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- review of NHS Forth Valley's participation in the National Fraud Initiative.

## Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

4. We aim to add value to NHS Forth Valley 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 will help NHS Forth Valley promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

## Respective responsibilities of the auditor and NHS Forth Valley

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and NHS Forth Valley. Key responsibilities are summarised below.

### Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 (CG bodies) and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. 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.

### NHS Forth Valley responsibilities

8. NHS Forth Valley is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, NHS Forth Valley 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.

### Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Financial statements audit planning

## Materiality

**11.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence 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 2021/22 audit

**12.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for NHS Forth Valley are set out in [Exhibit 1](#).

## Exhibit 1

### 2021/22 Materiality levels for NHS Forth Valley and its Group

Materiality	Amount
<b>Planning materiality</b> – This is the figure we use to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£12.1 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 assessed performance materiality at 75% of planning materiality.	£9.1 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.	£0.25 million

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**13.** Our risk assessment draws on our cumulative knowledge of NHS Forth Valley, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

**14.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries at the year-end</li> <li>• Review of accounting estimates</li> <li>• Focussed testing of significant accruals and prepayments</li> <li>• Evaluation of significant transactions that are outside the normal course of business</li> <li>• Substantive testing of significant transactions around the year end to confirm income and expenditure are accounted for in the correct financial year</li> </ul>

**15.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk in 2021/22 because, whilst the possibility of fraud exists, we do not judge it to be a significant risk given the nature of NHS Forth Valley's revenue streams.

**16.** 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. Due to the nature of NHS Forth Valley's expenditure, we have also rebutted the significant risk of material misstatement due to fraud in expenditure in 2021/22.

**17.** 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

**18.** As part of our assessment of audit risks, we have identified other areas where we consider there are also risks 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. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

**19.** The areas of specific audit focus are:

- Estimation and judgement in the valuation of land and buildings - NHS Forth Valley held land and buildings with a net book value (NBV) of approximately £514 million as at 31 March 2021. There is a large degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and estimates, and changes in these can result in material changes to valuations.
- Estimation and judgement in the assessment of clinical medical claims and CNORIS provisions - NHS Forth Valley recognised provisions of approximately £76 million at 31 March 2021 for clinical and medical claims against the health board and its share of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). These provisions are based on the assessed likelihood and settlement value of claims against the health board, which also has a large degree of subjectivity.

### Group Consideration

**20.** As group auditors, we are required under International Standard on Auditing (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.

**21.** NHS Forth Valley has a group which comprises component entities, including subsidiaries and joint ventures. The audits of the financial information of some of the components are performed by other auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process.

### **Audit risk assessment process**

**22.** 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.

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# Audit dimensions and Best Value

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## Introduction

23. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

## Audit dimensions

24. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

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### Exhibit 3

#### Audit dimensions



Source: Code of Audit Practice

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25. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – 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).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

## Duty of Best Value

**26.** [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within NHS Forth Valley.

**27.** Additionally, as part our Best Value work, we will be carrying out a review of the Best Value characteristic “fairness and equality” within NHS Forth Valley.

## Audit dimension risks

**28.** We have identified audit risks in the areas set out in [Exhibit 4](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

**Exhibit 4****2021/22 Audit dimension risks**

Description of risk	Management's source of assurance	Planned audit response
<p><b>1. Financial Sustainability</b></p> <p>NHS Forth Valley is financially sustainable in the short-term but faces significant challenge in the medium to longer term, particularly given the additional costs and challenges of Covid-19 and potential future impacts. Management have identified a significant savings requirement of £84m over the five-year period from 2021/22 to 2025/26.</p> <p>The 2021/22 savings target of £32.4m is anticipated to be met but as at 31 October 2021, £17.067m of these are non-recurring meaning they will add to the savings requirement in future years</p>	<ul style="list-style-type: none"> <li>• Savings plans have been developed in consultation with System Leadership Team colleagues.</li> <li>• A Cost Improvement Oversight Group has been established to plan and support savings delivery on a whole system basis, aligned to recovery plans, and to develop pipeline proposals for future years.</li> <li>• The Corporate programme Management Office is in place to provide project management and capacity support to delivery of the cost improvement programme.</li> <li>• Performance against agreed targets is monitored monthly. All savings are risk assessed regarding the likelihood of being achieved and the impact on service delivery.</li> <li>• A three-year capital and revenue financial plan refresh will be submitted to the NHS Board for approval on 29 March 2022.</li> </ul>	<p>Review and assess year-end position and the progress and impact in delivering savings.</p> <p>Review and consider the medium-term financial plan and mobilisation plan</p>

Description of risk	Management's source of assurance	Planned audit response
<p><b>2. Performance</b></p> <p>The Covid-19 pandemic has had significant impact on the delivery of health services resulting in increased pressures on the demand for services and created backlogs. This has continued to affect NHS Forth Valley's ability to meet performance targets in 2021/22.</p> <p>The impact of the pandemic increases the challenge in monitoring, reporting and managing performance.</p>	<ul style="list-style-type: none"> <li>• Performance measures continue to be closely and monitored and are reported on a weekly basis on the weekly performance update report.</li> <li>• The COVID-19 scorecard and weekly performance update continue to be issued regularly to managers to provide a snapshot position, RAG status and trend across key performance measures.</li> <li>• The governance process for Performance issues is through the Performance and Resources Committee which meets on a bi-monthly basis to assess position and actions.</li> </ul>	<p>Understanding the impact of COVID-19 on non-financial performance and the actions being taken to manage and report performance.</p> <p>Review of progress in achieving targets.</p>

Source: Audit Scotland

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**29.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 5](#), 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).

**30.** 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.

**31.** We will provide an independent auditor's report to NHS Forth Valley, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide NHS Forth Valley and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**32.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline two months behind pre-pandemic deadlines. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

**33.** [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report ahead of the statutory deadline of 31 August 2022. (We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19).

## Exhibit 5 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	N/A	25 March 2022
Independent Auditor's Report	31 August 2022	TBC
Annual Audit Report	31 August 2022	TBC

## Audit fee

**34.** The agreed audit fee for the 2021/22 audit of NHS Forth Valley is £153,600 (2020/21: £150,650). In determining the audit fee, we have taken account of the risk exposure of NHS Forth Valley, the planned management assurances in place.

**35.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

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# Other matters

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## Independence and objectivity

**36.** Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

**37.** The engagement lead (i.e. appointed auditor) for NHS Forth Valley is John Cornett, 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 Forth Valley.

## Quality control

**38.** International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

**39.** 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.

**40.** 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 Forth Valley

## Annual Audit Plan 2021/22

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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