

NHS Grampian

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for NHS Grampian
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Introduction

Summary of planned audit work

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

- evaluation of the key controls within the main accounting systems
- an audit of the board's annual report and accounts 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 the board's participation in the National Fraud Initiative.

Impact of Covid-19

2. The coronavirus (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 Grampian 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 help the board promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the audit committee and actively participate in discussions.

Respective responsibilities of the auditor and NHS Grampian

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

Auditor responsibilities

6. 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.

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 board's arrangements to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

NHS Grampian responsibilities

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

9. The board also 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. Public sector audit appointments are usually for five years but were extended to six years due to Covid-19. Financial year 2021/22 is therefore the final year of the current appointment and we will work closely with our successors to ensure a smooth 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 Grampian are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for NHS Grampian

Materiality	Amount
Planning materiality – This is the figure we calculate 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 forecast outturn for 2021/22.	£22m
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 assessed performance materiality at 60% of planning materiality.	£13m
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2% of planning materiality subject to a maximum limit of £250,000.	£250,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of NHS Grampian over the audit appointment, 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. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management and the further audit procedures we plan to perform to gain assurance over these areas of 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>1. Risk of material misstatement due to fraud caused by the management override of controls</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"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.

Significant risk of material misstatement	Sources of assurance	Planned audit response
		<ul style="list-style-type: none"> • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focused testing of accounting accruals and prepayments.

Source: Audit Scotland

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue in every organisation. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for NHS Grampian because the majority of income comes from the Scottish Government and other NHS Scotland bodies which can be confirmed with correspondence, third party confirmations and/or reconciliations.

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. We have also rebutted this risk in respect of NHS Grampian because there are limited opportunities to manipulate the way expenditure is incurred. A significant level of expenditure is verifiable in total terms by third party confirmation. Although there is a material residual balance, it is made up of a high volume of low value transactions. As a result they are unlikely to result in a material misstatement in the financial statements.

17. While we undertake standard audit procedures in respect of the board's income and expenditure, our rebuttal of the auditing standard's presumed risk of fraud means that it has not been necessary to incorporate additional specific work into our audit plan in these areas.

Other areas of audit focus

18. As part of our consideration of audit risk, we have identified other areas of audit interest. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these areas to represent significant risks but there are potential risks of material misstatement to the financial statements. We therefore intend to keep these areas under review as our audit progresses. If our assessment of risk changes, 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:

- **Payments to primary care contractors:** This is a material and complex account area with payments totalling around £250m each year. Improvements have been made by NHS National Services Scotland (NSS) in response to the service auditor's qualified audit opinions in previous years. There is ongoing uncertainty however with regard to this year's opinions and whether NHS NSS will be providing additional assurance on Covid funding in respect of services which continued to have an element of protection in 2021/22.
- **Estimates and judgments:** Valuation of the board's land and buildings and estimates of clinical negligence claims are both material areas and involve a significant degree of subjectivity which represents an increased risk of misstatement in the financial statements. In both cases, we will place reliance on the work of experts – the District Valuer in respect of the assumptions used to revalue the estate and NHS Scotland Central Legal Office for the professional judgement it applies in providing estimates for the clinical and medical negligence claims.

With regard to a board's property, auditors routinely consider the risk that the carrying value does not reflect current value particularly if there are assets which are not subject to regular valuation. NHS Grampian's standard practice is to undertake an annual revaluation of its entire estate. We do not therefore consider this an area of significant risk. We will however review the valuer's work to ensure the same approach has been adopted this year.

- **Reconciliation of IJB transactions:** Transactions between the board and the three IJBs have always been material amounts but they have increased significantly due to the impact of Covid-19. In the previous year, the board experienced a delay in agreeing year end balances and reconciliations with IJBs which created some uncertainty and delay in concluding the board's audit. We recommended improvements and are seeking clearer audit trails this year.
- **Change in pharmacy system:** Changes to systems and processes come with a risk that design and operation of controls may be ineffective leaving the board susceptible to errors and/or fraud. A new pharmacy system was implemented in November 2021, this is one of the board's critical financial systems.

Group accounts

20. As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

21. NHS Grampian has group components which comprise Grampian Health Board Endowment Funds and the three IJBs (Aberdeen City, Aberdeenshire and Moray). In order to provide our audit opinion on the group accounts, our audit evidence in relation to the financial information of the components will include placing reliance on the work of the investment managers for the endowment funds and reviewing the year end reconciliations of transactions with the IJBs.

Service auditor assurances for shared systems and functions

22. In order to provide efficiencies and minimise 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 (NSI) financial ledger (host NHS Ayrshire and Arran and service auditor currently BDO UK LLP)
- NHS payroll system (NHS Tayside host. While there is no formal service auditor arrangement for payroll, assurances on the system are provided by NHS Tayside's internal auditor.)

Audit risk assessment process

23. Audit risk assessment is an iterative and dynamic process. Our assessment of risks as 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 the audit committee as the party charged with governance.

Audit dimensions and Best Value

Introduction

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

Audit dimensions

25. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

Exhibit 4

Audit dimensions



Source: Code of Audit Practice

26. 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 are 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

27. [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 undertake a high-level review to confirm that such arrangements continue to operate within NHS Grampian.

Audit dimension risks

28. We have identified audit dimension risks in [Exhibit 6](#). 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 6

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>There was an overspend of £4m at 31 December 2021 compared with £0.7m for the same period last year. This is mainly due to significant locum staff costs and additional responsibility payments for junior medical staff.</p> <p>Pressure is also being experienced in several areas of non-pay costs, including medical supplies, service contracts and energy and maintenance costs.</p> <p>For the second year, the Scottish Government is providing revenue support to NHS boards and IJBs to deliver breakeven on a non-repayable basis, providing there is appropriate review and control at board level.</p> <p>While this allows the board to concentrate on current operational pressures, it does</p>	<ul style="list-style-type: none"> • A five year medium term financial plan has been drafted and will be aligned to the board's new strategy. • A five year capital plan is in place and is updated annually. • A budget setting group has been established to oversee the development of the 2022/23 finance plan. 	<ul style="list-style-type: none"> • Review finance reports considered by the Leadership Team, Committee and Board • Review minutes of meetings where Finance position has been discussed • Review financial plan for 2022/23 and assess board's progress in developing longer-term financial plans • Discuss with senior officers the board's plans to address financial pressures.

Description of risk	Sources of assurance	Planned audit response
<p>not help with long-term sustainability. Underlying cost pressures still exist, more resources (funding and staff) are required to address increasing backlogs, and there are growing financial challenges as a result of rising inflation and energy costs.</p> <p>Capital projects such as the Baird and Anchor Hospitals also add to the board's financial challenges. Such projects are experiencing increased costs and delays due to supply shortages and increasing costs post-Brexit.</p>	<ul style="list-style-type: none"> • A review of programme and cost is being undertaken by the Senior Responsible Officer for the Baird and ANCHOR project. • Regular reports are provided to the Project Board, Performance Governance Committee and NHS Board. 	<ul style="list-style-type: none"> • Review of project finance reports and discussion with officers.
<p>2 Performance against waiting time standards</p> <p>The resurgence of Covid-19 due to Omicron and the associated impact on the workforce have put significant pressures on services.</p> <p>The board is facing significant operational challenges with performance against some waiting time targets continuing to deteriorate.</p>	<ul style="list-style-type: none"> • A weekly health system pressure report is circulated widely across NHS Grampian and is reviewed at each Chief Executive Team meeting and the recently established weekly decision making group. • Detailed performance reports are presented for consideration at each Performance Governance Committee and Board meeting. 	<ul style="list-style-type: none"> • We will review performance reports presented to the Performance Governance Committee and the Board. • We will review Remobilisation Plan progress reports. • We will compare how NHS Grampian is performing against the waiting time standards and similar size boards.
<p>3 Leadership capacity</p> <p>The Director of Finance will leave the organisation in March 2022. He takes a significant amount of sector and local expertise with him and his departure will result in reduced leadership capacity until a new appointment is made and in post. An interim arrangement is due to be implemented in April and recruitment plans are currently being developed.</p>	<ul style="list-style-type: none"> • Interim arrangements have been agreed for the Director of Finance role and will utilise the significant experience that is retained within the senior finance team. • The non-finance duties of the existing Director of Finance have all been re-allocated and will not form part of the duties of the new Director of Finance. 	<ul style="list-style-type: none"> • Discussions with management.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

29. Audit reporting is the visible output for the annual audit. The Annual Audit Plan, the outputs detailed in [Exhibit 7](#), and any other outputs on matters of public interest will be published on our website: 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 Grampian, the Scottish Parliament and the Auditor General setting out our opinions on the annual report and accounts. We will also provide the board and the Auditor General with an annual report on the audit containing judgements and recommendations on significant matters arising from the audit.

32. [Exhibit 7](#) outlines the target dates for our audit outputs. We aim to issue the independent auditor's report by 31 July 2022 (tbc). There is an appetite to conclude the 2021/22 audit earlier than the previous year as explained at paragraph 33. This will be challenging due to audit resourcing pressures and ongoing demands caused by Covid-19.

Exhibit 7

2021/22 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	By 31 March 2022	22 March 2022
Management Report	By 30 June 2022	21 June 2022
Independent Auditor's Report	By 31 July 2022	2 August 2022 (tbc)
Annual Audit Report	By 31 July 2022	2 August 2022 (tbc)

Source: Audit Scotland

Timetable

33. 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 return the reporting of audited accounts to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

34. We have included a proposed timetable for the audit at [Exhibit 8](#) that has been discussed with the Director of Finance and his team. We will continue to work in close partnership with the finance team over the course of the audit with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers.

Exhibit 8 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	16 May 2022
Latest date for final clearance meeting with the Director of Finance	20 July 2022
Agreement of audited and unsigned annual report and accounts	27 July 2022
Issue of Annual Audit Report, letter of representation and proposed Independent Auditor's Report to those charged with governance.	27 July 2022
Signed Independent Auditor's Report	4 August 2022(tbc)
Latest date for signing of SG Consolidation return	31 August 2022

Source: Audit Scotland

Audit fee

35. The proposed audit fee for the 2021/22 audit of NHS Grampian is £201,300 (2020/21: £197,430). In determining the audit fee, we have taken account of audit risks, planned management assurances in place and the level of assurance we are taking from the work of internal audit.

36. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts or the absence of adequate supporting working papers, 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.

Other matters

Internal audit

37. International standards on Auditing (UK) 610: *Using the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that minimises duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

38. We intend to use the work of internal audit to support our wider dimension audit responsibilities and in considering the board's annual Governance Statement. In respect of our financial statements' responsibilities, we will use internal audit's work on financial controls, in particular payroll starters and leavers.

Independence and objectivity

39. Auditors appointed by the 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.

40. The engagement lead (i.e. appointed auditor) for NHS Grampian 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 Grampian.

Quality control

41. 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.

42. 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. 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.

43. 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 Grampian

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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:

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