

# NHS Greater Glasgow and Clyde

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for NHS Greater Glasgow and Clyde  
February 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 Greater Glasgow and Clyde 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 Greater Glasgow and Clyde 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 Greater Glasgow and Clyde. 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
<b>Financial statements issues and risks</b>		
<p>1 <b>Risk of management override of controls</b></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"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> <li>• Substantive testing of transactions after the year end, to confirm expenditure and income have been accounted for in the correct year.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>2 Risk of fraud over income</b></p> <p>NHS Greater Glasgow and Clyde receives a significant amount of income from several sources including Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>NHSGGC has robust systems in place to prevent and detect fraud.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> <li>• Obtain assurances from the NHS Scotland Counter Fraud Service.</li> </ul>
<p><b>3 Risk of fraud over expenditure</b></p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure. NHS Greater Glasgow and Clyde incurs significant expenditure on a range of activities which will require audit coverage.</p>	<p>NHSGGC has robust systems in place to prevent and detect fraud.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of expenditure transactions focussing on the areas of greatest risk.</li> <li>• Obtain assurances from the NHS Scotland Counter Fraud Service.</li> </ul>
<p><b>4 Estimation and judgements</b></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. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Any judgement in the measurement and valuation of the material account areas of non current assets and provisions are based on documented reasoning.</p> <p>This will be presented as part of the audit.</p>	<ul style="list-style-type: none"> <li>• Completion of 'review of the work of an expert for the professional valuer.</li> <li>• Review of information provided by the Central Legal Office.</li> <li>• Focussed substantive testing on values and balances which are derived by valuation and estimation, including accruals and provisions.</li> </ul>
<p><b>5 Integration Joint Boards</b></p> <p>In both 2016/17 and 2017/18, the IJB figures for incorporation into the NHS Greater Glasgow and Clyde group accounts were received later than planned. The board should agree a timetable and approach for obtaining IJB figures for consolidation and assurances required for the group governance disclosures.</p> <p>There is a risk that the Board's accounts do not include the necessary consolidation adjustments and are delayed if the financial information is received late.</p>	<p>The IJBs will use a consistent template for the 2019/20 accounts.</p> <p>The IJB CFOs are aware of the timescales for draft accounts and have provided an undertaking to deliver.</p>	<ul style="list-style-type: none"> <li>• We shall seek assurances from the appointed external auditor at each IJB ad liaise as appropriate.</li> <li>• We will obtain assurances from the Board's Director of Finance for the group governance disclosure.</li> <li>• Specific group account testing will assess the appropriateness of consolidation transactions.</li> <li>• We will review arrangements within the board for gaining assurances throughout the year around IJB balances, budgets and performance.</li> </ul>
<p><b>6 Road Traffic Accident</b></p> <p>During 2016/17 new guidance was issued in relation to how RTA income should be reflected in the financial statements. In 2017/18, the board recognised an accrual of income based on cash received for the last three months of the year rather than claims made. Furthermore, no</p>	<p>Additional information has now been received and a process established to ensure the accrual is materially correct.</p>	<ul style="list-style-type: none"> <li>• Early discussions with finance officers in order to determine what processes have been put in place to appropriately record claims pursued on the board's behalf.</li> <li>• Review of established processes.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>corresponding bad debt provision or bad debt write off has been calculated although recommended by the guidance.</p> <p>The board should ensure that an appropriate process is in place for the recording of details processed in relation to the Injury Recovery Scheme, otherwise there is a risk that income is misstated within the financial statements.</p>		<ul style="list-style-type: none"> <li>• Substantive testing of the board's RTA income and debtor figures and associated provisions.</li> </ul>
<b>Wider dimension issues and risks</b>		
<p><b>5 Financial sustainability</b></p> <p>NHS Greater Glasgow and Clyde's financial plan for 2018/19 identified a savings requirement of £93 million. At month 6, the board are projecting a year end £20 million deficit.</p>	<p>At month 10 the Board are predicting a £2.5m deficit and have achieved a significant level of savings through the FIP.</p>	<ul style="list-style-type: none"> <li>• Monitor updates to the Financial Plan and the ongoing financial position.</li> <li>• Review the monthly financial returns to the SGHSCD.</li> <li>• Review the financial monitoring reports to the board, acute services committee and finance and planning committee.</li> <li>• Attendance at the Finance and Planning committee.</li> <li>• Test a sample of transactions substantively before and after the year end to confirm expenditure and income has been accounted for in the correct financial year.</li> </ul>
<p><b>6 Financial Capacity</b></p> <p>Over the past year the Health Board has experienced staffing changes within the finance function. These changes affect officers involved in the preparation of the financial statements and the subsequent audit process.</p> <p>The board should ensure that the finance function is appropriately resourced and that effective succession planning arrangements are in place.</p> <p>There is a risk that the finance department is not sufficiently resourced in terms of time, experience and knowledge to support the preparation of the financial statements.</p>	<p>Similar to any large organisation, the Finance Function experiences an average rate of staff turnover. Succession plans are in place for every key role, however an inherent level of risk remains.</p> <p>At the time of drafting this document, the finance function is sufficiently resourced.</p>	<ul style="list-style-type: none"> <li>• We shall have early discussion with officers regarding the annual accounts timetable. Discussions will continue throughout the course of the audit.</li> <li>• We will issue a working paper checklist to outline requirements and agree timescales for the receipt of unaudited accounts and working papers.</li> </ul>
<p><b>7 Performance</b></p> <p>The board continues to face difficulties in achieving all of its key performance targets. There is a risk that due to financial pressures and</p>	<p>There is currently a significant amount of work underway examining a range of different aspects</p>	<ul style="list-style-type: none"> <li>• Monitor the regular performance reporting to the board and committees.</li> <li>• Attendance at the Acute Services Committee.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	competing priorities, performance targets are not met.	of our Acute activity, including capacity, patient flows, theatres etc.	
		This also takes account of the IJBs commissioning intentions, and included measuring the value of investments.	
		This will manifest itself in the drafting of the Annual Operational Plan.	

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](http://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 Greater Glasgow and Clyde, 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	Committee Date
Annual Audit Plan	28 February 2019	11 December 2018
Management Report	30 April 2019	12 March 2019
Annual Audit Report	28 June 2019	18 June 2019
Independent Auditor's Report	28 June 2019	25 June 2019

Source: Audit Scotland

## Audit fee

**9.** The agreed audit fee for the 2018/19 audit of NHS Greater Glasgow and Clyde is £391,460 [£391,570]. In determining the audit fee we have taken account of the risk exposure of NHS Greater Glasgow and Clyde, 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 13 May 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 and Risk 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.** Our audit team membership has changed since last year. The appointed auditor from January 2019 will be John Cornett.

# 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 Greater Glasgow and Clyde 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 Greater Glasgow and Clyde 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 management commentary, annual 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 Greater Glasgow and Clyde are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values

Materiality	Amount
<b>Planning materiality</b> – 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 2019 based on the month 5 FPR.	£32 million
<b>Performance materiality</b> – 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 50% of planning materiality.	£16 million
<b>Reporting threshold (i.e., clearly trivial)</b> – 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 1% of planning materiality.	£250 thousand

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	13 May 2019
Latest date for final clearance meeting with Director of Finance	11 June 2019
Issue of Letter of Representation and proposed independent auditor's report	14 June 2019
Agreement of audited unsigned annual accounts	13 June 2019
Issue of Annual Audit Report to those charged with governance	14 June 2019
Independent auditor's report signed	27 June 2019

### Internal audit

23. Internal audit is provided by Scott Moncrieff. 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). We will report any significant findings to management on a timely basis. The review of Internal Audit is currently being completed.

## Using the work of internal audit

**24.** 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.

**25.** From our initial review of internal audit plans we plan to place formal reliance on internal audit work in the following areas:

- Financial systems health check
- Payroll
- Financial planning and budget monitoring

## Audit dimensions

**26.** 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

**27.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

### Financial sustainability

**28.** 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

- whether NHS Greater Glasgow and Clyde can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### Financial management

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

### Governance and transparency

**30.** 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 Greater Glasgow and Clyde 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

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

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

### Independence and objectivity

**32.** 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.

**33.** The engagement lead (i.e. appointed auditor) for NHS Greater Glasgow and Clyde is John Cornett. Auditing and ethical standards require the appointed auditor, John Cornett, 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 Greater Glasgow and Clyde.

## Quality control

**34.** 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.

**35.** 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.

**36.** 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 Greater Glasgow and Clyde

## Annual Audit Plan 2018/19

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](mailto:info@audit-scotland.gov.uk)

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