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, review of committee and board papers and a review of supporting information we have identified the following main risk areas for NHS Fife. 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

<table>
<thead>
<tr>
<th>Audit risk</th>
<th>Management assurance</th>
<th>Planned audit work</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial statement issues and risks</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1 Risk of management override of controls/management bias</strong></td>
<td>A sound system of budgetary control including regular budget monitoring.</td>
<td>Detailed testing of journal entries.</td>
</tr>
<tr>
<td></td>
<td>Internal audits review a range of financial systems and related controls and provide an opinion on the control environment.</td>
<td>Review of significant management estimates and evaluation of the impact of any variability in key assumptions including provisions.</td>
</tr>
<tr>
<td></td>
<td>There are a range of measures in place to prevent and detect fraud, including: the Scheme of Delegation; Standing Financial Instructions; Standards of Business Conduct; Financial Operating Procedures; Anti-Fraud, Theft and Corruption Policy and the Whistleblowing Policy.</td>
<td>Focused testing of accruals and prepayments including holiday pay accrual.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Evaluation of significant transactions that are outside the normal course of business.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Substantive testing of transactions after the year end to confirm expenditure and income has been accounted for in the correct financial year.</td>
</tr>
<tr>
<td>Audit risk</td>
<td>Management assurance</td>
<td>Planned audit work</td>
</tr>
<tr>
<td>------------</td>
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</tr>
<tr>
<td><strong>2  Risk of fraud over income/expenditure</strong>&lt;br&gt;NHS Fife receives approximately 8% of income from sources other than Scottish Government funding, for example, income from other health boards and from CNORIS. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud that requires an audit response. The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure.</td>
<td>• Internal controls for these systems operate effectively. • Effective budgetary control by management. • Fraud reports are regularly monitored and information across Scotland is routinely shared. • There are a range of measures in place to prevent and detect fraud, including: the Scheme of Delegation; Standing Financial Instructions; Standards of Business Conduct; Financial Operating Procedures; Anti-Fraud, Theft and Corruption Policy and the Whistleblowing Policy. • 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.</td>
<td>• Audit work on the National Fraud Initiative matches. • Obtain assurances from the NHS Scotland Counter Fraud Service. • Detailed testing of year end balances with other health boards.</td>
</tr>
<tr>
<td><strong>3  Estimation and judgements</strong>&lt;br&gt;There is a significant 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.</td>
<td>• Asset base is reviewed on a rolling programme by the Board's valuers.</td>
<td>• Completion of ‘review of the work of an expert’ for the professional valuer. • Review of significant management estimates and evaluation of the impact of any variability in key assumptions including provisions.</td>
</tr>
<tr>
<td><strong>4  Consolidation of Fife Health &amp; Social Care Integration Joint Board (FIJB):</strong>&lt;br&gt;FIJB will be consolidated into the accounts of NHS Fife for the first time in 2016/17. The timing of FIJB accounts may affect the production of the NHS Fife group accounts and as the adjustment is being made for the first time, there may be errors in accuracy and disclosure.</td>
<td>• Regular meetings with the Chief Finance Officer - with operational finance teams from both NHS Fife and Fife Council and monthly meetings with both Directors of Finance.</td>
<td>• Consider whether the process for consolidation is in line with the integration scheme. • Agree the consolidation adjustment is accurate and correctly disclosed. • Confirm balances have been agreed by the partner bodies.</td>
</tr>
</tbody>
</table>
## Audit risk

### Compliance with FReM requirements/Transparency

Per the Financial Reporting Manual (FReM), the Performance Report - Overview should provide the lay user with enough information so that there is no requirement to look further into the rest of the annual report and accounts. There is a risk that there will be a lack of transparency in the narrative of the final Report.

- The FReM will be reviewed to ensure the NHS Fife report reflects the requirements set out.
- Director of Finance will work closely with the Director of Strategic Planning and the newly appointed Head of Communications to ensure there is a well articulated, clear, concise Performance Report.

### Financial position

The NHS Fife Local Delivery Plan 2016/17 identified a residual £9.4 million savings gap for 2016/17 from a total savings requirement of £30.8 million.

Latest projections as at October 2016 show the residual gap has reduced. However there are still £16 million savings to be identified and a significant element of proposed savings (£10 million) are classed as having potential risk.

There is a significant risk that the board is unable to deliver the savings needed to achieve its statutory break-even target.

- Ongoing transparent reporting of the financial position, forecast, underpinning assumptions and risks via the EDG / Transformation Board (see 7 below) / Finance, Performance & Resources Committee.
- Delivery of timely, robust budget reports.

### Financial sustainability

The SGHSF is providing a package of tailored support to help the board to return to financial balance over the next three year period to March 2019. In September 2016 the Finance, Performance & Resources Committee considered revised figures for savings requirements in 2017/18 and 2018/19. This showed an increase in the total level of savings required in both years to £35.6 million and £23.1 million respectively (previously £22.3 million and £11.8 million).

There remains a significant risk that the board will be unable to deliver the savings required to achieve a balanced budget over the medium term.

- Establishment of the Transformation Programme.
- Introduction of the IMPACT approach to support delivery of the clinical strategy, system wide redesign, and financial sustainability.
- Equal focus on transformation, variation & waste and efficiency through the above programme.
- Fortnightly Transformation Board, with membership including all Directors and the Director of Health Finance, Scottish Government.
- Weekly Strategic Huddle meetings, with leadership capacity support via NSS (tailored support).

## Planned audit work

- Early discussions with board officers on the content of the performance report.
- Detailed testing of the content of the performance report included in the 2016/17 accounts to ensure compliance with the FReM.

## Wider dimension risks

### Financial position

- Undertake specific audit work on financial management including reviewing financial monitoring reports and delivery of savings plans.
- This will include reviewing progress on delivery of the board’s transformation programme.
Risks and planned work

3. 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.

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 officer(s) to confirm factual accuracy.

5. We will provide an independent auditor's report to NHS Fife, Scottish Parliament and the Auditor General for Scotland summarising the results of the audit of the annual 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 in 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 Fife is required to submit their audited financial statements by 30 June to meet the consolidation timetable.

Exhibit 2
2016/17 Audit outputs

<table>
<thead>
<tr>
<th>Audit output</th>
<th>Target date</th>
<th>Audit &amp; Risk Committee date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance Report</td>
<td>30 April 2017</td>
<td>18 May 2017</td>
</tr>
<tr>
<td>Annual Audit Report</td>
<td>16 June 2017</td>
<td>23 June 2017</td>
</tr>
<tr>
<td>Signed Independent Auditor's Report</td>
<td>27 June 2017</td>
<td>27 June 2017 (Board meeting)</td>
</tr>
</tbody>
</table>

Audit fee

7. The proposed audit fee for the 2016/17 audit of NHS Fife 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 risk exposure of NHS Fife, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 28 April 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

Audit & Risk 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 Audit and Risk 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 Fife 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 Fife 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.

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 Fife and its 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 Fife are set out in Exhibit 3.
### Exhibit 3

**Materiality values**

<table>
<thead>
<tr>
<th>Materiality level</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Planning materiality</strong></td>
<td>£7.7 million</td>
</tr>
<tr>
<td>- 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 for the year ended 31 March 2017 based on the latest budgeted projection.</td>
<td></td>
</tr>
<tr>
<td><strong>Performance materiality</strong></td>
<td>£4.6 million</td>
</tr>
<tr>
<td>- 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 60% of planning materiality.</td>
<td></td>
</tr>
<tr>
<td><strong>Reporting threshold</strong></td>
<td>£75,000</td>
</tr>
<tr>
<td>- We are required to report to those charged with governance on all unadjusted misstatements in excess of the ‘reporting threshold’ amount. This has been calculated at 1% of planning materiality (rounded to a memorable numeric).</td>
<td></td>
</tr>
</tbody>
</table>

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 Audit & Risk 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. An agreed timetable is included at Exhibit 4 which takes account of submission requirements and planned Audit and Risk Committee dates:

#### Exhibit 4

**Financial statements timetable**

<table>
<thead>
<tr>
<th>Key stage</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latest submission date of unaudited financial statements with complete working papers package</td>
<td>28 April 2017</td>
</tr>
<tr>
<td>Latest date for final clearance meeting with Director of Finance and other relevant Officers</td>
<td>5 June 2017</td>
</tr>
<tr>
<td>Agreement of audited unsigned financial statements; Issue of draft Annual Audit Report</td>
<td>16 June 2017</td>
</tr>
<tr>
<td>Independent auditor’s report signed</td>
<td>27 June 2017</td>
</tr>
</tbody>
</table>

### 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 FTF Audit and Management Services (FTF).
Adequacy of Internal Audit

19. We have undertaken a formal review of internal audit and have concluded that FTF, generally, operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place.

Areas of reliance

20. To support our audit opinion on the financial statements we plan to place formal reliance on internal audit review of B23-17 Financial Process Compliance.

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

- B10-17 - Strategic planning
- B11-17 - Improvement, innovation and operational planning
- B12-17 - Organisational performance management
- B13-17 - Health & Social Care Integration
- B19-17 - Workforce strategy, operational planning and information
- B21-17 - Savings programme
- B22-17 - Financial planning

Audit dimensions

22. 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

[Image of a circular diagram with sections for Financial sustainability, Financial management, Governance and transparency, and Value for money]
Financial sustainability
23. 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 body’s 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.

Financial management
24. 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:

- the arrangements in place to ensure systems of internal control are operating effectively
- whether NHS Fife can demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- how NHS Fife has assured itself that its 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
25. 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 NHS Fife 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
26. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether NHS Fife can provide evidence that it is demonstrating value for money in its achievement of performance targets.

Strategic plan for the five year appointment
27. 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

<table>
<thead>
<tr>
<th>Dimension</th>
<th>2016/17</th>
<th>2017/18</th>
<th>2018/19 to 2020/21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial sustainability</td>
<td>Financial planning</td>
<td>Financial planning</td>
<td></td>
</tr>
<tr>
<td>Financial management</td>
<td>Financial governance</td>
<td>Financial governance</td>
<td></td>
</tr>
<tr>
<td>Governance and transparency</td>
<td>Role of Boards follow up</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value for money</td>
<td>Workforce Planning (pilot site for national study)</td>
<td>Patient Management System</td>
<td>Staff recruitment/temporary staff costs Prescribing Costs Workforce Management - Primary Care (national study) CAMH Services (national study)</td>
</tr>
</tbody>
</table>

Independence and objectivity

28. 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.

29. The appointed auditor for NHS Fife 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 Fife.

Quality control

30. 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.

31. 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.

32. 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 appointed auditor.