

# NHS National Services Scotland

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for NHS National Services Scotland  
December 2018

## Who we are

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

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



## About us

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

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

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

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan 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 National Services Scotland (NHS NSS) 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 National Services Scotland 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 National Services Scotland. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit activity, 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><b>1 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> </ul>
<p><b>2 Risk of fraud</b></p> <p>ISA 240 requires the auditor to presume that there are risks of fraud in revenue recognition. NHS National Services Scotland</p>	<p>Effective budget monitoring by management.</p> <p>Internal audit and service audit coverage of internal controls.</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on income streams.</li> <li>• Review of contracts and agreement to actual spend</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>receives a significant amount of income in addition to Scottish Government funding. The Board's share of non-SG sources of income continues to increase. The extent and complexity of income means that, in accordance with ISA240, we have planned audit procedures in response to the assessed risk.</p>	<p>Regular monitoring of National Fraud Initiative and NHS NSS fraud monitoring reports.</p>	<ul style="list-style-type: none"> <li>Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>
<b>3</b>	<p><b>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>		<ul style="list-style-type: none"> <li>Completion of 'review of the work of an expert' for the relevant professional valuer.</li> <li>Focused substantive testing of key areas to valuation certificates/ provision assumptions.</li> <li>Review of accounting policies to ensure they are reasonable and appropriately applied.</li> </ul>
<b>4</b>	<p><b>Financial statements preparation</b></p> <p>The timetable proposed for the preparation and audit of the financial statements is very challenging. In 2017/18 pressure on timetables meant ARC's opportunity for scrutiny of the accounts and associated audit reporting was compressed. The June ARC meeting date has been set for a week earlier than last year.</p>		<ul style="list-style-type: none"> <li>We will supply agreed working papers checklist to finance staff in advance of the financial statements audit to clarify our requirements</li> <li>We will review the proposed automation of aspects of accounts preparation (drawing data directly from source systems)</li> <li>We will keep progress against the proposed timescale under review and highlight any delays as they arise.</li> </ul>
<b>Wider dimension issues and risks</b>			
<b>5</b>	<p><b>Financial sustainability</b></p> <p>In addition to delivering savings of 5% against its own 2018/19 baseline budget, NHS National Services Scotland must contribute to an additional £15 million savings to be made by the national boards. These savings are intended to be made through collaboration and transformation, but there is limited evidence to date of successful collaboration or service transformation. Non-recurring savings are now being used to deliver savings, which is not a sustainable approach.</p>		<ul style="list-style-type: none"> <li>Review of financial monitoring reports on progress in achieving savings</li> <li>Review of national boards' collaboration on developing new/transformational ways of working. We will work with the other auditors of national boards to scope this work.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>6 Financial management and governance of funds managed on behalf of the NHS</b></p> <p>We reported in our 2017/18 Annual Audit Report that NHS National Services Scotland's action plan in relation to eHealth funds set out important improvements to its scrutiny of funds managed on behalf of NHS Scotland, including improved financial reporting to the Finance, Procurement and Performance Committee and Board.</p> <p>These actions have had several months to bed down and the Board will need to demonstrate that it has delivered these improvements.</p>	<p>Finance reporting to the Finance, Procurement and Performance Committee and Board.</p>	<ul style="list-style-type: none"> <li>• Review of implementation of governance and financial management improvement actions. We will coordinate with internal audit to avoid duplication in this area.</li> </ul>
<p><b>7 ICT contract management</b></p> <p>The Board is responsible for signing national contracts on behalf of NHS Scotland, including major ICT contracts expected to be approved and started during 2018/19. We reported in our 2017/18 Annual Audit Report that NHS National Services Scotland did not formally document its overall framework for ICT contract procurement and management, placing reliance on "corporate memory". This approach creates the risk that procurement knowledge may be lost, and benefits of previous contract procurement may not be fully realised.</p> <p>Given the collapse of several large public sector suppliers and NHS National Services Scotland's use of a number of key suppliers, particularly in ICT, there is a risk that the Board's operations will be adversely impacted if there is a failure in any of the key suppliers.</p>		<ul style="list-style-type: none"> <li>• Continued review of the Board's ICT contract management arrangements, building on our 2017/18 audit work and following up last year's recommendations. We will coordinate with internal audit to avoid duplication in this area.</li> <li>• Review of risks and mitigating business continuity arrangements around systems supported by key suppliers e.g. ATOS</li> <li>• Ongoing monitoring of financial position in respect of suppliers under framework agreements.</li> <li>• Review NHS NSS's arrangements for ongoing financial, performance and failure risk assessment of significant suppliers.</li> </ul>
<p><b>8 UK withdrawal from the EU</b></p> <p>Due to uncertainties around the UK's withdrawal from the European Union (EU) in March 2019 and its possible effect on trade and custom rules; there is a risk that NSS's supply chains</p>		<ul style="list-style-type: none"> <li>• Assessment of the reasonableness of NHS NSS's preparation for the impact of the UK's withdrawal from the EU.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>will be impacted and this will have an adverse effect on the procurement of vital supplies from EU countries affecting NSS's ability to deliver vital services.</p> <p>Additional inventories may be stockpiled to avoid any delays in the supply chain. Inventories is already a material balance in the financial statements; stockpiling could mean that normal methods of procuring and storing inventories will be stretched.</p>		<ul style="list-style-type: none"> <li>Review of accounting for stockpiling including treatment of balances.</li> <li>Review of stock check arrangements, loss prevention measures and security over stock.</li> </ul>
<b>9</b>	<p><b>Public Health Scotland</b></p> <p>The Scottish Government's December 2016 "Health and Social Care Delivery Plan" announced the creation, by 2019, of a new national public health body. The Scottish Government confirmed that some staff and services from NHS National Services Scotland would transfer to the new body. NHS NSS needs to manage this transition and its impact on services and staff who will transfer to the new body, and those who do not. The new body is now expected to be established in December 2019.</p>	<p>Programme management methodology applied; Programme director appointed with reports regularly presented to the Board.</p> <p>Staff engagement events.</p> <p>Engagement with stakeholders and involvement in completion of commissions.</p>	<ul style="list-style-type: none"> <li>Continued review of the Board's preparations for the transfer of services and people to the new body, building on our 2017/18 audit work.</li> </ul>

## 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 National Services Scotland, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and 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
Interim Management Report	18 March 2019	29 March 2019
Service Audit Assurance Letter	31 May 2019	14 June 2019
National Fraud Initiative Questionnaire	30 June 2019	N/A
Annual Audit Report	30 June 2019	14 June 2019
Independent Auditor's Report	30 June 2019	N/A

### Audit fee

**9.** The proposed audit fee for the 2018/19 audit of NHS National Services Scotland is £181,480 (2017/18 £181,530). In determining the audit fee we have taken account of the risk exposure of NHS National Services Scotland, 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 report and 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 report and 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 report and 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 report and 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.

# Audit scope and timing

## Annual report and accounts

**15.** 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 National Services Scotland 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 National Services Scotland 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.

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

- give a true and fair view of the state of the board's affairs as at 31 March 2019 and of its 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.

## Other information in the annual report and accounts

**17.** We also review and report on other information published within the annual report and accounts including the management commentary, annual governance statement and the remuneration and staff 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.

**18.** 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

**19.** 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.



characteristics



responsibilities



principal activities



risks



governance arrangements

20. We calculate materiality at different levels as described below. The calculated materiality values for NHS National Services Scotland 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 6 (September 2018) forecast outturn for 2018/19.	£7.7 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.	£3.8 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 (rounded).	£80,000

### Timetable

21. 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 report and accounts with complete working papers package	29 April 2019
Latest date for final clearance meeting with Director of Finance and Business Services	31 May 2019
Issue of letter of representation and proposed independent auditor's report	3 June 2019
Agreement of audited unsigned annual report and accounts	14 June 2019
Issue of Annual Audit Report to those charged with governance	14 June 2019
Independent auditor's report signed	28 June 2019

### Internal audit

22. Internal audit is provided by KPMG LLP. 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 concluded that, with the exception noted below, internal audit operates in accordance with PSIAS and has sound documentation standards and reporting procedures in place.

**23.** KPMG LLP is yet to meet one of the requirements of PSIAS, which requires internal audit to have an external review of PSIAS compliance at least once every 5 years (PSIAS 1312). PSIAS came into effect on 1 April 2013 so all internal audit functions should have been reviewed by 2018. As reported in our 2017/18 Annual Audit Report, KPMG confirmed that this review will take place during 2018/19. Our review of internal audit does not constitute an external assessment for the purposes of PSIAS and should not be considered as such.

### 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. There are areas where both we and internal audit plan to carry out some work, building on last year's audit work on ICT contract management and preparations for the new public health body. We will coordinate with internal audit on audit timing and scope to avoid duplication.

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

- Financial controls – reviewing the automation of financial controls
- Property transaction monitoring

**26.** In respect of our wider dimension audit we will take account of other areas of internal audit work, including:

- Workforce planning
- Jack Copland Centre
- Digital Transformation
- New Public Health Body
- Information Security Management System
- Information Technology - Service management delivery
- Customer Engagement and Development
- Transformational Change Programme

**27.** In addition, we plan to place some reliance on the 2016/17 Treasury and Accounts Receivable work.

### Audit dimensions

**28.** 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

**29.** 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

**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 consider:

- 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 National Services Scotland can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

#### 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 consider:

- whether NHS National Services Scotland has arrangements in place to ensure systems of internal control are operating effectively
- whether NHS National Services Scotland can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how NHS National Services Scotland has assured itself that its financial capacity and skills are appropriate
- whether NHS National Services Scotland 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 consider:

- whether NHS National Services Scotland 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.

**33.** NHS National Services Scotland is participating in the two-yearly National Fraud Initiative (NFI) exercise 2018/19. We will monitor the Board's participation and progress in investigating recommended data matches from 2018/19 into 2019/20. We will complete an audit questionnaire on the Board's progress by June 2019; another questionnaire is expected next year for the second year of the NFI exercise, to inform the national NFI report.

## Value for money

**34.** Value for money refers to using resources effectively and continually improving services. We will consider:

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

## Independence and objectivity

**35.** 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.

**36.** The engagement lead (i.e. appointed auditor) for NHS National Services Scotland is Mark Taylor, Audit Director. Auditing and ethical standards require the appointed auditor Mark Taylor 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 National Services Scotland.

## Quality control

**37.** 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.

**38.** 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.

**39.** 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 National Services Scotland

## 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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