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[by-email]

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To: NHS Directors of Finance
NHS Audit Committee Chairs
NHS Board Secretaries
The Chair of the NHS Technical Accounting Group
Steve Elliot – NHS Director of Finance Welsh Government
John Evans – Welsh Government
Jacqui Salmon – Welsh Government

Dear colleague

NHS – Audit of Accounts 2022-23

- 1 We are about to commence our accounts audit work for all NHS bodies. We are therefore taking the opportunity to write to you with some important information on the introduction of a revised auditing standard which fundamentally impacts on how we will undertake your 2022-23 audit.
- 2 Within this letter we consider:
 - the impact of the revised standard;
 - the resultant impact on audit fees; and
 - the timetable for the Audit of Accounts 2022-23 and for future years.

The impact of ISA 315

- 3 Our audits of NHS accounts for the year ended 31 March 2023 will be carried out under a revised auditing standard ([ISA 315 \(UK\) Identifying and Assessing the Risks of Material Misstatement \(Revised July 2020\)](#)).

- 4 This revised standard is effective for audits of accounts for periods beginning on or after 15 December 2021 and applies to the audit of all private and public sector entities across the UK, regardless of their nature, size or complexity.
- 5 The revised standard will have significant and far-reaching impacts on how auditors undertake audit risk assessments and our overall audit approach.
- 6 In planning our audit, we will be required to undertake more detailed and extensive risk assessment procedures to identify risks of material misstatement. The subsequent design and performance of our audit approaches will be responsive to each assessed risk.
- 7 **Appendix 1** outlines the key changes and the potential impact on your organisation in terms of information requests from our audit teams.
- 8 The standard has been amended to drive better quality, more effective risk assessments, as well as to promote greater exercise of professional scepticism. It also requires us to obtain a much more robust understanding of an organisation's IT systems. Financial reporting frameworks and governance structures are becoming increasingly complex, while technology continues to play a more advanced role in the control environment of entities. These changes require risk identification and assessment to be enhanced and rigorous audit processes.
- 9 The previous standard did not address automated tools and techniques, which are increasingly being used by auditors to inform risk assessment. All audits of 2021-22 NHS accounts incorporated elements of our Analytics Assisted Audit. The revised standard introduces specific considerations relating to the auditors' use of automated tools and techniques.

Impact on audit fees

- 10 As a result of the changes outlined above, we expect 2022-23 audits to take longer to complete. We will also be required to use more experienced CCAB qualified staff on audits to deal with the higher level of judgement necessitated by the standard.
- 11 In our August 2022 Consultation on Fee Scales, we indicated that our initial assessment of the impact of this richer skill mix on fees was a potential average increase in fee scales for our financial audit work of between 12% and 18%. This is consistent with expectations in other UK public audit bodies and the private sector audit firms.
- 12 We have now started more detailed risk assessment under the new audit approach and will be able to provide you with an updated assessment of the audit fee once we have completed that initial risk planning. Our initial estimate is

that audit fees will increase by 10.2% for ISA 315, in addition to the 4.8% inflationary increase set out in our Audit Wales [2023-24 Fee Scheme](#) . Your Engagement Director will discuss the proposed fee for your audit once that risk assessment has been completed.

Timetable for the Audit of Accounts 2022-23

- 13 The introduction of the revised Standard and a radically different audit approach has implications for audit timetables. We have worked closely with the other UK Public Audit Bodies to develop an audit methodology which, we believe, will add value to Audited Bodies whilst continuing to maintain the high-quality audit which we know you expect from us. However, it is inevitable that the new approach will require additional time to implement.
- 14 We are also conscious that there will be additional challenges for finance teams preparing accounts this year, including the introduction of IFRS 16 – Accounting for Leases and accounting adjustments resulting from the quinquennial valuation of the NHS estate. It is important that finance teams have sufficient time to reflect these changes accurately in draft accounts submitted for audit to ensure a smooth audit process.
- 15 We will be working closely with NHS finance teams over the next few weeks to agree the precise timings for submission of NHS draft accounts. There will also be logistical matters to consider, such as managing staff annual leave and potentially securing revised Audit Committee, Board and Annual General Meeting (AGM) dates. We are aware that Health Boards and Trusts must hold an AGM no later than 31 July each year as per Standing Orders.
- 16 From our discussions with Health Bodies, we are aware that a number of you are struggling to recruit experienced finance staff and that this may also impact audit timetables. We are facing similar challenges and know that this position is consistent with the National Audit Office (NAO), Audit Scotland and the Northern Ireland Audit Office. The NAO's recovery plan article is a useful reference in this context¹. In addition, a more recent report by the National Audit

¹ [The NAO: getting government accounts back on track | ICAEW](#)

² [Timeliness of local auditor reporting on local government in England](#)

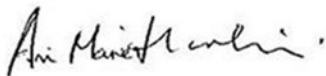
Office (January 2023) highlights how the delays to local government audit opinions are impacting elsewhere in the public sector, including the NHS, and describes plans to get back on track with the timetable for published audit opinions².

- 17 For information, reporting deadlines in England are slightly more complicated, with providers and commissioners having different dates and different requirements around annual reports. The NAO have just published in their opinion for the Department of Health and Social Care Annual Report and Accounts 2021-22 (page 264) that 25% of providers in NHS England and 20% of commissioners failed to meet the Department of Health and Social Care audited accounts deadline in 2021-22.
- 18 As the auditors of Local Government Bodies in Wales, we have been experiencing similar delays to those seen in England in completing our audit of the 21-22 accounts. These delays result mainly from a technical issue regarding the valuation of Local Government infrastructure assets, which resulted in the Welsh Government deferring the audit certification deadline to 31 January 2023 and have impacted our ability to commence our 2022-23 audits in line with previous year timetables.
- 19 Taking all of this into account and having discussed with colleagues in Welsh Government responsible for preparing the NHS Consolidated accounts, we are therefore proposing an audit certification deadline of **31 July 2023** for NHS Bodies in Wales.
- 20 We recognise that this is later than many bodies would like but we believe it is important to set realistic timescales we can all work to. Over the next three years our plan would be to revert to a 15 June deadline as follows:
 - Audit of Accounts 2022-23 – certification by 31 July 2023;
 - Audit of Accounts 2023-24 – certification by 30 June 2024; and
 - Audit of Accounts 2024-25 – certification by 15 June 2025.

- 21 You will note that by 2024-25, we are not intending to revert to the pre-covid 31 May deadline but will aim to certify accounts by 15 June. This will ensure that the time required for Health Boards and Trusts to circulate the requisite accounts and audit reports to the Audit Committee and the Board, does not compress the audit window to less than a month.
- 22 In respect of the Charitable Funds audit or the independent examination, we intend to complete these by the deadline set by the Charities Commission.
- 23 We value the constructive working relationship we have with your finance teams and will continue to work closely with you to bring forward the deadlines for future years.
- 24 We remain committed to working collaboratively with you to successfully navigate this challenge, building on our shared experiences. We will ensure we attend all the relevant NHS fora to discuss the content of this letter with you and will be arranging meetings with all NHS Directors of Finance and Audit Committee Chairs to provide you with an opportunity to meet with us all.

Thank you to you and your teams for working so well with us.

Yours sincerely



Ann-Marie Harkin
Executive Director Audit Services

Appendix 1 – the key changes to the standard and the potential impact on your organisation

Key change	Potential impact on your organisation
More detailed and extensive risk identification and assessment procedures	<p>Your finance team and others in your organisation may receive a greater number of enquiries from our audit teams at the planning stage of the audit. Requests for information may include:</p> <ul style="list-style-type: none"> • information on your organisation’s business model and how it integrates the use of information technology (IT); • information about your organisation’s risk assessment process and how your organisation monitors the system of internal control; • more detailed information on how transactions are initiated, recorded, processed and reported. This may include access to supporting documentation such as policy and procedure manuals; and • more detailed discussions with your organisation to support the audit team’s assessment of inherent risk.
Obtaining an enhanced understanding of your organisation’s environment, particularly in relation to IT	<p>Your organisation may receive more enquiries to assist the audit team in understanding the IT environment. This may include information on:</p> <ul style="list-style-type: none"> • IT applications relevant to financial reporting; • the supporting IT infrastructure (e.g. the network, databases); • IT processes (e.g. managing program changes, IT operations); and • the IT personnel involved in the IT processes. <p>Audit teams may need to test the general IT controls and this may require obtaining more detailed audit evidence on the operation of IT controls within your organisation.</p> <p>On some audits, our audit teams may involve IT audit specialists to assist with their work. Our IT auditors may need to engage with members of your IT team who have not previously been involved in the audit process.</p>

Key change	Potential impact on your organisation
<p>Enhanced requirements relating to exercising professional scepticism</p>	<p>Our audit teams may make additional inquiries if they identify information which appears to contradict what they have already learned in the audit.</p>
<p>Risk assessments are scalable depending on the nature and complexity of the audited body</p>	<p>The audit team's expectations regarding the formality of your organisation's policies, procedures, processes, and systems will depend on the complexity of your organisation.</p>
<p>Audit teams may make greater use of technology in the performance of their audit</p>	<p>Our audit teams may make use of automated tools and techniques such as data analytics when performing their audit. Our teams may request different information or information in a different format from previous audits so that they can perform their audit procedures.</p>