



Scott-Moncrieff  
business advisers and accountants

# NHS Lothian

External Audit Plan  
2017/18

February 2018

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# Introduction

# Introduction

## Overview

1. Public audit helps create a strong and effective system of financial accountability and transparency which supports the best use of public money in the public interest.
2. This document summarises the work plan for our 2017/18 external audit of NHS Lothian (the Board).
3. The core elements of our work include:
  - an audit of the Board's 2017/18 annual report and accounts;
  - a review of arrangements for governance and transparency, financial management, financial sustainability and value for money; and
  - any other work requested by Audit Scotland.

## Audit appointment

4. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of the Scottish Government and most public bodies, including NHS bodies in Scotland, and reporting on their financial health and performance.
5. Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out her statutory functions, including monitoring the performance of auditors through a quality control process.
6. The Auditor General has appointed Scott-Moncrieff as external auditor of the Board for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2017/18 and summarises:
  - the responsibilities of Scott-Moncrieff as external auditors;
  - our audit strategy;
  - our planned audit work and how we will approach it;

- our proposed audit outputs, timetable and fee; and
- background to Scott-Moncrieff and the audit team.

## Confirmation of independence

7. International Standards on Auditing (UK) (ISAs) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
8. We confirm that we will comply with Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.
9. As in the prior year, the Board has requested Scott-Moncrieff audit the abstract of receipts and payments of patients' private funds. The expected non-audit fee for this work in 2017/18 is £7,200.
10. In line with Audit Scotland planning guidance, approval was obtained from the Scott-Moncrieff ethics partner and Audit Scotland before commencing this non-audit work.

## Adding value through the audit

11. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.
12. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: [www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX)
13. While this plan is addressed to NHS Lothian, it will be published on Audit Scotland's website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

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# Respective responsibilities

# Respective responsibilities

## Auditor responsibilities

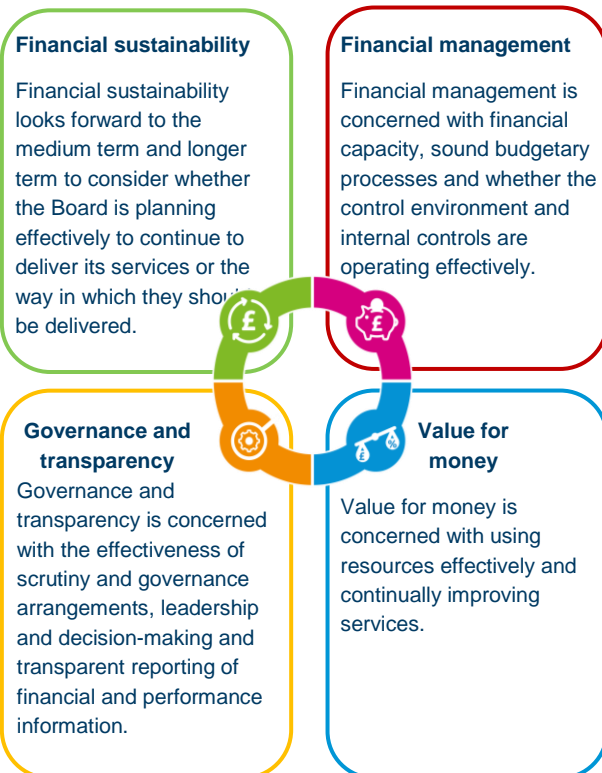
### Code of Audit Practice

14. The Code of Audit Practice (the Code) sets the framework for public audit in Scotland and outlines the responsibilities of auditors appointed by the Auditor General.
15. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance not only on the annual accounts, but also on the appropriateness, effectiveness and impact of corporate governance, performance management and financial sustainability.
16. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable areas, as summarised in Exhibit 1. We will apply the wider scope in full at NHS Lothian.

## Our responsibilities

17. The Code requires auditors to meet the highest professional standards and it is a condition of our appointment that we comply with it.
18. Our responsibilities under the Code are to:
  - undertake statutory duties, and comply with professional engagement and ethical standards, including International Standards on Auditing;
  - provide an opinion on audited bodies' financial statements and the regularity of transactions;
  - review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
  - notify the Auditor General when circumstances indicate that a statutory report may be required; and
  - demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
    - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;
    - suitability and effectiveness of corporate governance arrangements; and
    - financial position and arrangements for securing financial sustainability.
19. Weaknesses or risks we identify are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

### Exhibit 1: Audit dimensions of wider scope public audit



## Board responsibilities

20. The Board 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 it to successfully deliver organisational objectives. The Board's responsibilities are summarised in Exhibit 2.

### Exhibit 2 – Board's responsibilities

Area	Board's responsibilities
<p><b>Annual report and accounts:</b> The Board must prepare an annual report and accounts containing financial statements and other related reports.</p>	<p>The Board has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of the state of affairs of the Board as at 31 March 2018 and of the net expenditure for the year, in accordance with the applicable financial reporting framework and relevant legislation;</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures;</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;</li> <li>• maintaining proper accounting records; and</li> <li>• preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements.</li> </ul>
<p><b>Financial sustainability:</b> Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to fulfill its functions in an affordable and sustainable manner.</p>	<p>The Board is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with any statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• How the organisation plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>

<p><b>Financial management:</b> Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>It is the Board's responsibility to ensure that its financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>The Board is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>It is the Board's responsibility to establish arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p><b>Governance and transparency:</b> 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.</p>	<p>The Board, through its chief executive (as accountable officer) is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The Board should involve those charged with governance in monitoring these arrangements.</p> <p>The Board is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<p><b>Value for money:</b> Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<p>The Accountable Officer has a specific responsibility to ensure that arrangements have been made to secure best value. Although different arrangements exist across the public sector in relation to best value, all public bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>



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# Audit strategy

# Audit strategy

## Risk-based audit approach

21. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:

Discussions with senior officers at the Board	Discussions with non-executive members	Attendance at the Audit & Risk Committee	Our understanding of the health sector and its key priorities and risks	Guidance from Audit Scotland
Discussions with Audit Scotland and other NHS auditors	Discussions with internal audit and reviews of their plans and reports	Review of the Board's corporate strategies and plans	Review of the Board's corporate risk register	Consideration of the work of other inspection bodies where appropriate

22. Planning is a continuous process and our audit plans are therefore updated during the course of the audit to take account of developments as they arise

## Communications with those charged with governance

23. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed that these communications will be through the Audit & Risk Committee.

## Professional standards and guidance

24. We perform our audit of the financial statements in accordance with ISAs, the International Standard on Quality Control 1 (UK), the FRC's Revised Ethical Standard, and applicable Practice Notes and other guidance issued by the FRC.

## Partnership working

25. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

## Audit Scotland

26. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.
27. Audit Scotland undertakes national performance audits on issues affecting the Board. We will review the Board's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We will assess the extent to which the Board uses the national performance reports as a means to help improve performance at the local level.
28. During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

## Internal audit

29. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the Board's total audit resource. To achieve this, we aim to take full cognisance of the work of internal audit wherever possible.

### Shared systems and functions

30. Audit Scotland encourages auditors to seek efficiencies and avoid duplication of effort by liaising closely with other external auditors, agreeing an appropriate division of work and sharing audit findings. The Board uses the National Single Instance (NSI) e-financials service (financial ledger services hosted by NHS Ayrshire and Arran). We will take cognisance of NHS service auditor reports as part of our audit of the Board.

### Other inspection bodies

31. We will contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. In November 2017 the Health Secretary ordered an independent review into concerns around accident and emergency waiting times practices and staff pressure at St John's Hospital. We will consider the findings of the independent review, and the Board's response to it, as part of our 2017/18 audit.
  32. Through enquiry of management as part of our initial planning discussions, we have not identified any other inspection work planned for 2017/18 which is directly relevant to our audit, other than the work of internal audit and Audit Scotland. We will monitor this situation over the course of 2017/18 and update our plans as necessary.
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# Annual report and accounts

# Annual report and accounts

## Introduction

33. Health boards' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the Board's annual report and accounts.
34. The annual report and accounts comprise the financial statements, the performance report and the accountability report.

## Approach to audit of the financial statements

35. Our opinion on the financial statements will be based on:

### Risk-based audit planning

36. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the financial statements will be based.

### An audit of key systems and internal controls

37. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements.
38. The systems we review and the nature of the work we perform is based on an initial risk assessment. We examine and test compliance with best practice and the Board's own policies and procedures.
39. Wherever possible we will take cognisance of internal audit's reviews of systems and controls.
40. We will update the risk assessment following our evaluation of systems and controls. This will ensure that we continue to focus attention on the areas of highest risk.

### A final audit of the financial statements

41. During our final audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on the risk assessment.

42. Our final audit will seek to provide reasonable assurance that the financial statements are free from material misstatement and comply with the HM Treasury Financial Reporting Manual 2017-18 (FRM), the NHS Scotland Board Accounts Manual and the Accounts Direction issued by Scottish Ministers.
43. In order to provide assurance on the regularity of transactions, we also review whether, in all material respects, expenditure has been incurred and income applied in accordance with guidance issued by Scottish Ministers.

### Independent auditor's report

44. Our opinions on whether the financial statements give a true and fair view and on the regularity of transactions will be set out in our independent auditor's report which will be included within the annual report and accounts.
45. We also provide an opinion on the audited part of the remuneration report, annual governance statement and performance report.

### Group audit

46. The Board prepares its annual report and accounts on a group basis. The group consists of the Board, the Lothian Health Board Endowment Fund and the four integration joint boards (Edinburgh, West Lothian, Midlothian and East Lothian).
47. The Endowment fund is fully consolidated. The joint boards are deemed joint ventures with the respective local authority and accounted for under the equity method. We do not consider the consolidated entities to be of individual financial significance to the group or, due to their specific nature or circumstances, likely to include significant risks of material misstatement of the group financial statements.
48. The consolidation of the joint boards is expected to be immaterial to the financial statements as a whole. Income and net expenditure for the endowment fund is also expected to be immaterial. While the Board expects the endowment fund to hold a material level of assets at 31 March 2018, the level is not expected to be significant to the group overall, reflecting less than 10% of group assets. We will monitor and review this position as appropriate across the 2017/18 audit.

49. As part of our audit of the Board we will perform analytical procedures at the group level and we will design testing sufficient to give us assurance over the valuation of endowment fund investments. We will review the consolidation entries made within the group accounts and confirm those entries back to audited financial statements (the endowment fund) and external confirmations (joint boards).

## Materiality

50. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.
51. Our initial assessment of materiality for the financial statements of the Board and the Group is £22.5million, approximately 1.5% of the Board's forecast revenue resource limit. Achieving a breakeven position through the application of parliamentary funding is a key target for the Board and one of the principal considerations for the users of the accounts when assessing financial performance. We will review our assessment of materiality throughout our audit.

## Performance materiality

52. We set a performance materiality for each area of work which is based on a risk assessment for the area. We will perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

Area risk assessment	Weighting	Performance materiality
High	40%	£9million
Medium	55%	£12.4million
Low	75%	£16.9million

## Reporting

53. We will report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
  - Uncorrected misstatements over £230,000; and
  - Other misstatements below £230,000 that we believe warrant reporting on qualitative grounds.

## Exhibit 3 – Key audit risks for the annual accounts

54. Auditing standards require that we inform the Audit and Risk Committee of our assessment of the risk of material misstatement in the financial statements. Five significant risks are outlined below, with two further significant risks to the wider scope of our audit outlined in section 5 of this report. We will provide an update to the Audit and Risk Committee if our assessment changes significantly during the audit.

### 1. Capital transactions

The Board holds a significant amount of high value estate (net book value of land and buildings was £688.557million at 31 March 2017). The Board values its assets on a five year cycle, with an element of the estate being subject to valuation each year. In addition, the Board expects to make significant capital additions during 2017/18. Additions are expected through traditional procurement routes (£50.087million) as well as through Hub projects (£25.057million as outlined in significant risk 2 below).

Given the value of assets held, and the scale of the in-year capital transactions expected, any misstatement in the accounting for assets could potentially result in a material misstatement in the financial statements.




55. We will review asset valuations and ensure the Board has completed a recent assessment for impairment across its estate. We will ensure assets are held in line with the FReM and the Board's accounting policies and that capital additions have been accounted for appropriately.

## 2. PFI and related assets

The Board has a range of legacy facilities which were delivered through the Public-Private Partnerships (PPP) / Private Finance Initiatives (PFI), including The Royal Infirmary of Edinburgh, Midlothian Community Hospital, Ellens Glen and Findlay House. The cumulative estimated base capital value of these agreements is in excess of £200million.


The Royal Edinburgh Hospital (REH) Phase 1 new Hub facilities became operational in 2016/17 at a value of £38.382 million. The contract agreed over this Hub asset runs until December 2041 at which point ownership of the facilities will transfer to the Board. The Board expects further Hub developments at REH in 2017/18 along with a number of other Hub developments delivered through the Partnership Centre Bundle. Total capital additions on Hub projects are expected to be £25.057million during the year.

In practice, the accounting arrangements for the REH development, and the other Hub developments, are generally consistent with those used for the Board's legacy PPP/PFI assets. Due to the complexity of accounting and the high value of the transactions, there is a risk that the Board's financial statements do not show the correct accounting entries and related commitments, and that the unitary payments in relation to these facilities are not correctly accounted for.

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56. We will review the Board's PPP/PFI accounting and the commitment disclosures against the requirements of the FReM, the Manual and against the supporting contracts. We will also review relevant aspects of the transactions against the NHS Scotland Capital Accounting Manual.


## 3. Revenue Recognition

Under ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise income in a way that materially misstates the Board's financial performance.

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57. The presumed risk of fraud in relation to revenue recognition is present in all non-government revenue streams. We will evaluate each material revenue stream and review the controls in place over revenue accounting. We will consider the Board's key revenue transactions and streams and carry out testing to confirm that the revenue recognition policy is appropriate and has been applied consistently throughout the year.

## 4. Risk of fraud in the recognition of expenditure

The FRC published a revised Practice Note 10 which applies to the audit of financial statements of public sector bodies in the UK, for periods commencing after June 2016. The Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure. In line with the practice note, our presumption is that the Board could adopt accounting policies or recognise expenditure in a way that materially misstates the Board's financial performance.

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58. In response to this risk we will evaluate the significant expenditure streams at the Board (excluding payroll which we do not consider to be a significant audit risk area) and review the controls in place over accounting for expenditure. We will consider the key areas of expenditure and obtain evidence that the expenditure was recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

## 5. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA 240.



59. In response to this risk we will review the Board's accounting records and obtain evidence that any significant transactions outside the normal course of business were valid and accounted for correctly. We will also adopt data analytics techniques to review and test aspects of this significant risk.

### The performance report, accountability report and other information

60. The FR&M sets out the content required within the annual report and accounts. In addition to presenting our opinions over the financial statements, our independent auditor's report will also include our opinion on other aspects of the annual report and accounts:

#### Other information

61. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.
62. We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our independent auditor's report.

#### The performance report

63. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It contains two sections:
- an overview of the organisation, its purpose, the key risks to the achievement of its objectives and how it has performed during the year; and

- a detailed performance summary of how the entity measures its performance.

64. Our independent auditor's report will confirm whether in our opinion the performance report has been properly prepared and is consistent with the financial statements.

#### The accountability report

65. The accountability report is required in order to meet key parliamentary accountability requirements. It has three sections:

- A corporate governance report (including a governance statement) explaining the composition and organisation of the entity's governance structures and how they support the achievement of the entity's objectives.
- A remuneration and staff report setting out staff numbers and costs as well as the entity's remuneration policy for directors and the remuneration awarded to directors.
- A parliamentary accountability report disclosing the regularity of expenditure and other parliamentary accountability requirements.

66. Our independent auditor's report will confirm whether in our opinion the governance statement and the audited part of the remuneration and staff report have been properly prepared and are consistent with the financial statements.



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# Wider scope audit

# Wider scope audit

## Introduction

- 67. As described in section 2, the Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions: financial management; financial sustainability; governance and transparency; and value for money.
- 68. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon the understanding of the Board which we developed in 2016/17, along with discussions with management and review of Board and committee minutes and key strategy documents.
- 69. In 2017/18 we have also considered the following risk areas as they relate to the Board:
  - EU withdrawal;
  - The Scottish Parliament's new financial powers;
  - Ending of public sector pay cap;
  - Cyber security; and
  - Openness and transparency.
- 70. At this stage of our audit planning process, we have identified one significant risk to the wider scope of our audit in relation to financial sustainability and one significant risk in relation to governance and transparency (outlined below).
- 71. We have not, at this stage, identified any significant and separate risks in relation to financial management or value for money. However, there is some cross over between these areas and other significant risks identified (eg financial sustainability and financial management). Audit planning is a continuous process and we will report any identified significant risks, as they relate to the four dimensions, in our annual audit report.
- 72. The tables below summarise our audit work in respect of each dimension, along with the two significant audit risks mentioned above.



### Financial sustainability

**Financial sustainability looks forward to the medium and longer term to consider whether the Board's planning processes support the future delivery of services.**

Consideration	Our audit approach
<p>During 2016-17, we concluded that NHS Lothian has effective arrangements in place for financial planning and monitoring in the short term but that until the Board is in a position to agree a medium term financial strategy, there remains a challenging financial outlook and uncertainty around the sustainability of services at the current levels.</p> <p>The development of a medium term financial strategy is one of NHS Lothian's corporate objectives for 2017-18. Work has begun on a 5 year Financial Outlook, supported by Sustainability and Value plans at Business Unit level. The 2017-18 LDP outlined a financial gap before recovery actions of £47.9million and during the year financial forecasts have regularly projected an overspend. However, the month 9 review reported that improvements in the financial position allowed significant assurance to be given that a year-end breakeven position would be achievable. While there has been assurance around financial balance, the Board does not expect to meet its targeted level of savings. A shortfall of £6.7million is expected against the identified £29.2million efficiency plans.</p>	<p>We will review the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting.</p>

Consideration (continued)	Our audit approach
The implementation of integrated health and social care has also presented additional risk to the Board's financial sustainability. All four of the Board's Integration Joint Boards are forecasting deficits for 2017-18, estimated at around £7.8million for the health component. The Board requires further discussions with the four IJBs to agree options for achieving financial balance in each IJB at the year end.	

### Significant audit risk 6: Financial sustainability

The Board's Local Delivery Plan covers a three year period, and is supported by a five year capital plan. The LDP sets out a very challenging outlook for the Board's financial position and the Board is expected to make substantial recurring efficiency savings each year. There is a risk that delivery of the Board's efficiency savings plans are at the detriment of services and/or on-going financial health.

Projections for 2018-19, as part of the five year financial outlook, highlight a financial gap (before recovery actions) of £48.3million. Financial recovery actions of £20.5million have been identified, leaving a gap after recovery actions of £27.8million. The Board recognises that given the scale of the remaining gap, and the increasing reliance on non-recurring resources, it will be necessary to develop scenarios regarding the choices the Board may be required to make in order to achieve a balanced position for 2018/19.



- 73.** During our audit we will consider whether NHS Lothian has adequate arrangements in place for managing its financial position in the medium term. Our conclusion will be based on a review of the Board's financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets. Our work will also consider the adequacy of the Board's preparations and scenario planning for the impact of Brexit and key financial assumptions such as the impact of the ending of the public sector pay cap.



### Financial management

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

Consideration	Our audit approach
In 2016-17, NHS Lothian met all of its key financial targets and we concluded that the Board had effective arrangements in place for financial management and the use of resources. Our conclusion was based on a review of NHS Lothian's financial performance, underlying financial position, financial reporting and achievement of savings targets at that time.  The Board is currently projecting a breakeven position.	During our 2017/18 audit we will review, conclude and report on the following: <ul style="list-style-type: none"> <li>The achievement of financial targets and effectiveness of financial performance reporting during 2017-18.</li> <li>Whether NHS Lothian continues to have arrangements in place to ensure systems of internal control are operating effectively;</li> <li>the effectiveness of the budgetary control system in communicating accurate and timely performance; and</li> </ul>

Consideration (continued)	Our audit approach (continued)
The Board operates an in-house internal audit service. To avoid duplication of effort and to ensure an efficient audit process we will take cognisance of all of the work of internal audit.	<ul style="list-style-type: none"> <li>Whether the Board has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.</li> </ul>



## Governance and transparency

**Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.**

Consideration	Our audit approach
<p>In 2016-17, we concluded that NHS Lothian has well developed governance arrangements in place, including an effective Assurance Framework for the Board and its main governance committees, risk management and internal audit arrangements.</p> <p>Audit Scotland has highlighted signals of changing and more challenging expectations for openness and transparency across public business. They have highlighted the need for public bodies to keep this area under review and to consider whether there is scope to enhance transparency.</p> <p>In 2017/18, issues relating to the recording and reporting of emergency access waiting times were raised under whistleblowing arrangements. This area has been subject to several investigations, some of which are ongoing. Initial findings highlight issues with process and culture.</p>	<p>We will continue to consider the effectiveness of the Board's governance framework and the extent to which the arrangements and management of the Board and committees comply with relevant good practice guidance. In 2017-18 we will use benchmarking information and discussions with the board to ensure that the current levels of transparency are underpinned by a clear rationale and align with the board's governance framework.</p> <p>We will consider whether the information provided to the Board and committees is sufficient for members to assess the impact of decisions on resources and performance. Our review will include arrangements for the management of risk and how each committee receives the assurance it needs on health and social care.</p> <p>During 2017-18, we will use our IT audit specialists to review the Board's cyber security arrangements, including compliance with the new cyber resilience requirements introduced by the Scottish Government.</p> <p>We will also review and comment on emergency access waiting times issues as set out below.</p>

### Significant audit risk 7: Waiting times

The Board received a report on the Emergency Access Standard: Review of Performance Reporting Compliance at its meeting on 6 December 2017. The report provided an update on progress with the investigation into specific concerns raised under the Board's whistleblowing arrangements about the alleged mismanagement of waiting times reporting.

## Significant audit risk 7: Waiting times (continued)

The report noted that NHS Lothian was not consistently complying with the guidance set out in the A&E Data Recording reference manual (2013), the Scottish Government clarification guidance on ambulance waits (2015) and the Board's own standard operating procedures. The Cabinet Secretary for Health and Wellbeing has commissioned the Royal College of Physicians of Edinburgh to undertake an investigation into the concerns, which we anticipate will be available in April 2018.



74. As part of our work on governance and transparency, we will review the Board's approach to responding to the waiting times allegations, including the appropriateness of the investigation and reporting arrangements.



### Value for money

Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.

Consideration	Our audit approach
During 2016-17, we highlighted that the Board was beginning to face pressures in achieving performance targets while delivering financial savings. One of the approaches that the Board has invested in is a quality change programme which aims to transform NHS Lothian into a High Performing Organisation. The Board also recognises that transformational change is required to close the financial gap.	<p>We will work with the Board to identify and review evidence which demonstrates the achievement of value for money in the use of its resources.</p> <p>During 2017-18, we will review the progress and governance arrangements to support the development of the quality assurance framework and change programme.</p> <p>We will continue to assess the performance of NHS Lothian relative to other NHS Boards.</p>

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# Audit outputs and timetable

# Audit outputs and timetable

Audit output	Description	Target date
External audit plan	This sets out the scope of our audit for 2017/18.	26 February 2018 Audit & Risk Committee
Interim management report	If required, this report will summarise any significant findings from our interim work on accounting systems and corporate governance.	23 April 2018 Audit & Risk Committee
Independent Auditor's Report	This report will contain our opinions on the truth and fairness of the annual accounts and the regularity of transactions.	18 June 2018 Audit & Risk Committee
Annual Report to Board and the Auditor General for Scotland	At the conclusion of each year's audit we will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work. This report will pull together all of our work on the use of resources, annual accounts and governance arrangements.	18 June 2018 Audit & Risk Committee

## Audit outputs

- 75.** Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate. We will endeavour to supply a draft report within three weeks of completion of the fieldwork. We will require formal management responses within two weeks of receipt of the draft report. On occasion these timescales may need to be shortened, e.g. to meet Audit and Risk Committee and certification deadlines.
- 76.** The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

## Audit fee

- 77.** The total audit fee audit for 2017-18 represents a £13,184 (4.4%) reduction compared to the 2016/17 fee.

## Composition of the audit fee

Auditor remuneration – Scott-Moncrieff	£239,426
Pooled costs – Audit Scotland (AS)	£31,450
Audit support costs – AS	£13,130
<b>Total audit fee</b>	<b>£284,006</b>

- 78.** Audit Scotland sets an expected fee for each audit that assumes the audited body:
- has sound governance arrangements that operate effectively throughout the year;
  - prepares comprehensive and accurate unaudited accounts; and
  - meets the agreed timetable for the audit.
- 79.** The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on the auditor's experience, new requirements, or significant changes to the audited body.

- 80. Audit Scotland requires fees to be agreed between the auditor and each audited body. Through the fee agreement process the auditor remuneration element of the fee may be varied by up to 10% above the expected level where significant local issues require additional work to be undertaken. In exceptional circumstances, higher remuneration can be agreed with the prior agreement of Audit Scotland.
- 81. The expected total audit fee set by Audit Scotland for the 2017/18 audit of NHS Lothian was £262,240. We propose setting the total audit fee at £284,006, which represents an uplift of 10% on the auditor remuneration element. This is consistent with 2016/17 and reflects the significant audit work necessary in relation to the complex PFI/PPP-type contracts and the detailed scrutiny required to deliver our responsibilities in relation to the six other specific audit risks detailed in this audit plan.
- 82. The audit fee will cover:
  - the 2017/18 audit work and outputs described in this plan;

- attendance at all Audit and Risk Committee meetings;
- access to advice and information on relevant audit issues; and
- a contribution towards Audit Scotland's pooled costs.

83. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

**Audit timetable**

84. The dates for our interim and final audits have been discussed with the Director of Finance and the Head of Financial Services. A summary timetable, including audit outputs, is set out below:





# 7

## Appendices

# Appendix 1: Your audit team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 17 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Semple Street Edinburgh EH3 8BL (0131) 473 3500	25 Bothwell Street Glasgow G2 6NL (0141) 567 4500	10 Ardross Street Inverness IV3 5NS (01463) 701 940

## Extensive public sector audit experience

We have been external auditors within the public sector for over fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE Colleges. We also provide services to charities, schools, as well as private and public limited companies.

We became involved in NHS audits when Trusts were first established in 1993. Since then, our appointments have covered both external and internal audit with over 20 different NHS bodies.

## Your audit team – key contacts



**Chris Brown, Audit Partner**

[chris.brown@scott-moncrieff.com](mailto:chris.brown@scott-moncrieff.com)

Chris is the audit partner in charge of our audit of NHS Lothian as well as most of our other external and internal audit appointments in the health sector. Chris has 25 years' experience in NHS auditing. Chris is a recognised specialist in public sector governance and risk management and is always available to provide accounting and other advice to the Board. He is also a member of the Scott-Moncrieff board as our Head of Audit and Assurance.



**David Eardley, Audit Director**

[david.eardley@scott-moncrieff.com](mailto:david.eardley@scott-moncrieff.com)

David is an experienced NHS external and internal audit director. He joined the firm in August 2006 and has led the management of our more complex and sizeable NHS external audit appointments. He is a member of the NHS Technical Accounting Group and has a decade and a half of experience across the NHS, Local Authority, Central Government and Education sectors.



**Grace Scanlin, Senior Performance Audit Manager**

[grace.scanlin@scott-moncrieff.com](mailto:grace.scanlin@scott-moncrieff.com)

Grace joined the firm in March 2016 from Grant Thornton. Grace is the firm's performance audit lead and has significant experience in the audit of Best Value, and of performance and strategic issues facing public sector bodies. She also manages the internal audit of a number of our public sector clients, including the Scottish Ambulance Service.



**Michael Lavender, Audit Manager**

[michael.lavender@scott-moncrieff.com](mailto:michael.lavender@scott-moncrieff.com)

Michael joined Scott Moncrieff as a CIPFA Graduate Trainee and qualified in 2011. Michael has been part of the external audit team of our NHS bodies since he started with the firm, working closely with Chris and David on the financial statements and governance audit process over this time. He is a member of the Annual Accounts NHS Sub-TAG Group and has a wealth of experience managing a portfolio of external audits across the NHS, central government and education sectors.



**Rachael Blenkinsop**

**Assistant Manager**

[rachael.blenkinsop@scott-moncrieff.com](mailto:rachael.blenkinsop@scott-moncrieff.com)

Rachael has been heavily involved in our NHS external audits since joining the firm in 2011. She has extensive knowledge and experience of key NHS systems and risks, with strong technical skills from leading a range of on-site audit teams. Rachael has significant NHS and wider public sector experience, drawn from across both external and internal audit.



**Paul Kelly**

**Senior IT Audit Manager**

[paul.kelly@scott-moncrieff.com](mailto:paul.kelly@scott-moncrieff.com)

Paul leads the delivery of our computer audit services and has over 20 years' experience of delivering services such as network infrastructure and security reviews and determining compliance with the requirements of the information security standard, BS7799.

# Appendix 2: Statement of understanding

## Introduction

The purpose of this Statement of understanding is to clarify the terms of our appointment and the key responsibilities of Lothian Health Board (“the Board”) and Scott-Moncrieff.

## Annual accounts

We will require the annual report and accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant Board staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statement strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we work together effectively to deliver an efficient and effective audit.

## Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the Board’s responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the Board during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Chief Executive.

## Internal audit

It is the responsibility of the Board to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

## Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

## Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

## Fees

We base our agreed fee upon the assumption that all of the required information for the audit is made available in line with the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend on the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and timing of working papers and supporting documentation.

## Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Chris Brown. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

## Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work. We will endeavour to supply a draft report within three weeks of the completion of the fieldwork of each element of work.

As stated within the Code, management should prepare an action plan summarising their response to the recommendations in the reports. The action plan should include target dates for implementation and details of the responsible officer.

Management responses should be prepared and provided to us within two weeks of the receipt of the draft report.

These timescales may need to be truncated, e.g. to meet Audit and Risk Committee reporting deadlines.

### **Agreement of terms**

We shall be grateful if the Board's Audit and Risk Committee would consider and note this Statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



**Scott-Moncrieff**  
business advisers and accountants

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