

NHS Forth Valley

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for NHS Forth Valley
January 2019

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to NHS Forth Valley through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help NHS Forth Valley promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for NHS Forth Valley. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. • Substantive testing of transactions around the year end to confirm income and expenditure are accounted for in the correct financial year.

 Audit Risk	Source of assurance	Planned audit work
<p>2 Risk of fraud over income</p> <p>NHS Forth Valley receives a significant amount of income in addition to Scottish Government Funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>A sound system of budgetary control, including monthly budget monitoring is in place.</p> <p>Fraud reports are regularly monitored and information across Scotland is routinely shared.</p>	<ul style="list-style-type: none"> Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk. Obtain assurances from the NHS Counter Fraud Service.
<p>3 Risk of fraud over expenditure</p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p> <p>The Code of Audit Practice requires consideration of risk of fraud over expenditure. NHS Forth Valley incurs significant expenditure on a range of activities which will require audit coverage.</p>	<p>Fraud reports are regularly monitored and information across Scotland is routinely shared.</p> <p>There are a range of measures in place to prevent and detect fraud, including the Scheme of Delegation: Standing Financial Instructions, Standards of Business Conduct; Financial Operating Procedures; and the Whistleblowing Policy</p> <p>The board has a formal partnership agreement with NHS Scotland Counter Fraud Services and an agreed protocol covering a programme of regular payment verification checks.</p>	<ul style="list-style-type: none"> Analytical procedures on expenditure areas. Detailed testing of expenditure transactions focusing on the areas of greatest risk. Complete NFI audit questionnaire to assess progress and action taken by the board to investigate matches. Obtain assurances from the NHS Counter Fraud Service.
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions.</p> <ul style="list-style-type: none"> The valuations of land and buildings are by nature significant estimates. These are based on specialist and management assumptions, and estimates can be subject to material changes in value. The majority of Stirling Care Village development will be completed in 2018/19. The financial close model for the arrangement makes use of assumptions and judgements to estimate the value of the asset and liability. The board holds a provision for the clinical and medical legal claims and a provision for its share of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). These provisions are based on the assessed likelihood 	<p>Valuations of all Land & Buildings are re-assessed by valuers under a 5 year programme of professional valuations and adjusted in intervening years to take account of movements since the last valuation.</p> <p>The valuations are carried out in accordance with the RICS Approval and Valuation Manual.</p> <p>The clinical and medical negligence provision is calculated using information received from the Central Legal Office regarding the claims they have received relating to NHS Forth Valley.</p> <p>The board's share of NHS Scotland CNORIS liability is estimated based on actual settlement trends in prior years.</p> <p>The impact of these provisions is mitigated since a substantial proportion of the provision is</p>	<ul style="list-style-type: none"> Completion of 'review of the work of an expert' for the professional valuer. Review the external revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals. Review the information provided to the valuer and assess whether this was complete and included all board property assets relevant to the revaluation in 2018/19. Review the accounting treatment for the recognition of the Stirling Care Village asset and liability. Completion of 'review of the work of an expert' for the Central Legal Office. Review of information provided by the Central Legal Office in support of the provision by the board for

	Audit Risk	Source of assurance	Planned audit work
	and settlement value of claims against the board. This subjectivity represents an increased risk of misstatement in the financial statements.	recoverable from the Scottish Government.	<p>the clinical and medical legal claims; and for CNORIS.</p> <ul style="list-style-type: none"> For any other areas of estimation and judgement we will carry out focussed substantive testing of provisions and accruals.

Wider dimension issues and risks

5 Financial sustainability and financial position

The board's 2018/19 Financial Plan forecast a deficit of £1.900 million for the year and the need to achieve recurring efficiency savings of £18.4 million. There are no financial forecasts of efficiency savings required beyond one year.

The Finance Report to 30 November 2018 reports an overspend of £0.798 million with a projected year end breakeven position. Savings plans of £18.407 million have been identified, with savings of £6.816 million being delivered. However, around £6.643 million of savings are forecast to be non-recurring which will increase the savings requirements for future years. In addition, the forecast year end outturn is contingent on the final IJB outturns which are currently forecasting overspends, and the possible financial impact of winter pressures are currently uncertain. These factors, and the absence of financial plans beyond one year means the future financial position and sustainability of services is uncertain.

A detailed savings plan was developed in consultation with internal heads of department.

Performance against agreed targets is monitored monthly.

All savings are risk assessed regarding the likelihood of being achieved and the impact on service delivery.

The Scottish Government has announced changes to the health financial framework through Health and Social Care: medium term financial framework. This should allow the board to manage finances over a medium term. However, the shorter term risks to financial sustainability still exist.

The board intend to use the Health and Social Care: medium term financial framework to develop a five year financial plan.

- Review Finance Reports and delivery of savings plans.
- Attendance at committee meetings and review of papers to assess progress and impact in delivering savings planned to date.
- Review position for agreeing year end IJB balances between partner bodies.

6 Performance Targets

The board has struggled to achieve the eight key waiting time targets during the year and is not on course to meet the Scottish Government's objective to achieve the March 2017 levels.

The Executive Performance Report to 30 September 2018 reports the board was only meeting one of the eight key waiting time targets, with the majority being classified as red

Performance against standards/ targets is monitored monthly across the organisation and reported to the Performance & Resources Committee/ Board in alternate months.

Weekly monitoring information is provided to service leads to show progress. A review of performance is undertaken at the CEO Operation Group on a weekly basis.

- Review of Executive Performance Reports to assess progress in achieving targets, and actions being taken to improve performance.
- Attendance at committee meetings and review of papers to assess progress.

	Audit Risk	Source of assurance	Planned audit work
	<p>(out with 5% of meeting trajectory).</p> <p>The challenges of achieving a balanced budget, together with difficulties in recruiting staff within certain specialties (e.g. older people psychiatry and breast cancer care services) could result in further deterioration in performance.</p> <p>There is a continued risk that the eight key targets will not be achieved, and the delivery of quality affordable services is not sustained.</p>	<p>The risks associated with performance targets is monitored through the corporate risk register.</p>	

Source: Audit Scotland

Reporting arrangements

5. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

7. We will provide an independent auditor's report to NHS Forth Valley, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

8. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December. Management are required to submit their audited financial statements by 30 June to meet the consolidation timetable.

Exhibit 2 2018/19 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	11 January 2019	18 January 2019
Management Report (may be reported in quarterly progress report)	8 March 2019	15 March 2019
Annual Audit Report	31 May 2019	7 June 2019
Independent Auditor's Report	7 June 2019	7 June 2019

Source: Audit Scotland

Audit fee

9. The proposed audit fee for the 2018/19 audit of NHS Forth Valley is £144,610 (2017/18: £144,650). In determining the audit fee we have taken account of the risk exposure of NHS Forth Valley, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 29 April 2019.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

11. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

12. The audit of the annual accounts does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.

Appointed auditor

13. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

14. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

15. Following the retirement of David McConnell in December 2018, the appointed auditor for NHS Forth Valley from January 2019 is John Cornett. John was previously a District Auditor with the Audit Commission and more recently was KPMG's head of local government audit in the Midlands.

Audit scope and timing

Annual accounts

16. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of NHS Forth Valley and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how NHS Forth Valley will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

17. We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and direction made thereunder by the Scottish Ministers of the state of affairs of the board and its group as at 31 March 2019 and of the net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FReM; and
- have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.



characteristics



responsibilities



principal activities



risks



governance arrangements

Other information in the annual accounts

18. We also review and report on other information published within the annual accounts including the Performance Report, Governance Statement and the Remuneration Report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

19. We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

20. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

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

Exhibit 3 Materiality values

Materiality	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018 based on the latest audited accounts.	£6.585 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£3.951 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2.5% of planning materiality.	£0.165 million

Source: Audit Scotland

Timetable

22. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	29 April 2019
Latest date for final clearance meeting with Director of Finance	28 May 2019
Issue of Letter of Representation and proposed independent auditor's report	31 May 2019
Agreement of audited unsigned annual accounts	31 May 2019
Issue of Annual Audit Report to those charged with governance	31 May 2019
Independent auditor's report signed	by 13 June 2019

Internal audit

23. Internal audit is provided by Fife, Tayside, and Forth Valley Audit and Management Services (FTF). As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS).

24. Our external audit colleagues working on the NHS Fife audit have concluded their review of the internal audit function provided by FTF. This included a review of

the range and quality of work carried out by internal audit including reporting requirements. Overall, they concluded that FTF generally complies with the PSIAS and that appropriate documentation standards and reporting procedures are in place. We have relied on this work for our own purposes.

25. PSIAS require that internal audit carry out an external self-evaluation every five years. This was required by 31 March 2018 but was not completed on time. An arrangement is in place with Midlothian Council's internal audit function to carry out the external evaluation and this is expected to be completed by December 2018. This does not impact on our view on the quality of the internal audit services or the areas where we can place reliance on their work.

Using the work of internal audit

26. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

27. From our initial review of internal audit plans, we do not plan to place any formal reliance on the work of internal audit when forming our opinion on the financial statements. However, we will consider the outcomes of this work and review internal audit's arrangements for supporting the Annual Governance Statement reported in the annual accounts.

28. In respect of our wider dimensions audit responsibilities, we plan to consider the following area of internal audit work:

- Performance management and reporting
- Risk Management
- Management of savings programme
- Financial management
- Information assurance and security.

Audit dimensions

29. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

30. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

Financial management

31. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

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

Governance and transparency

32. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether NHS Forth Valley can demonstrate that the governance arrangements in place are appropriate and operating effectively

- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

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

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

Independence and objectivity

34. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

35. The engagement lead (i.e. appointed auditor) for NHS Forth Valley is John Cornett, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of NHS Forth Valley.

Quality control

36. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

37. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

38. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

NHS Forth Valley Valley

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If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

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