



# NHS Education for Scotland

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**External Audit Annual Report to the Board and the Auditor General for  
Scotland for the financial year ended 31 March 2018**

Board Meeting 28 June 2018

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Engagement Leader

**Angelo Gustinelli**  
Audit Manager



# Our audit at a glance



We have fulfilled our responsibilities under International Standards of Auditing (ISAs) (UK) and the Code of Audit Practice throughout our work and this final report to the Board and the Auditor General for Scotland concludes our work.



Significant audit risks were: management override of controls; and the risk of fraud in expenditure recognition. Our risk assessment remained unchanged and we did not identify any matters to highlight to you in our testing of these areas.



Materiality was set at 2% of gross expenditure, and remained unchanged from our plan (was 1% in prior year). Based on 2017/18 unaudited accounts the materiality was £9 million.

We did not identify any adjustments to the financial statements based on our work. However disclosure amendments were discussed and agreed, particularly in relation to the new format of the expenditure notes. These were not significant or material in nature

## An audit underpinned by quality



Our opinion is unmodified

We have built on our working relationship with NES management during the year and this has ensured an efficient audit process, allowing for the audit to be concluded by the first week of June 2018.



Our work was undertaken in accordance with our agreed timetable. The draft financial statements produced by management were of a good standard, complete and supported by working papers.

We thank management for their support and assistance during our work.



A wider scope audit for NES, as set out in our plan, was considered not appropriate. However, in accordance with the Code of Practice we have provided commentary on your wider narrative in the annual report and accounts and overall observations on the future financial challenges facing NES.

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# Contents

Section	Page
1. Introduction	4
2. Our financial statements audit	5
3. Financial sustainability and certain aspects of governance	10

## Appendices:

1. Audit adjustments	14
2. Action plan for 2017/18	15
3. Follow up of 2016/17 recommendations	16
4. Fees, independence, fraud arrangements	17
5. Communication of audit matters to those charged with governance	18



## Adding value as your External Auditors

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards of Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective whilst being underpinned by our focus on audit quality, gives you assurance over our opinion.

Through this Annual Report we seek to provide insight and commentary over certain aspects of NES's arrangements, alongside how we have shared relevant practices with the Audit Committee and Management during the year.

We have continued to build on our working relationship with Management, ensuring a smooth handover to the new audit team and increased our understanding of NES as an organisation.

We have made a positive contribution at the Audit Committee during the year, sharing our wider NHS and public sector experience and have supported NES in how they make use of relevant Audit Scotland publications to inform future NES arrangements.

# Introduction

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2018.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our report is addressed to the NHS Education for Scotland (NES) Board, in respect of the Board's role as those charged with governance. In accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

Once finalised this report will be made publically available on the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

Our report was presented and discussed at the NES Audit Committee on 14 June 2018. The NES Board met on 28 June 2018 to consider this report and the Annual Report and Accounts, and following the accounts being signed our report was finalised.

We would like to thank NES management and in particular the finance team for an effective year-end audit process and all their support and assistance in the audit process during the year.

## Structure of our report

As set out in our Audit Plan (January 2018) we consider in accordance with the Audit Scotland Code of Practice that NES meets the smaller body definition. Therefore full wider scope is not considered appropriate.

However, as required in the Code of Audit Practice our report concludes on our audit of the annual report and accounts and certain aspects of NES's arrangements as follows:

Financial statements, including the Performance Report and Accountability Report (including governance statement)– Section 1

Financial management and sustainability - Section 2 and 3



## Our Opinion

For the financial year ended 31 March 2018 we have issued an **unmodified audit opinion**

- True and fair view of the financial statements
- Regularity – expenditure has been incurred in accordance with the purpose of NES
- Other prescribed matters (which include the audited information in the remuneration report)



## The audit process

We received a good, complete set of financial statements on 11 May 2018 including the performance report, strategic report and governance statement.

This was in line with the timetable we agreed. The draft financial statements were supported by good working papers and the finance team were very quick to support our audit and respond to our queries.

We have no unadjusted differences to report.

However, minor changes to the financial statement balances were identified between the unaudited and audited version of the annual report and accounts, particularly in relation to the new expenditure notes.

A number of adjustments were identified and updated by Finance.

Overall we noted very minor disclosure and formatting changes, all of which have been processed in the final annual report and accounts.



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# The audit of the annual report and accounts



Materiality has been set at £9 million (2% of gross expenditure) and performance materiality was set at £6.8 million (75% of materiality).

We reported to management any audit difference identified over £250,000 (5% of materiality), of which there were none.



We did not identify any adjustments to the draft financial statements based on our work, however disclosure amendments were discussed and agreed, particularly in relation to the new format of the expenditure notes. These are not considered to be significant or material.



We have issued an unmodified audit opinion on the financial statements, including the wider information contained in the financial statements, and the regularity opinion.

The audited parts of the Directors Remuneration Report are free from error.



Testing provided assurance on our identified areas of significant risks, as set out in our plan and there were no audit differences arising during the course of our audit.

Our audit work was completed in accordance with International Standards in Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). Based on our audit procedures performed we have issued an unmodified audit opinion on the financial statements including:



- they give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the financial statements e.g. Performance and Strategic report
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance

### Audit approach and materiality

Our audit approach was set out in our annual audit plan presented to the Audit Committee on the 11 January 2018.

Overall materiality has been set at £9 million, 2% of gross expenditure (2016/17: £4.4 million, 1% gross expenditure) and performance materiality is set at £6.8 million, 75% of materiality.

We report to management any audit difference identified over £250,000 (Trivial capped at £250,000 by Audit Scotland).

We did not identify any additional significant audit risks from those identified in our audit plan.

Our work completed in relation to the audit risks identified (management override of controls and risk of fraud in expenditure) and our conclusions are set out in this report under key audit matters.



### Internal control environment

During the year we sought to understand NES's overall control environment (design) as related to the financial statements.

In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls.
- Performed walkthrough procedures on key financial controls in particular journals, payroll and ledger controls



Our work over controls is limited to our ISA requirements in understanding an entities control environment.

Our audit is not controls based and we do not seek reliance over controls. Our audit is fully substantive in nature.

We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach, set out in our plan.

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## Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of Scott-Moncrieff, NES's internal audit provider.

We reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach, with none being noted and all reports receiving substantive assurance.



The opinion of Internal Audit for the year was:

*“In our opinion NES has a framework of controls in place that provides reasonable assurance regarding the organisation’s governance framework, effective and efficient achievement of objectives and the management of key risks, and proper arrangements are in place to promote value for money and deliver best value.”*

The findings of internal audit are not inconsistent with our knowledge and experience of NES.

# Key audit issues – Our response to significant audit risks

## Overview of our audit risks identified at planning and our proposed approach

	Risk of fraud in revenue and expenditure	Management override of controls
The Risk	<p>As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In 2017/18, NES's material revenue streams related to Scottish Government resource funding. Given the nature of this income being well forecast and agreed directly with SGHD we rebut the presumed risk of material misstatement over income. However, as set out in Practice note 10 (revised), for public sector entities there is a presumed risk of misstatement of expenditure. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of expenditure.</p>	<p>As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Override of controls is present in all entities.</p>
Our response	<ul style="list-style-type: none"> <li>• The focus of our risk was on material non-payroll expenditure. We targeted our audit procedures around those transactions with a higher risk of manipulation, being those transactions around the year end.</li> <li>• Performed cut off testing at year end on pre and post year end transactions.</li> <li>• Walkthroughs of the controls and procedures around material expenditure streams and validation of key controls where appropriate.</li> <li>• Consideration of the Regularity of expenditure incurred to ensure alignment with the type/nature of NES as an organisation.</li> <li>• Confirmed the completeness and accuracy of balances at the year end.</li> </ul>	<ul style="list-style-type: none"> <li>• A focus on our understanding of how/where management override of controls may occur</li> <li>• Review of the controls over journal entries</li> <li>• Understanding key areas of judgement and estimation within the financial statements and the basis for these judgements and the application of accounting policies</li> <li>• Reviewing unusual and/or significant transactions</li> </ul>
Our conclusion	<p>Based on our testing we can conclude:</p> <ul style="list-style-type: none"> <li>• We did not identify any exceptions in our cut-off testing for year-end expenditure.</li> <li>• We did not identify any exceptions in the completeness and accuracy of balances at the year end.</li> <li>• Through our substantive procedures and sample testing we confirmed expenditure testing was in accordance with the nature of NES (regularity).</li> </ul>	<p>Based on our testing we can conclude:</p> <ul style="list-style-type: none"> <li>• There was no evidence of management override in our testing of journals.</li> <li>• NESs financial statements do not include material judgements or estimates, however we considered the Lease dilapidation provisions and Intangible assets amortisation policy and expected useful economic lives.</li> <li>• We did not identify any unusual or significant transactions in year.</li> </ul>

## Narrative elements of your annual accounts

We have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.

### Performance Report

- The accountability report is in line with our understanding of NES, in particular the vision and strategic priorities of NES.
- The Accountable Officer's statement is clear and easy to read.
- Risks are articulated and aligned to NES's internal risk reporting.
- Good use of links to relevant material on the NES's website.

### Overall observations

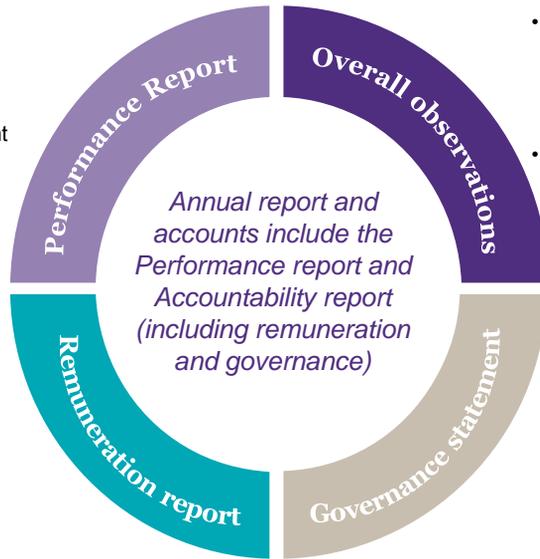
- NES continue to look at how the "front end" of the Annual Report and Accounts are presented and have introduced graphics to provide a visual representation of performance.
- There have been substantial changes to the notes that support the expenditure within the Financial Statements, which have helped to provide clarity and improve transparency of expenditure.

### Remuneration and Staff Report

- Has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions thereunder.
- The Executive and Non-Executive members reflected in the report have been correctly identified in accordance with FReM.

### Accountability Report

- As required by the FReM the Governance statement is included in the Accountability report.
- No material issues of governance in year that are required to be reported
- The governance statement is in accordance with the FReM/SPFM.
- The statement is supported by individual assurances to the Accountable Officer over internal controls.



## Key aspects of your financial statements

We consider particular aspects of your financial statements in relation to management judgements including estimates and where management may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised our conclusions below.



### Commentary:

NES's accounting policies are consistent with the NHS Manual of Accounts and are unchanged from prior year.

We identified and gained comfort over the key estimates and judgement, notably the lease dilapidation provisions, Intangible assets amortisation policy and expected useful economic lives.

In relation to the audit risk of fraud in respect of expenditure we tested NES's cut off arrangements in particular (timing) and identified no issues in accruals or prepayments which would indicate a higher risk of potential fraud.

There are no post balance sheet events or legal uncertainties at year-end.

Finally NES, as set out in the performance and accountability reports, consider themselves a going concern. They have an agreed budget with the Scottish Government for 2018/19 and are working on financial plans up until 2023 although only receive a one year budget allocation from the Scottish Government.

Given NES's role as a National Health Board within NHS Scotland providing education and training to the Health Sector, as well as considering the statutory functions NES have to enable it to fulfil its remit, we agree with managements assertion that NES meets the going concern criteria.

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# Commentary on NES Financial arrangements



The NES Budget for 2018/19, approved by the Board on 8 March 2018, underpins the achievement of NES strategic objectives and outlines the financial and operational challenges faced by the Board. The budget highlights that NES will receive no uplift in baseline recurring budget and will need to continue to identify future savings. This will include contributing to the National Board's efficiency targets which is a collective £15 million per annum.



Management have identified that for 2018/19, the Board requires savings of £14.9 million to meet its financial targets. £14.9 million represents 30% of NES discretionary spend. Proposed savings have been identified which if achieved, will give NES a forecasted £0.7 million surplus at March 2019.



A significant amount of the NES budget is committed to paying the salaries of doctors, dentists, clinical psychologists and others while they are in training, and therefore fixed in nature.

The anticipated pressures as a result of the 2018/19 pay policy on the Training Grade element of the NES recurrent budget is a total of £5.4 million. It was confirmed by Scottish Government on 12 June 2018 that they will be providing to NES an additional £5.4 million recurring funding from 2018-19 to provide for this additional budget pressure.



The 2018/19 financial planning assumptions appear reasonable and in line with what we would expect based on our knowledge of NES and prior year arrangements.



NES are focused on how as an organisation they demonstrate value for money. On an annual basis they undertake a value for money self assessment, across all the core areas of best value, linked to evidence of demonstration and areas for further development. This assessment is discussed at the Audit Committee (June 2018) and linked to the Audit Committee's wider considerations before recommending the Annual Report and Accounts to the Board. This is a positive and helpful report that supports the annual governance arrangements.



NES's workforce plan is reviewed annually to ensure its alignment with updated local, regional and national plans. As in previous years, the plan is in line with NES's vision of 'Quality Education for a Healthier Scotland' and their mission 'to provide education that enables excellence in health and care for the people of Scotland'. NES, with partners, has also made a substantial contribution to the development of the National Board Plan 'Changing to Deliver 2019-23', specifically in the areas of digital innovation and the development of a sustainable workforce.

## Financial planning 2018/19

The Board approved the budget for 2018/19 in March 2018. The financial plan is developed using a detailed budgeting approach to ensure that forecast income and expenditure is developed, based on key activities planned for the year. Financial forecasts are reviewed during the year to ensure these remain appropriate.

The financial plan for 2018/19 currently projects a small surplus. The key budget assumptions are set out below:

Key assumption	Budget £ million	Considered reasonable	Comment
Budget	420.0	✓	Draft budget allocation received from the Scottish Government. NES has assumed no uplift of baseline, which is similar to a number of National Boards, and in line with expectation.
Other funding	3.4	✓	The funding which was transferred to the NES baseline during 2017/18 and is now recurring.
Efficiency savings required	14.9	✓	This arises from the combined impact of; pay awards and pay progression for Agenda for Change staff; pay awards for trainees (£5.4 million); inflationary pressures across non-pay budgets and an anticipated contribution of £2.5 million to the £15 million efficiency target applied collectively to National Boards. In addition, NES have an underlying recurrent deficit of £3.2 million which in previous years has been achieved on a non-recurrent basis.
<b>Proposed measures to reduce the gap</b>	<b>14.2</b>		NES have been advised that given the UK Government budget commitment to 'funding pay awards for NHS staff on the Agenda for Change contract', additional funding will be provided by Scottish Government in 2018-19 for this cohort, with confirmation expected later in the year. In addition the Scottish Government have now also committed to provide an additional £5.4 million recurring funding from 2018-19 to cover the pressure from the impact of the pay award for trainees, (£4.8 million for training grade posts based in Territorial Boards and £0.6 million for NES employed GP Trainees.)
<b>Forecast surplus / (deficit)</b>	<b>0.7</b>		

The financial plans in place are based on reasonable assumptions and are appropriate based on our understanding of NES. NES will continue to monitor these forecasts alongside the actual financial position during 2018/19 to ensure they still remain realistic and achievable.

## National Board Collaboration

There is currently a National Board Plan (in draft), covering a five year period from 2018-2023. Whilst collaborative progress has been made in a number of areas, the work progressed to date may not deliver significant recurrent savings to the NES budget in 2018/19. The National Boards are actively working to identify additional proposals to generate these savings.

The National Board's have been focused on Sustainable Workforce, Digitally Enabled Service Redesign and Evaluation, Improvement and Transformation. These are the key areas where the National Boards believe they can provide support to meet technological, demographic and societal challenges.

NES is committed to working with other National and Territorial NHS Boards, both locally, regionally and nationally. In particular, NES has a key role in delivering elements of the National Board Plan which in particular contribute to digital innovation. **See action point 1.**

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## Governance arrangements

NES has a stable governance structure with the Board and its committees well established. The Board meets regularly during the year to both set and monitor the delivery of the Board's strategic priorities. We found the level of reporting to the Board and its committees to be appropriate.

Dr Lindsay Burley's term in office ended on 31 March 2018, the Cabinet Secretary for Health and Sport appointed David Garbutt the new Chair of NES from the May 2018. The Chair will play a key role in both shaping and leading the strategic direction of NES. The Chair brings NHS experience having previously served as the Chair of the Scottish Ambulance Service Board.



### Board effectiveness and transparency

The Board undertakes a regular assessment (every 18 to 24 months) of its own effectiveness to ensure that it is in line with current best practice. There are defined scheme of delegation and policies and procedures in place to ensure that there is clear understanding of respective responsibilities across NES.

NES demonstrate a commitment to transparent public reporting. Board minutes and supporting papers are published online as well as committee remits and a range of corporate publications detailing the Board's underlying performance and activities. This is an area NES will continue to review during 2018/19 alongside any national governance messages.

### Fraud and Irregularity

NES has arrangements in place to help prevent, detect and mitigate the risk of fraud or irregularity, including anti-bribery and whistleblowing policies. While we consider these to be reasonable, no arrangements can fully prevent against the risk of fraud, theft or irregularity. We are not aware of any material frauds at NES during the course of the year and have confirmed this with management.

The Board participates in the National Fraud Initiative (NFI), a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and the National Audit Office to identify fraud and error.

We found NES's arrangements for participation in the NFI exercise during 2017/18 to be satisfactory. The Board has effective arrangements in place for the submission of data and investigation of potential matches.



### Workforce planning

NES's workforce plan is reviewed annually to ensure its alignment with updated local, regional and national plans. NES, with partners, has also made a substantial contribution to the development of the National Board Plan 'Changing to Deliver 2019-23', specifically in the areas of digital innovation and the development of a sustainable workforce.

The National Health and Social Care Workforce Plan highlighted opportunities to develop a more consistent national approach to education, training and workforce development to help develop a more sustainable pipeline of skilled staff for health and care. NES are working with the Scottish Credit and Qualifications Framework Partnership, NHS Territorial Boards and the Higher and Further Education sectors to develop national commissioning and recognition of prior learning.

The Health and Social Care Workforce Plan sets out that better workforce data and planning is key to developing sustainable services. The development of a cloud-based data platform, which is the current direction of travel, will bring together existing workforce data which will support scenario planning for future workforce demand and supply. This will be essential, particularly related to future workforce uncertainty, in relation to Brexit. The potential impact of Brexit on NES will be further considered during 2018/19.

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# Appendices

**Audit adjustments**

**Action plan for 2017/18 external audit recommendations**

**Follow up of prior year recommendations**

**Fees, independence, fraud arrangements**

**Communication of audit matters with those charged with governance**

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# Audit adjustments

## Uncorrected and corrected misstatements

We are pleased to report that there were no uncorrected or corrected misstatements to the financial statements arising during our audit.

## Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow Audit Committees to evaluate the impact of these matters on the financial statements.

There were a number of minor disclosure adjustments to the draft accounts received for audit which were identified by the finance team through the ongoing review process.

In addition, we identified minor changes which were all disclosure amendments and none of any significant merit to draw your attention.

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# Action plan for 2017/18 external audit recommendations

We have set out below, based on our audit work undertaken in 2017/18, those risks and recommendations we consider are of a higher risk to NES that Management may wish to consider in the future.

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## Recommendation

## Management response

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### National Boards collaboration

We note the future direction of travel in respect of the National Board's collaboration and the early work done by all the National Boards related to the creation of the plan and an initial five year financial framework.

In due course this work, and the various scenarios related to NES should be presented to the NES Board, particularly those that support NES in achieving medium term financial sustainability.

**Management response:** Agreed

**Action owner:** Director of Finance

**Timescale for implementation:**

In line with timescales agreed by the regional implementation leads, and will keep external audit updated during 2018/19.

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# Follow up of prior year external audit recommendations

## Follow up of External Audit Recommendations

## Action as at June 2018

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### Accounts and Annual Report production –

NES should review its closedown and accounts / Annual Report production timetables for 2017/18.

**Status:** Completed

### Performance report –

Consider the use of visual aids to help make the performance report more accessible and understandable.

**Status:** Completed

### Finance reports to the Board –

Review the contents of the finance reports to the Board and assess whether additional information would better meet the Board's needs.

**Status:** Ongoing. This will be further reviewed in 2018/19, alongside the new Board Chair and the Board. Revised date: 31 March 2019.

### National Fraud Initiative –

Complete the NFI self-assessment questionnaire and develop an action plan to address any gaps in the arrangements that were identified.

**Status:** Ongoing  
Will apply to next round of NFI.

### 2017/18 budget –

The Board should ensure that any unidentified savings for 2017/18 are identified promptly and progress against their achievement is adequately monitored.

**Status:** Complete  
All savings were identified and achieved.

### Performance management targets –

Review the targets in place with a view to:

- reducing the number measured;
- making those that remain 'SMART'; and
- making the provision of performance information more timely.

**Status:** Ongoing and will be further considered in 2018/19. Revised date: 31 March 2019.

### Performance management reporting –

Include a commentary on what is being done/ needs to be done to address performance against targets that has been assessed as 'red' or 'amber'.

**Status:** Completed

### Journal authorisation (FY 15-16) –

Deloitte recommended that NES ensures that all journals are reviewed prior to posting.

**Status:** Complete  
The existing process which allows for the self-authorisation of journals for posting on the ledger is controlled by ensuring that all journals are subsequently reviewed and signed off by more senior members of the finance team. This ensures that reporting deadlines are not adversely affected particularly given the dispersed locations of the teams.

# Fees, independence, fraud arrangements

## External Audit Fee

Service	Fees £
External Auditor Remuneration	48,270
Pooled Costs	6,970
Contribution to Audit Scotland costs	2,910
Contribution to Performance Audit and Best Value	0
<b>2017-18 Fee</b>	<b>58,150</b>

The audit fee was calculated in accordance with guidance issued by Audit Scotland and agreed with Management.

The above fee has not changed since our plan and our final fee was £58,150

## Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2017/18 financial year	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

## Fraud arrangements

In assessing our audit risks, the audit team was alert to the possibility of fraud at NES.

As part of our audit work we are responsible for:

- Identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls.
- Leading a discussion with those charged of governance (for NES this is assumed to be the Audit Committee) on their view of fraud. We did this when presenting our audit plan and in the form of management and those charged with governance questionnaires which were received in May 2018.
- Designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud.
- Responding appropriately to any fraud or suspected fraud identified during the audit. None were identified in-year.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

It is Board's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we worked with NES to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.

# Communication of audit matters with those charged with governance (the Board)

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
<b>We are independent of NES and have not identified any conflicts of interest</b>		
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought have an impact on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
<b>We have not incurred any non-audit fees during the year and no threats to independence identified</b>		
Significant matters in relation to going concern	•	•
<b>No significant going concern matters identified</b>		
Views about the qualitative aspects of NES accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
<b>Set out in the Financial statements Section 1.</b>		
Significant findings from the audit		•
<b>No significant findings from our audit</b>		
Significant matters and issues arising during the audit and written representations that have been sought		•
<b>Letter of representation will be shared and signed by the Accountable Officer when signing the financial statements. This is our standard, unmodified letter of representation</b>		
Significant difficulties encountered during the audit		•
<b>No difficulties encountered</b>		
Significant deficiencies in internal control identified during the audit		•
<b>None identified</b>		
Significant matters arising in connection with related parties		•
<b>None identified</b>		
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
<b>None identified. A nil fraud return was submitted to Audit Scotland in April 2018 in accordance with the planning guidance.</b>		
Non-compliance with laws and regulations		•
<b>None noted</b>		
Unadjusted misstatements and material disclosure omissions		•
<b>None noted. Minor disclosure amendments only and these were not material in nature</b>		
Expected modifications to the auditor's report, or emphasis of matter		•
<b>None, an unmodified opinion</b>		

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

We communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to NES Management and the Audit Committee.

