

# NHS Borders

## Annual Audit Plan 2019/20



 AUDIT SCOTLAND

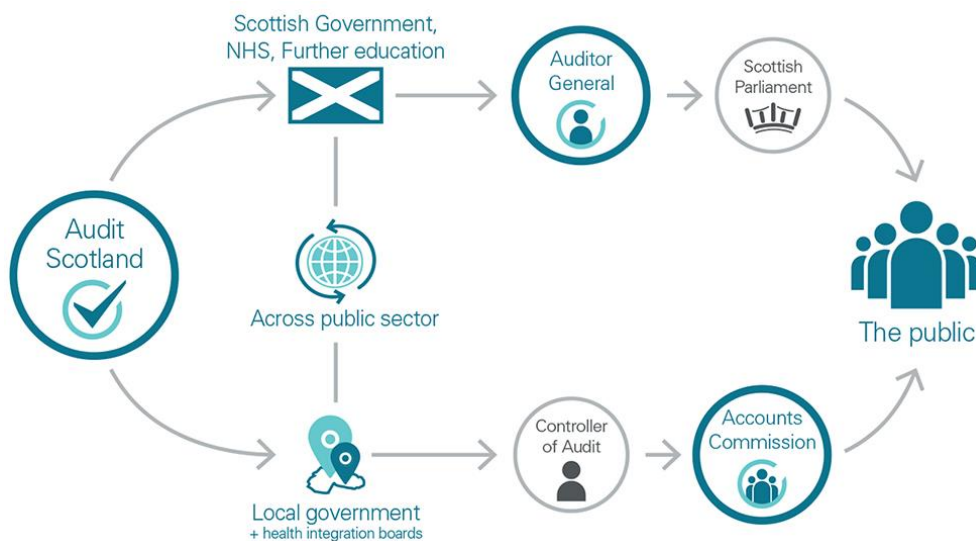
Prepared for Borders Health Board

December 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.

# Risks and planned work

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

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


## Adding value


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

## Audit risks


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

## Exhibit 1 2019/20 Significant audit risks


 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p>1 <b>Risk of material misstatement caused by management override of controls</b></p> <p>International Standards on Auditing (ISA) 240 require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes 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.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates and accounting policies.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>2 Risk of material misstatement caused by fraud in income and expenditure recognition</b></p> <p>NHS Borders receives income from several sources, in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud. Practice Note 10<sup>1</sup> expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure for public sector bodies which tend to have an overall net expenditure outturn.</p>	<p>Effective budget monitoring by management.</p> <p>Regular monitoring of national fraud reports.</p> <p>Participation in the National Fraud Initiative.</p> <p>Work of the Counter Fraud Group which oversees the Board's fraud arrangements.</p> <p>Counter Fraud Policy and Whistleblowing Policy in place.</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on income and expenditure streams.</li> <li>• Detailed testing of income and expenditure transactions focusing on the areas of greatest risk.</li> <li>• Review of NHS Borders' investigation of data matches for the National Fraud Initiative.</li> <li>• Reviewing counter fraud arrangements.</li> </ul>
<p><b>3 Risk of material misstatement due to estimation and judgement</b></p> <p>We have determined there is a significant degree of subjectivity in the measurement and valuation of the account areas: accruals and fixed assets. This subjectivity represents an increased risk of misstatement in the financial statements, particularly due to the continued financial pressures NHS Borders faces in 2019/20.</p>	<p>The Annual Accounts Sub Group will review working papers prepared for audit and areas subject to judgement and estimation.</p> <p>External revaluation exercise for the board's assets to be carried out in 2019/20.</p>	<ul style="list-style-type: none"> <li>• Focused substantive testing of key account areas.</li> <li>• Review of accounting policies to ensure these are reasonable.</li> <li>• Review of methodology for trade payables and accruals categories.</li> <li>• Review the accounting treatment of assets for appropriateness and consistency.</li> <li>• Review the revaluation exercise and related accounting entries of the board's assets in 2019/20.</li> </ul>
<p><b>4 Financial sustainability and brokerage requirements</b></p> <p>The board are reporting they will not achieve their financial targets for 2019/20 without additional funds. Management have advised they have agreed £9.3 million brokerage funding with the Scottish Government to achieve a break-even outturn.</p> <p>Scottish Government have tasked NHS Borders to produce a balanced 3 year financial plan covering 2020/21 to 2022/23. Management have advised the final plan has been delayed and is now due to be submitted in draft as part of the Annual Operational Plan in December 2019. However, the plan will not be balanced. Instead, the financial plan will aim to reduce the board's recurring deficit to an</p>	<p>Agreement of financial plans and ongoing discussions with the Scottish Government.</p> <p>Effective budget monitoring by management.</p> <p>Creation of a Programme Management Office to oversee the financial turnaround at the board.</p> <p>External consultants have been appointed to review the progress of the financial turnaround programme.</p>	<ul style="list-style-type: none"> <li>• Inspect third party confirmation of additional funding for 2019/20.</li> <li>• Liaise closely with senior finance staff regarding budget plans and discussions with the Scottish Government.</li> <li>• Monitor monthly Financial Performance Returns submitted to the Scottish Government.</li> <li>• Focussed cut-off testing at year-end to confirm expenditure and income has been accounted for in the correct financial period.</li> <li>• Ensure brokerage and potential budget transfers are correctly disclosed in the annual report and accounts.</li> </ul>

<sup>1</sup> Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>estimated £2-3 million by the end of the 3 year period.</p> <p>There is therefore a significant risk regarding the board being financially sustainable.</p>		
<b>Wider dimension risks</b>		
<p><b>5 Financial Turnaround programme</b></p> <p>Management have advised that significant senior staff time is being invested in the financial turnaround programme. There is a risk of this diminishing focus on other strategic priorities, such as the health and social care partnership.</p>	<p>Progress subject to regular review by the Senior Management Team and the Board.</p>	<ul style="list-style-type: none"> <li>Review reported progress and impact of the financial turnaround programme.</li> </ul>
<p><b>6 Borders IJB arrangements</b></p> <p>The following issues relating to the Scottish Borders Integration Joint Board (IJB) are pertinent to NHS Borders' financial planning:</p> <ul style="list-style-type: none"> <li>There is no permanent Chief Finance Officer for the IJB in place. The interim CFO has extended their post to December 2019</li> <li>The arrangements to record the sum set aside for hospital acute services, under the control of the IJB, are not yet fully operating as required by legislation and statutory guidance</li> <li>£13.3 million savings<sup>2</sup> are required by the IJB in 2019/20, linked to the same financial pressures as NHS Borders.</li> </ul>	<p>Provide financial data to the IJB for incorporating into their financial plans and annual accounts.</p> <p>Discussions with the Scottish Government on the board's set aside arrangements.</p> <p>Progress with financial turnaround programme to streamline services and seek efficiencies.</p>	<ul style="list-style-type: none"> <li>Review the finance team's plans for incorporating the IJB transactions into the annual report and accounts.</li> <li>Review the latest technical guidance and Scottish Government advice regarding the accounting treatment for IJB set aside amounts.</li> <li>Perform specific substantive testing of IJB income and expenditure relating to NHS Borders.</li> </ul>
<p><b>7 ICT risks</b></p> <p>The board's Information Management &amp; Technology (IM&amp;T) department continue to manage a number of issues:</p> <ul style="list-style-type: none"> <li>The currently unsupported version of Trak Care is due to be upgraded in summer 2020, with an interim solution being progressed with the provider.</li> <li>The creation of a second data storage facility is in progress.</li> </ul>	<p>The board's Road to Digital (RTD) programme is progressing with these system and security updates.</p> <p>Capital funding has been secured to progress with these works.</p>	<ul style="list-style-type: none"> <li>We will review the progress of the RTD programme and monitor the board's continuing IT investment plans.</li> <li>We will meet with IM&amp;T management to review key system upgrades and review cyber security arrangements are appropriate.</li> </ul>

<sup>2</sup> Scottish Borders Integration Joint Board 2018/19 Annual Audit Report

	Audit Risk	Source of assurance	Planned audit work
	<ul style="list-style-type: none"> <li>The board is migrating to Office 365 in spring 2020. There is a potential risk of information loss during this process.</li> <li>IM&amp;T require to make improvements to the board's cyber security arrangements and business continuity plans.</li> </ul>		

## Reporting arrangements

5. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the audited 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.

6. 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) after the Board's annual report and accounts have been laid before the Scottish Parliament.

7. 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 officers to confirm factual accuracy.

8. We will provide an independent auditor's report to NHS Borders and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide NHS Borders and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

## Exhibit 2 2019/20 Audit outputs

Audit Output	Target date (per planning guidance)	Audit Committee/ Board date
Annual Audit Plan	31 December 2019	12 December 2019
Interim Report	31 March 2020	23 March 2020
Annual Audit Report	30 June 2020	15 June 2020
Independent Auditor's Report	30 June 2020	25 June 2020

## Audit fee

9. The audit fee for the 2019/20 audit of NHS Borders is £124,770 (2018/19: £123,000). In determining the audit fee we have taken account of the risk exposure of NHS Borders, the planned management assurances in place and consideration of the work of internal audit. Our audit approach assumes receipt of the unaudited annual report and accounts, with a complete working papers package, on 6 May 2020.

**10.** Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual report and accounts or being unable to place assurance on 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 exercise outwith our planned audit activity.

## Responsibilities

### NHS Borders

**11.** NHS Borders has 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 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 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 Borders 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 Borders 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 affairs of NHS Borders and its group as at 31 March 2020 and of the net expenditure for the year then ended;
- have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.



## Statutory other information in the annual report and accounts

**17.** We also review and report on statutory other information published within the annual report and accounts including the performance report, the accountability report (which includes the 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 review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in the statutory other information.

## 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.

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



## Exhibit 3

### Materiality values



Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of forecast gross expenditure for the year ended 31 March 2020 based on the latest Financial Performance Return available.	£2.7 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 45% of planning materiality.	£1.2 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 2% of planning materiality.	£55,000

### Timetable

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

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package to the audit team	6 May 2020
Latest date for receipt of assurances from the group's component auditors	11 May 2020
Consideration by management of Service Auditor reports	27 May 2020
Latest date for final clearance meeting with Director of Finance	29 May 2020
Agreement of audited unsigned annual report and accounts	3 June 2020
Issue of Annual Audit Report to those charged with governance (Audit Committee)	15 June 2020
Independent auditor's report signed	25 June 2020
Submission of minimum data set for NHS in Scotland report	30 June 2020

### Internal audit

22. Internal audit is provided by a joint arrangement between Grant Thornton and NHS Lothian. This is a new appointment for 2019/20. As part of our planning process we have carried out an initial assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of internal audit can be used for the purposes of external audit. This assessment includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether internal audit applies a systematic and disciplined approach, including quality control.

**23.** Our initial findings confirm Grant Thornton have prepared their plan and scope of work in compliance with the PSIAS. We noted, however, a change to the planned staffing arrangements of the internal audit team. Grant Thornton staff are likely to resource all fieldwork and management of the audit, as NHS Lothian do not currently have capacity to assist. The contract allows for a flexible approach to resourcing internal audit work. Grant Thornton have provided assurances that their public sector audit team has the resources and skills to deliver the audit work planned for 2019/20. As the new appointment is still in its early stages, we will monitor the findings of their reports and raise any significant results with management in due course.

#### 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 plan to use the findings of the work of internal audit to minimise duplication of effort and to ensure resources are used efficiently and effectively.

**25.** From our initial review of internal audit plans and discussions with Grant Thornton, we plan to consider internal audit's work as assurance for our wider dimension audit responsibilities. This includes their review of budget setting arrangements.

#### Service auditor assurances for shared systems and functions

**26.** In order to provide efficiencies and avoid duplication of effort, we will draw assurances from service auditor reports for the following national shared systems and functions:

- Practitioner Services Division (host NHS National Services Scotland and service auditor currently Scott-Moncrieff)
- National IT Services Contract (host NHS National Services Scotland and service auditor currently Scott-Moncrieff)
- National Single Instance (host NHS Ayrshire and Arran and service auditor currently BDO UK LLP)

## Audit dimensions

27. 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

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 financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability.

29. As noted in [Exhibit 1](#), we have raised a risk regarding NHS Borders' financial sustainability, particularly due to the additional £9.3 million brokerage funding the board will require in 2019/20 to break-even and delays encountered in producing a 3 year financial plan. If this plan does not outline a balanced position across this period, this may have further implications for the board i.e. having to repay brokerage received. It should be noted that other NHS boards in Scotland face similar financial challenges. NHS Borders is one of two boards at Escalation Stage 4 on the Scottish Government's NHS Board Performance Escalation Framework. The definition of stage 4 is '*significant risks to delivery, quality, financial performance or safety; senior level external support required*'.

30. The board have responded by setting up a Programme Management Office (PMO) to oversee financial turnaround and to review its governance arrangements. Management advise they continue to consult with the Scottish Government's NHS Scotland Finance Directorate to review the implementation of the financial turnaround programme.

31. NHS Borders have a target of £12.7 million savings in 2019/20. As at November 2019, approximately £5 million have been identified and projections indicate it will be extremely challenging to meet the year-end savings target. This is linked to the brokerage requirement. In addition, progress against the board's capital plans has been slow. The board have a limited capital budget of just under £3 million and investment in key areas, such as ICT, must quickly progress to utilise their budget for 2019/20.

32. 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 there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

### Financial management

**33.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

**34.** As noted in [Exhibit 1](#), management have advised some members of the senior finance team have been working principally on the financial turnaround programme, removing staff from day to day finance tasks. In addition, the finance team are carrying a number of vacancies with plans to recruit to permanent posts by the end of the calendar year. We will continue to monitor the resourcing and capacity issues the team faces.

**35.** We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- how NHS Borders has assured itself that its financial capacity and skills are appropriate
- the risk of fraud and corruption in relation to procurement processes
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

### Governance and transparency

**36.** 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.

**37.** The leadership of the board will see further changes over the coming months, as the Director of Finance, the longest serving member on the current Executive Team, is due to retire in March 2020. A new Non-Executive Director is also due to be appointed in March 2020. Leadership of the organisation remains crucial at this time, as the board faces significant financial and operational challenges in the months and years ahead. We will continue to monitor the leadership and decision making of the board and new senior management appointments, to ensure appropriate governance arrangements remain in place.

**38.** The board should also look to progress updating a number of key governance documents and ensure its risk management arrangements are appropriate. This should include updating their Code of Corporate Governance (most sections were last updated in 2017) and refreshing their risk management policy (dated 2017). Management have advised these policies are planned for review in the coming months.

**39.** We have noted that the board's Counter Fraud Operational Group (CFOG), which oversees fraud arrangements, has only met once in the last year. Management should consider if the Terms of Reference remain appropriate for this group. We will monitor fraud arrangements and CFOG activity during our audit and report findings in our Annual Audit Report.

**40.** Our audit will review, conclude and report on:

- whether the board can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency of decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

### Value for money

**41.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether NHS Borders can demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

### Best Value

**42.** The Chief Executive, as Accountable Officer of NHS Borders, has a duty to ensure arrangements are in place to secure best value. As part of our audit work, we will assess how NHS Borders assures their stakeholders that Best Value principles are being achieved. The work planned for our audit this year will focus on the board's arrangements for demonstrating the Best Value theme of Equality. This review will involve gaining an understanding of how effective the board's processes are in embedding equality across the organisation. We will review and report on these arrangements to management in due course.

### Independence and objectivity

**43.** 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.

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

### Quality control

**45.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control be 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.

**46.** 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.

**47.** 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 Borders

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