

NHS Forth Valley

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for NHS Forth Valley
January 2018

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.

2. 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

3. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for NHS Forth Valley. 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

2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Substantive testing of transactions around the year end to confirm expenditure and income are accounted for in the correct financial year.</p>
<p>2 Risk of fraud over income</p> <p>NHS Forth Valley receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240,</p>	<p>A sound system of budgetary control, including monthly budget monitoring is in place.</p> <p>Fraud reports are regularly monitored and information across Scotland is routinely</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Obtain assurance from the NHS</p>

Audit Risk	Source of assurance	Planned audit work
there is an inherent risk of fraud.	shared.	Counter Fraud Service.
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice requires consideration of risk of fraud over expenditure. NHS Forth Valley incurs significant expenditure on a range of activities which will require audit coverage.</p>	<p>Fraud reports are regularly monitored and information across Scotland is routinely shared.</p> <p>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; and the Whistleblowing Policy</p> <p>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.</p>	<p>Complete NFI audit questionnaire to assess progress and action taken by the board to investigate matches.</p> <p>Obtain assurance from the NHS Scotland Counter Fraud Service.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions.</p> <p>The board is required to hold NHS Estate property assets (land and building) at Fair Value or, for specialised buildings, a proxy to fair value. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value. The board held £470.846 million of property assets at 31 March 2017.</p> <p>At 31 March 2017 the board held a provision for the clinical and medical legal claims for settlement awards, legal claims and third party costs against the board of £16.253 million; and the board's share of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) provision of £30.070 million. These provisions are based on the assessed likelihood and settlement value of claims against the board.</p> <p>This subjectivity represents an</p>	<p>Valuations of all Land & Buildings are re-assessed by valuers under a 5 year programme of professional valuations and adjusted in intervening years to take account of movements since the last valuation.</p> <p>The valuations are carried out in accordance with the RICS Approval and Valuation Manual.</p> <p>The clinical and medical negligence provision is calculated using information received from the Central Legal Office regarding the claims they have received relating to NHS Forth Valley.</p> <p>The board's share of NHS Scotland CNORIS liability is estimated based on actual settlement trends in prior years.</p> <p>The impact of these provisions is mitigated since a substantial proportion of the provision is recoverable from the Scottish Government.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Review the external revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals.</p> <p>Review the information provided to the valuer and assess whether this was complete and included all board property assets relevant to the revaluation in 2017/18.</p> <p>Completion of 'review of the work of an expert' for the Central Legal Office.</p> <p>Review of information provided by the Central Legal Office in support of the provision by the board for the clinical and medical legal claims; and for CNORIS.</p> <p>For any other areas of estimation and judgement we will carry out focussed substantive testing of provisions and accruals.</p>

Audit Risk	Source of assurance	Planned audit work
<p>increased risk of misstatement in the financial statements.</p>		
<p>5 Road Traffic Accident (RTA) debtor</p> <p>During 2016/17 new guidance was issued in relation to how RTA income should be reflected within the financial statements. The board did not accrue any income or apply a related bad debt provision within the financial statements in relation to the Injury Recovery Scheme as required by the revised guidance. Instead recognition was only at the point of receipt of income.</p> <p>The board should ensure that an appropriate process is in place for the recording of details processed in relation to the Injury Recovery Scheme, otherwise there is a risk that income is mis-stated within the financial statements.</p>	<p>Ongoing discussion with legal section to identify appropriate Injury Recovery Scheme claims.</p> <p>Develop a system to record and track all claims.</p>	<p>Early discussion with finance officers to determine what processes have been put in place to appropriately record claims pursued on the board's behalf.</p> <p>Review of established process.</p> <p>Substantive testing of the board's RTA income and debtor figures and associated provisions.</p> <p>Review the financial monitoring reports to the board and the performance & resources committee.</p>
Wider dimension risks		
<p>6 Financial position and financial sustainability</p> <p>The board's three year financial plan for 2017/18 to 2019/20 outlines the need to achieve recurring efficiency savings of around £24-£25 million per annum (5% of baseline RRL excluding fixed costs) to achieve break even.</p> <p>This is proving difficult to achieve. The finance report to 30 September 2017 presented to the P&R Committee on 31 October forecasts that between £6 million and £8 million of non recurring measures will be required to ensure financial balance in 2017/18. Delivering recurring efficiency savings while striving to sustain primary care services and meet national waiting time targets is increasingly challenging.</p> <p>Any recurring efficiency savings not achieved in the current financial year will increase savings requirements for future</p>	<p>A detailed savings plan was developed in consultation with internal heads of department.</p> <p>Performance against agreed targets is monitored monthly.</p> <p>All savings are risk assessed regarding the likelihood of being achieved and the impact on service delivery.</p>	<p>Review financial monitoring reports and delivery of savings plans.</p> <p>Attendance at committee meetings and review of papers to assess progress and impact in delivering savings planned to date.</p>

Audit Risk	Source of assurance	Planned audit work
<p>years and will present a risk to the board's financial sustainability.</p>		
<p>7 Financial management – impact of Health & Social Care Partnerships (HSCPs)</p> <p>The finance report to 30 November 2017 presented to the P&R Committee on 19 December forecasts a break even for services not delegated to the HSCPs. However, the combined forecast year end outturn for both HSCPs is an overspend of £4.371 million.</p> <p>To the extent that the projected overspend cannot be fully mitigated there is a risk that the NHS Board will require to meet a share of the year end financial pressures on IJB services.</p>	<p>A recovery plan will be presented to NHS Forth Valley and the other partner bodies.</p> <p>Partner bodies will agree how any residual overspends are to be accounted for.</p>	<p>Review position for agreeing year end balances between partner bodies.</p> <p>Monitor the IJB financial position against target and ensure that the year end position reported in NHS Forth Valley accounts properly reflects the balances approved and agreed between the partner bodies.</p>
<p>8 Performance Targets</p> <p>In common with most other NHS boards, performance in relation to the eight key waiting time targets and the target to minimise delayed discharges are proving difficult to achieve alongside ongoing financial challenges.</p> <p>The board is close to meeting some of these targets but, as at September 2017, is not yet meeting targets for 12 week treatment guarantee waiting times; 12 week outpatient waiting times; Child & Adolescent Mental Health Services waiting times; 62 day waiting time target for cancer treatment from date of referral; and Psychological Therapy based treatment waiting times.</p> <p>There is a continued risk that performance standards and key targets are not being achieved and the delivery of quality affordable services is not sustained</p>	<p>Performance against standards/ targets is monitored monthly across the organisation and reported to the Performance & Resources Committee/ Board in alternate months.</p> <p>Weekly monitoring information is provided to service leads to show progress. A review of performance is undertaken at the CEO Operation Group on a weekly basis.</p> <p>The risks associated with performance targets is monitored through the corporate risk register.</p>	<p>Review core performance reports to assess progress in achieving standards and targets, and actions being taken to improve performance.</p> <p>Attendance at committee meetings and review of papers to assess progress.</p>

Reporting arrangements

4. 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.

5. 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.

6. 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 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.

7. 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. Management are required to submit their audited financial statements by 30 June to meet the consolidation timetable.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Annual Audit Plan	12 January 2018	19 January 2018
Management Report (may be reported in quarterly progress report)	15 March 2018	23 March 2018
Annual Audit Report	1 June 2018	8 June 2018
Independent Auditor's Report	8 June 2018	8 June 2018

Audit fee

8. The proposed audit fee for the 2017/18 audit of NHS Forth Valley is £144,650 (2016/17: £152,050). In determining the audit fee we have taken account of the risk exposure of NHS Forth Valley, 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 30 April 2018.

9. 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 Committee and Accountable Officer

10. 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.

11. The audit of the financial statements does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

13. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying 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

14. 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 Forth Valley 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 Forth Valley 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.

15. 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 Forth Valley and its expenditure and income
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Government Financial Reporting Manual (the 2017/18 FReM)
- whether they have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by Scottish Ministers
- 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

16. 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 opinion in the auditor's report.

17. We calculate materiality at different levels as described below. The calculated materiality values for NHS Forth Valley are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality – 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 18 based on the latest audited accounts for 2017.	£6.463 million
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 calculated performance materiality at 60% of planning materiality.	£3.878 million
Reporting threshold (i.e. clearly trivial) – 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.	£65,000

Source: NHS Forth Valley 2016/17 audited accounts



18. We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration and staff report. Any issue identified will be reported to the Audit Committee.

Timetable

19. 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 Committee dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	30 April 2018
Latest date for final clearance meeting with Director of Finance	29 May 2018
Issue of letter of representation and proposed independent auditor's report	1 June 2018
Agreement of audited unsigned annual accounts	1 June 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	1 June 2018
Independent auditor's report signed	19 June 2018

Internal audit

20. 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 Fife, Tayside, and Forth Valley Audit and Management Services (FTF).

Adequacy of Internal Audit

21. Our external audit colleagues working on the NHS Fife Audit have concluded their review of the internal audit function provided by FTF. This included a review of the range and quality of work carried out by internal audit including reporting requirements. Overall, they concluded that FTF generally complies with the Public Sector Internal Audit Standards (PSIAS) and that appropriate documentation standards and reporting procedures are in place. We have relied on this work for our own purposes.

22. The PSIAS require that internal audit carry out an external self evaluation every five years. This has not yet been carried out and needs to be completed by 31 March 2018. The internal audit service is considering different options for how this will be achieved and aim to have arrangements in place soon. This does not impact our view on the quality of the internal audit service or the areas where we can place reliance on their work.

Areas of Internal Audit reliance

23. Internal audit plan to carry out a financial process compliance regarding aspects of some of the health board's financial systems. While we will not directly rely on this when forming our audit opinion on the financial statements, we will take cognisance of the outcomes of this work and review internal audit's arrangements for supporting the annual governance statement reported in the annual accounts.

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

- Review of the arrangements for monitoring and reporting the savings programme.
- Workforce planning – including a review of linkages to financial plans.
- E-health – consultancy work relating to the implementation of TrakCare patient administration system.
- Information Security - implementation of NHS Scotland information security policy framework including ICT Asset Security, e-health Business Continuity and Disaster Recovery.
- Data quality – including accuracy of data reported and consistency with ISDS data.

Audit dimensions

25. 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

26. 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

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

Governance and transparency

28. 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 Forth Valley 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
- follow up recommendations contained in Audit Scotland’s 2010 report on “Role of Boards”

Value for money

29. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- NHS Forth Valley can provide evidence that it is demonstrating value for money in the use of its resources.
- NHS Forth Valley can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- NHS Forth Valley can demonstrate that outcomes are improving.
- There is sufficient focus on improvement and the pace of it.

Independence and objectivity

30. 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 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

31. The engagement lead for NHS Forth Valley is Dave McConnell, Assistant Director. Auditing and ethical standards require the appointed auditor Dave McConnell 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

32. 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.

33. 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 relevant 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

34. 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.

Adding Value

35. Through our audit work we aim to add value to the Audited Body. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well NHS Forth Valley has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

NHS Forth Valley

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk