

NHS Tayside

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for NHS Tayside
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 Tayside 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 Tayside 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 Tayside. 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>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<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 after the year end to confirm expenditure and income has been 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 Tayside receives a significant amount of income from several sources other than Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> Budget monitoring by management. Internal control processes built into systems utilised by the board. Fraud reports are regularly monitored and information across Scotland is routinely shared. There are a range of measures in place to prevent and detect fraud, including Standing Financial Instructions, Standing Orders and a Code of Conduct for Staff which incorporates both whistleblowing and fraud policies. 	<ul style="list-style-type: none"> Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk.
<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 (excluding payroll costs which are already a core part of all annual audits). NHS Tayside incurs significant expenditure, including expenditure on family health services, which require audit coverage.</p>	<ul style="list-style-type: none"> Budget monitoring by management. Internal control processes built into systems utilised by the board. Fraud reports are regularly monitored and information across Scotland is routinely shared. There are a range of measures in place to prevent and detect fraud, including Standing Financial Instructions, Standing Orders and a Code of Conduct for Staff which incorporates both whistleblowing and fraud policies. 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 on family health service contractor payments. The board participates in the National Fraud Initiative. 	<ul style="list-style-type: none"> Walk-through of controls over family health service expenditure. Detailed testing of revenue transactions focusing on the areas of greatest risk. Audit work on the National Fraud Initiative matches. Obtain assurances from the Counter Fraud Service reports.
<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. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> Non-current asset base is reviewed on a rolling programme by the board's independent valuers. Information is received from the Office of National Statistics, HM Treasury, the Scottish Public Pension Agency and the Central Legal 	<ul style="list-style-type: none"> Completion of 'review of the work of an expert' for the professional valuer. Review of information provided by the Office of National Statistics, HM Treasury, the Scottish Public Pension Agency and the Central Legal Office.

 Audit Risk	Source of assurance	Planned audit work
	Office which form the basis of the provisions calculations.	<ul style="list-style-type: none"> • Focused substantive testing of assets and provisions.
<p>5 Going concern</p> <p>NHS Tayside continues to face significant financial challenges and has required brokerage from the Scottish Government since 2012/13. NHS Tayside's 2018/19 financial projections indicate it could need as much as £22.5 million brokerage in 2018/19.</p> <p>NHS Tayside's annual report and accounts are prepared on a going concern basis, based on Scottish Government's ongoing funding commitment to the board.</p> <p>There is a risk that NHS Tayside may be unable to contain its net expenditure going forward and that the Scottish Government will be unwilling to provide further brokerage. This creates uncertainty that the board will remain as a going concern.</p>	<ul style="list-style-type: none"> • The Financial Plan for 2019/20 is currently under development and following further discussions with the Scottish Government will be presented to the NHS Tayside Board on 28 February 2019. This will form the first year of the NHS Tayside Three Year Financial Plan that will be discussed at the Board meeting in April 2019. • The board monitors its financial outturns with the aim of achieving its projections. The board is also in regular dialogue with the Scottish Government. 	<ul style="list-style-type: none"> • Review the board's assurances to support a going concern assumption for the preparation of the annual report and accounts. • Review the funding assurances to the board from the Scottish Government.
<p>6 Submission of annual report and accounts for audit</p> <p>Much of the annual report part of the 2017/18 draft annual report and accounts i.e. the Performance Report; Accountability Report; and Governance Statement, were not fully available by the agreed dates. In addition, IJB results were not available to NHS Tayside for consolidation into the Group Accounts until 1 June 2018. Consequently, the audit process was delayed.</p> <p>There is a risk that the 2018/19 annual report and accounts may not be audited by the statutory deadline of 30 June 2019.</p>	<ul style="list-style-type: none"> • Senior leadership commitment to annual report and accounts preparation. • Board finance officers are liaising with their local government colleagues regarding the timetable for IJB draft accounts. • The board will provide annual report and accounts and relevant working papers by agreed timescales. 	<ul style="list-style-type: none"> • Continue to meet with finance officers throughout the year to agree the timetable for receipt of the unaudited annual report and accounts and working papers to ensure statutory audit deadline is met.
<p>7 Governance statement</p> <p>The Chief Executive reported in the 2017/18 Governance Statement that he was "not able to conclude, taking into account the governance framework and the assurances and evidence received from the Board's</p>	<ul style="list-style-type: none"> • The Board will undertake a self-assessment of its governance arrangements against the NHS Scotland Governance Blueprint by 31 March 2019. • The board will provide assurance that the governance 	<ul style="list-style-type: none"> • Review the outcome of the assessment against the NHS Scotland Governance Blueprint. • Review the 2018/19 Governance Statement, including the assurances provided to the Chief Executive and the

 Audit Risk	Source of assurance	Planned audit work
<p>committees, that corporate governance was operating effectively throughout the financial year ended 31 March 2018.”</p> <p>There is a risk that the 2018/19 governance framework will not provide the assurances needed by the new Chief Executive to conclude positively on NHS Tayside’s governance arrangements in place for 2018/19.</p>	<p>framework is operating effectively.</p> <ul style="list-style-type: none"> Internal audit has undertaken an independent review of the internal control framework. The Assurance and Advisory Group has undertaken further reviews and reported on its findings in relation to the progress the Board has made during 2018/19. 	<p>supporting evidence for the Governance Statement.</p> <ul style="list-style-type: none"> Consider compliance with the Audit Scotland governance guidance note on openness and transparency. Review internal audit report T06-19: annual internal audit. Report progress with implementation of the requirements of the new Audit and Assurance Committee Handbook.
<p>8 Tayside Endowment Fund</p> <p>In April 2018 the Board agreed to repay £3.6 million to NHS Tayside Endowment Fund (Health Fund). Officers advised the Board in December 2018 that the payment was to be made in December 2018 via a revenue grant, under existing legislative powers and that the Scottish Government had confirmed that it had no concerns with the payment to the Health Fund.</p> <p>This is an unusual transaction which leads to a risk that it is not properly accounted for.</p>	<ul style="list-style-type: none"> Scottish Government Health Finance advice was obtained which confirmed they have no concerns with the payment. Independent VAT advice was obtained, which confirmed the payment will be out with the scope of VAT and will not carry a VAT liability. The Board has been assured that the payment was made under existing legislative powers. 	<ul style="list-style-type: none"> Review the advice for the legislative basis for grant payment to the Health Fund. Review the Scottish Government confirmation. Review the VAT advice provided. Consider the findings of The Office of the Scottish Charity Regulator (OSCR) formal inquiry into the use of funds by the Tayside NHS Board Endowment Fund. The OSCR inquiry was due to report at the end of November 2018. Review the accounting treatment of the repayment.
<p>9 Former Chief Executive departure costs</p> <p>During 2018/19 NHS Tayside signed a settlement agreement with its former Chief Executive who left the employment of NHS Tayside on 31 July 2018. Our Management Report on this issue is scheduled to be presented to the 24 January 2019 Audit Committee.</p> <p>In error, as part of the settlement £19,135 was paid to the Scottish Public Pensions Agency (SPPA). The board said that it intended to recover this amount in 2018/19, despite advice from the Central Legal Office (CLO) that this should not be reclaimed.</p>	<ul style="list-style-type: none"> The Audit Committee considered the findings of the review in December as part of the s22 report. The remuneration committee formally approved the contractual settlement, including the change to the former Chief Executive’s notice period on 15 November 2018. The overpayment has been recovered as part of the normal reconciliation process of over and under payments of pension contributions made to the SPPA. 	<ul style="list-style-type: none"> Our management report on the departure costs will be presented to the Audit Committee. Review any year-end adjustments with the SPPA. Report on the recovery process.

	Audit Risk	Source of assurance	Planned audit work
	<p>There is a risk that the board is unsuccessful in its claim.</p>		
10	<p>DBFM project – NHS Scotland pharmaceutical specials service hub</p> <p>During 2018/19 the construction phase of the NHS Scotland Pharmaceutical Specials Service HUB (DBFM) project is likely to be completed before the financial year end, resulting in the formal handover to NHS Tayside.</p> <p>HUB projects are accounted for in accordance with HM Treasury application of IFRIC 12, Service Concession Arrangements as detailed in the FReM.</p> <p>There is a risk that the accounting treatment is applied incorrectly which could have a material impact on the financial statements.</p>	<ul style="list-style-type: none"> The FReM will be reviewed to ensure the annual accounts reflects the accounting requirements. Recognition of assets and liabilities in financial statements supported by service concession model breaking down payments into constituent parts. 	<ul style="list-style-type: none"> Review the accounting treatment and underlying models for the NHS Scotland Pharmaceutical Specials Service HUB (DBFM).

Wider dimension issues and risks

11	<p>Leadership and governance</p> <p>During 2018/19 there has been significant change in the executive, non-executive and senior leaders' cohorts at NHS Tayside. There have also been significant changes to committee membership, including the committee chairs.</p> <p>Alongside this, in response to the governance weaknesses reported in the 2017/18 Governance Statement, extensive new governance structures are being developed at the board.</p> <p>There is a risk that leadership and governance arrangements are not effective in the short to medium term as the new executive, non-executive and senior leaders' cohorts' roles and governance arrangements become established.</p>	<ul style="list-style-type: none"> A non-executive induction plan and induction workshops have or will be provided to all new non-executives. Non-executives have or will be attending other external training, such as the essential governance training for Board members and effective audit and risk committee training. The vice chair has established regular informal meetings for members starting 5 February 2019. Bespoke governance training for non-executive members by 31 May 2019. Non-executive appraisal to be completed by 31 March 2019. Once the recruitment of new non-executives is completed, the Board's skill matrix will be reviewed and mapped against the Board's future requirements. An implementation plan has been developed for the Leadership Programme which includes outcomes required and measures to be used to determine success. The Staff 	<ul style="list-style-type: none"> Continue to attend Board and committee meetings and consider the operation and scrutiny of the new committee arrangements. Monitor implementation of collective leadership programme to the Staff Governance Committee, including consideration of how performance appraisals for executive officers are conducted. Review the Remuneration Committee and the Staff Governance Committee annual assurance reports to the Board. Review internal audit's report T08/19: internal control evaluation and T06/19: annual internal audit.
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 Audit Risk	Source of assurance	Planned audit work
	<p>Governance Committee will provide scrutiny of the Collective Leadership Programme and report progress to the Board at regular intervals.</p>	
<p>12 Financial sustainability, transformation and integrated clinical strategy</p> <p>In December 2018, the Auditor General reported (for the fourth year in a row) to the Public Audit and Post-Legislative Committee on NHS Tayside's unsustainable and worsening financial position and deteriorating performance.</p> <p>The Board need to urgently set out how it intends to achieve service reform to deliver services in the future. Implementation of a clinical strategy is a key foundation for this. Of particular importance for our assessment of the sustainability of the board is its progress with workforce planning and management of prescribing costs.</p>	<ul style="list-style-type: none"> • In 2017/18 the board's approach to transformation to meet its financial challenges was reviewed. The Board was due to discuss an update on progress, including the development of its clinical strategy in December, this was not achieved. • The latest version of the Transforming Tayside plan will be considered by the Board in February 2019 and reviewed again in April 2019. • Progress with the transformation programme is monitored by the Scottish Government appointed Assurance and Advisory Group. • The Financial Plan for 2019/20 is currently under development and following further discussions with the Scottish Government will be presented to the NHS Tayside Board on 28 February 2019. This will form the first year of the NHS Tayside Three Year Financial Plan that will be discussed at the Board meeting in April 2019. • Internal audit plan to undertake audit work on the transformation programme. 	<ul style="list-style-type: none"> • Monitor the development of the Board's financial plan. • Review financial monitoring reports and the financial position. • Monitor transformation programme progress, including the Assurance and Advisory Group update reports. • Review progress in the development of: the integrated clinical strategy; the workforce plan; and management of prescribing costs. • Review internal audit's reports T08/19: review internal control evaluation and T15/19: three-year transformation plan.
<p>13 Financial management</p> <p>The board is yet to finalise its 2019/20 financial plan and no medium term plans are in place. Without effective medium to long term planning, the board may not plan adequately to respond to the significant financial risks.</p>	<ul style="list-style-type: none"> • The Financial Plan for 2019/20 is currently under development and following further discussions with the Scottish Government will be presented to the NHS Tayside Board on 28 February 2019. This will form the first year of the NHS Tayside Three Year Financial Plan that will be discussed at the Board meeting in April 2019. • Implications of EU withdrawal has been considered by the Executive Leadership Team. Steps will be taken to develop a contingency plan as soon as 	<ul style="list-style-type: none"> • Review the Financial Plan 2019/20 to 2021/22 once available. • Review financial monitoring reports and the financial position for 2018/19.

 Audit Risk	Source of assurance	Planned audit work
<p>14 Financial capacity</p> <p>In our 2016/17 and 2017/18 annual audit reports we reported issues related to the capacity and capability of the finance directorate. In addition, over the course of 2018 the finance directorate experienced significant change and upheaval at senior levels, including the appointment of a new Director of Finance, whose role is split between NHS Tayside and NHS Grampian.</p> <p>There is a risk that until the new finance directorate structure is operational the finance directorate is stretched in supporting the day to day financial activities, the transformation programme and the production and quality of the 2018/19 annual report and accounts.</p>	<p>the Scottish Government's funding plans are clearer.</p> <ul style="list-style-type: none"> The Director of Finance has reported to the Audit Committee in September and December 2018 on progress to implement the new senior management structure, which will support the single integrated finance team (across NHS Tayside and NHS Grampian). A steering group has been established with respective Human Resource advisors and staff side representatives in both boards in line with the organisational change processes and respective policies. The proposed structure has been developed and job descriptions prepared and graded by the National Evaluation Committee. It is anticipated the interviews and appointments to the new roles will be completed in February 2019. 	<ul style="list-style-type: none"> Monitor developments with the finance directorate. Continue to meet with finance officers throughout the year to ensure the statutory audit deadline is met.
<p>15 Risk management</p> <p>Risk management arrangements were strengthened in 2018 but the December 2018 Audit Committee considered the Risk Management Mid-Year Review report, that acknowledges further work is required to focus on risk assurance through risk mitigation and robust effective actions.</p> <p>There is a risk that until the revised risk management arrangements are fully developed and embedded the arrangements are not effective.</p>	<ul style="list-style-type: none"> An updated strategic risk register and refreshed Board Assurance Framework is planned for the February 2019 Board meeting. The Audit Committee's remit is being reviewed in line with the revised Audit and Assurance Committee Handbook. The relationship between the Strategic Risk Management Group and the Audit Committee will be strengthened. Work to develop a comprehensive governance assurance map will be taken forward by the Director of Governance, Risk and Compliance working with internal audit during 2019/20. Internal audit is undertaking a review of the overall risk management arrangements. 	<ul style="list-style-type: none"> Monitor progress with the development of the risk management arrangements, including the operation of the Strategic Risk Management Group. Review the year end risk management report, including the year-end report from the Strategic Risk Management Group. Review internal audit report T11/19: Risk management when available.
<p>16 Integrated Joint Boards (IJBs)</p> <p>We have previously reported on 'inadequate' arrangements relevant to IJBs' governance</p>	<ul style="list-style-type: none"> Discussions regarding integration governance will be progressed under the leadership of the Working 	<ul style="list-style-type: none"> Review progress with the development of the health and social care integration risk

 Audit Risk	Source of assurance	Planned audit work
<p>arising from a lack of clarity of the impact of Health and Social Care Integration (HSCI) on the accountability structures in place and a number of elements of the Integration Schemes and risk management systems.</p> <p>Some progress has been made during 2018, however, fully clarified and understood governance arrangements, including those associated with risk management and risk ownership are required.</p> <p>Risks in relation to IJB related activities may not be fully understood and managed putting patient care at risk.</p>	<p>Together in Tayside Forum during 2019/20.</p> <ul style="list-style-type: none"> • There are regular scheduled meetings between the NHS and Local Authority Chief Executives, including engagement with the Chief Officers. • There are regular scheduled meetings between the NHS Tayside Director and Deputy Director of Finance and the IJB Chief Finance Officers. 	<p>management arrangements.</p> <ul style="list-style-type: none"> • Review internal audits report T19/19: HSCI. • Review the board's consideration of Audit Scotland's November 2018 national report on health and social care integration.
<p>17 Asset management</p> <p>NHS Tayside does not have a comprehensive or complete understanding of its asset base including: masterplans of its four main sites; site usage; building quality; and infrastructure requirements. Consequently, it does not have comprehensive estimates of the costs to maintain or develop its asset base, aligned to a clinical strategy.</p> <p>Current estimates for backlog and infrastructure maintenance work are £160 million.</p> <p>There is a risk that NHS Tayside efforts to reduce its cost base and deliver effective transformation are undermined in the absence of a robust asset management plan which is suitably aligned to an integrated clinical strategy and the transformation programme.</p>	<ul style="list-style-type: none"> • Officers reported to the Performance and Resources Committee in November 2018 that work had commenced to address this. • The previous Capital Scrutiny Group has been reconstituted as the Asset Management Group. The remit for this group includes actions taken in response to the Property and Asset Management Strategy (PAMS) and should in future help to strengthen the link between property and asset management and the financial planning process. • Update reports on asset management are scheduled for the February 2019 Board meeting. • The revised five year capital programme is to be presented for Board approval by 31 March 2019, following a comprehensive risk assessed prioritisation process to identify the key areas for investment. • Independent reviews of the four major sites have been commissioned to inform to support the planning for future service provision in line with the Transforming Tayside plan. 	<ul style="list-style-type: none"> • Monitor progress with the development of the asset management plan.
<p>18 Information governance</p> <p>Information governance remains a high risk on the board's corporate risk register and work</p>	<ul style="list-style-type: none"> • The Information Governance Committee (IGC) has an agreed Terms of Reference which were updated. From December 2018 the IGC will 	<ul style="list-style-type: none"> • Monitor progress with the management of risk in this area.

 Audit Risk	Source of assurance	Planned audit work
<p>in this area is ongoing. The Senior Information Risk Owner cannot, at this point in time, provide assurance that all possible controls are in place to control this risk and has noted that the board will be more informed of its exposure within this area once additional information/cyber security assessments are completed.</p> <p>Without an assurance that appropriate controls are in place there is a risk that systems could fail, leading to patient safety and quality of care issues and loss of personal data.</p>	<p>now report directly to the Audit Committee.</p> <ul style="list-style-type: none"> • Work is being progressed in conjunction with an external consultant to consider the risk relation to information security. 	<ul style="list-style-type: none"> • Monitor reporting to the Audit Committee. • Review internal audit's report T34/19: information assurance/ information security framework.
<p>19 eHealth</p> <p>During 2018 NHS Tayside undertook an external review of its eHealth service. The findings from this review indicate that the service faces significant challenges, ranging from: needing to develop a more strategic approach; needing to support the transformation programme; insufficient staff in place in key roles (in part from key members of staff retiring and not being replaced); and insufficient revenue and capital funding.</p> <p>There is a risk that the board fails to deliver and support business critical services if the eHealth service is not able to address the issues identified in the 2018 external review.</p>	<ul style="list-style-type: none"> • The Director of Governance, Risk and Compliance will be undertaking a review and redesign of the eHealth governance structures to provide a fit for purpose governance regime to support service provision and Transforming Tayside. The outcome of the review will be reported to the Audit and Assurance Committee. 	<ul style="list-style-type: none"> • Monitor progress with developments in this area. • Review internal audits reports T35/19: eHealth strategic planning and governance and T36/19: eHealth project management, development, procurement, implementation and training.
<p>20 Best Value</p> <p>NHS Board Accountable Officers have a specific responsibility detailed in the Scottish Public Finance Manual (SPFM).</p> <p>The board's 2017/18 governance statement noted that NHS Tayside had not met their SPFM responsibilities for the Accountable Officer to ensure that arrangements have been made to secure Best Value.</p> <p>NHS Tayside has yet to determine how it will deliver on</p>	<ul style="list-style-type: none"> • The Board's self-assessment of Board Effectiveness, to be completed in 2018/19, will include some aspects of Best Value arrangements. • Internal audit update on best value arrangements. • The Board's commitment to moving to a sustainable financial balance includes ensuring that resources are being effectively and efficiently deployed. 	<ul style="list-style-type: none"> • Monitor development in this area. • Review the 2018/19 governance statement and portfolio of evidence. • Review internal audit report T06/19: annual internal audit.

 Audit Risk	Source of assurance	Planned audit work
<p>the SPFM best value responsibility.</p> <p>There is a risk that the Accountable Officer is unable to discharge their best value SPFM responsibility.</p>		
<p>21 Public performance reporting</p> <p>We have previously recommended that the board should consider its arrangements for public performance reporting, including developing a performance page that local residents can access on the board's website, recommending also the performance page should be well sign posted. Our view is that this recommendation has not been fully implemented.</p> <p>There is a risk that key stakeholders, including local residents do not have easy access to composite and easily understood performance information.</p>	<ul style="list-style-type: none"> • As the board's performance management arrangements develop, reports will be made available and signposted on the NHS Tayside website. • The Board and Performance Resource Committee meetings at which performance is reviewed are open meetings and papers are available to the public. 	<ul style="list-style-type: none"> • Monitor developments in public performance reporting.
<p>22 Audit recommendations – implementation</p> <p>External audit</p> <p>During 2018/19 the board introduced an External Reports – Recommendations Tracker report which is now routinely presented to the Audit Committee. We welcome this important feature of good governance.</p> <p>However, our assessment of the report is that it presents an overly optimistic view of progress, in particular the sections related to our 2017/18 annual audit report recommendations. For example, some actions are noted as implemented as management has begun to take steps to address the risk. In our view this should only be classified as implemented when the risk has been fully addressed and the actions to address it are complete.</p>	<ul style="list-style-type: none"> • Management are continuing to review the process to provide appropriate assurances that actions are being implemented as intended. • Regular internal audit recommendation update reports are presented to the Audit Committee. 	<ul style="list-style-type: none"> • Meet with management to discuss the recommendation tracker and clarify progress and status of recommendations. • Review future recommendation trackers reports including reviewing evidence demonstrating progress. • Meet with internal audit to ensure management are implementing agreed recommendations.

 Audit Risk	Source of assurance	Planned audit work
<p>Internal audit</p> <p>During 2018/19, the process for following up internal audit recommendations has changed, in response to evidence that agreed recommendations were not being implemented by agreed timescales. Internal audit has taken over responsibility for this area and are progressing and developing a new process and reporting mechanism to the Audit Committee.</p> <p>There is a risk that improvement actions are not fully addressed if agreed audit recommendations are not fully and timeously implemented.</p>		

Source: Audit Scotland

Clinical governance

5. Clinical governance is the system through which the NHS works to monitor and improve the quality of the care and services they deliver. Health Improvement Scotland works to ensure that NHS boards have a clear and consistent approach to clinical governance in healthcare across Scotland. Audit Scotland's audit role is restricted to reporting on whether the board has governance arrangements that are appropriate and operating effectively, which includes the clinical governance arrangements.

6. The Sharing Intelligence Group is a partnership involving Healthcare Improvement Scotland, NHS Education for Scotland, the Care Inspectorate, the Scottish Public Services Ombudsman, the Mental Welfare Commission for Scotland, Public Health and Intelligence and Audit Scotland. The group meets periodically to discuss emerging issues at individual health boards as identified by the group members. The discussions of this group have been considered in planning our audit approach described in this plan.

Reporting arrangements

7. 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.

8. 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.

9. We will provide an independent auditor's report to NHS Tayside, 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.

10. 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 / Board Date
Annual Audit Plan	17 January 2019	24 January 2019
Management Report	29 April 2019	9 May 2019
Proposed Annual Audit Report *	13 June 2019	20 June 2019
Independent Auditor's Report	27 June 2019	27 June 2019 (Board date)

* The final Annual Audit Report cannot be submitted until after the independent auditor's report is signed.

Source: Audit Scotland

Audit fee

11. The proposed audit fee for the 2018/19 audit of NHS Tayside is £208,104 (2017/18: £192,896). In determining the audit fee, we have taken account of the risk exposure of NHS Tayside, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. The fee level reflects the amount of audit input required to cover audit work on the following:

- audit of the payments made to the board's former Chief Executive who left the board on 31 July 2018, a Management Report was issued to the board in December 2018.
- the significant number of governance and wider scope audit risks in the board described in Exhibit 1.

12. Our audit approach assumes receipt of the unaudited annual report and accounts, with the agreed working papers package on 6 May 2019 in accordance with the final agreed timetable. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts or slippage in the agreed timetable, 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

13. 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.

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

Appointed auditor

15. 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.

16. 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.

17. Details of the current audit team in [Appendix 1](#).

Audit scope and timing

Annual report and accounts

18. The annual report and 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 Tayside 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 Tayside 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.

19. 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 directions 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union, as interpreted and adapted by the 2018/19 Financial Reporting Manual (FRoM)
- 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

20. We also review and report on other information published within the annual report and accounts including the performance report, 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.

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

Materiality

22. 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



characteristics



responsibilities



principal activities



risks



governance arrangements

uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

23. We calculate materiality at different levels as described below. The calculated materiality values for NHS Tayside 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 0.5% of gross expenditure for the year ended 31 March 2019 based on the latest audited accounts for 2018.	£5.34 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 50% of planning materiality.	£2.67 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 1% of planning materiality.	£53,000
Cumulative errors and impact on financial targets – We are required to consider all monetary errors identified through the audit process (including those below the reporting threshold) and consider them against the board's financial targets. If the cumulative errors were to result in the board failing to achieve breakeven against its financial targets, this may result in a comment in the independent auditor's report.	n/a

Source: Audit Scotland

Timetable

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

Exhibit 4 Annual report and accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts (excluding group consolidation, performance report and accountability report) with complete working papers package	6 May 2019
Latest submission date of performance report and accountability report	15 May 2019
Latest submission date of consolidated unaudited annual report and accounts	20 May 2019
Latest date for final clearance meeting with Director of Finance	10 June 2019
Issue of Letter of Representation and proposed independent auditor's report	13 June 2019
Agreement of audited unsigned annual report and accounts	13 June 2019

**Key stage****Date**

Issue of proposed Annual Audit Report to those charged with governance	13 June 2019
Independent auditor's report signed	27 June 2019

Internal audit

25. FTF Audit and Management Services (FTF) provides internal audit services to a number of health boards, including NHS Tayside. 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 have concluded that internal audit, generally operates in accordance with PSIAS and has appropriate documentation standards and reporting procedures in place. PSIAS requires an external review of internal audit to be carried out once every five years, providing an independent assessment of the internal audit function against PSIAS.

26. In December 2018 the Audit Committee considered an independent review of internal audit services specific to NHS Tayside, carried out by the Institute of Internal Auditors (IIA). The report concludes that FTF generally conforms to the majority of the IIAs professional standard and notes that “this result places FTF in the mid-range of internal audit functions we have reviewed. It shows the basic requirements of the standards are in place but also that there is scope for improvement and development in terms of delivery.”

27. An improvement action plan has been agreed for the ten (out of sixty-four) areas where FTF partially conforms with the IIA standards, covering the arrangements for quality assurance and improvement, managing internal audit activity and engagement planning. The Audit Committee will receive reports on progress with the plan.

28. We reported on some slippage in the delivery of the overall internal audit plan in 2017/18. Internal audit resources had been redirected towards a number of emerging risks and working with board staff to respond to them. This, together with staff shortages within internal audit and pressures on management and staff to engage with and respond to internal audit queries, delayed some internal audit work. Due to the extent of the risk areas to be covered by internal audit at the board there is a risk that they will not deliver their 2018/19 audit plan. Progress against the plan will be monitored by the Audit Committee.

Using the work of internal audit

29. 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.

30. From our initial review of internal audit plans, we do not plan to place formal reliance on FTF work to support our financial statements audit opinion this year, but we do plan to use the work of internal audit in selected areas in respect of our wider dimension audit responsibilities.

Audit dimensions

31. 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

32. 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

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

Governance and transparency

34. 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 Tayside can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others)

- 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 and best value

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

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

36. The Chief Executive as Accountable Officer of the Board has a formal duty to ensure the achievement of Best Value in the delivery of services within Tayside. We will review the board's arrangements to ensure that there is evidence to demonstrate the extent to which this duty is being met.

37. In November 2018 Audit Scotland published [Health and Social Care Integration: Update on Progress](#), which identified that, while some improvements have been made to the delivery of health and social care services, Integration Authorities, councils and NHS boards need to show a stronger commitment to collaborative working to achieve the real long term benefits of an integrated system. We will review and report on the board's response to this report. NHS Tayside should ensure that it has considered the findings of this report and takes appropriate action to address the recommendations that are relevant to the board.

Independence and objectivity

38. Auditors appointed by the Auditor General or Accounts Commission 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.

39. The engagement lead (i.e. appointed auditor) for NHS Tayside is Fiona Mitchell-Knight, Audit Director. Auditing and ethical standards require the appointed auditor Fiona Mitchell-Knight 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 Tayside.

Quality control

40. 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.

41. 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.

42. 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.

Appendix 1: The audit team

The core audit team consists of the following staff and might be supported at peak times with additional resources to ensure key reporting deadlines are met:



Fiona Mitchell-Knight

Audit Director

✉ fmitchell-knight@audit-scotland.gov.uk ☎ 0131 625 1937

I am the appointed independent auditor established under the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice and guided by the auditing profession's ethical guidance.



Bruce Crosbie

Senior Audit Manager

✉ bcrosbie@audit-scotland.gov.uk ☎ 0131 625 1794

Bruce will have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly planned, resourced and concluded within time.



Anne Marie Machan

Senior Auditor

✉ amachan@audit-scotland.gov.uk ☎ 0131 625 1994

Anne Marie will lead the audit team and will be the main contact for the audit.



Euan Robertson

Auditor

✉ erobertson@audit-scotland.gov.uk ☎ 0131 625 1807

Euan will lead on distinct areas of audit work supporting the delivery of the audit.



Amber Ogilvie

Auditor (Trainee)

✉ aogilvie@audit-scotland.gov.uk ☎ 0131 625

Amber will work across a variety of core audit activities.

NHS Tayside

Annual Audit Plan 2018/19

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