

NHS Forth Valley

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for NHS Forth Valley
January 2020



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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 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 the annual 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 management, financial sustainability, governance and transparency and value for money.

Adding value

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

Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risk for NHS Forth Valley. 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	Management source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. • Substantive testing of transactions around the year end to confirm income and expenditure are accounted for in the correct financial year.

	Audit Risk	Management source of assurance	Planned audit work
2	<p>Risk of material misstatement caused by fraud over income</p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be materially misstated in the financial statements.</p> <p>While the majority of NHS Forth Valley's funding is from the Scottish Government, a significant amount is generated from other sources. The extent and complexity of this other income means that there is an inherent risk of fraudulent or erroneous reporting of income to achieve a desired financial position.</p>	<p>A sound system of budgetary control, including monthly budget monitoring is in place.</p> <p>Fraud reports are regularly monitored and information across Scotland is routinely shared.</p>	<ul style="list-style-type: none"> • Analytical procedures on income streams. • Testing of income transactions focusing on whether income is processed in the correct accounting year.
3	<p>Risk of material misstatement caused by 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. There is a risk that expenditure may be materially misstated in the financial statements.</p> <p>NHS Forth Valley incurs significant expenditure on a range of activities. The extent and complexity of expenditure means that there is an inherent risk of fraudulent or erroneous reporting of expenditure to achieve a desired financial position.</p>	<p>A sound system of budgetary control, including monthly budget monitoring is in place.</p> <p>There are a range of measures in place to prevent and detect fraud, including the Scheme of Delegation: Standing Financial Instructions, Standards of Business Conduct; Financial Operating Procedures; and the Whistleblowing Policy.</p> <p>The board has a formal partnership agreement with NHS Scotland Counter Fraud Services and an agreed protocol covering a programme of regular payment verification checks.</p>	<ul style="list-style-type: none"> • Analytical procedures on expenditure areas. • Testing of expenditure transactions focussing on whether expenditure is processed in the correct accounting year.
4	<p>Risk of material misstatement caused by estimates and judgements in the valuation of land and buildings</p> <p>NHS Forth Valley held land and buildings with a net book value (NBV) of over £520 million at 31 March 2019. There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and estimates, and changes in these can result in material changes to valuations.</p>	<p>Valuations of all land and buildings are re-assessed by valuers under a five-year programme of professional valuations and adjusted in intervening years to take account of movements since the last valuation.</p> <p>The valuations are carried out in accordance with the RICS Approval and Valuation Manual.</p>	<ul style="list-style-type: none"> • Completion of 'review of the work of Management's expert' for the professional valuer. • Review of external revaluations performed in year, assessing whether they have been performed using an appropriate and relevant valuation basis/methodology by suitably qualified individuals. • Review of the information provided to the valuer and assess whether this was complete and included all

	Audit Risk	Management source of assurance	Planned audit work
			<p>NHS Forth Valley's land and buildings relevant for the 2019/20 revaluation exercise.</p> <ul style="list-style-type: none"> Review and assess the reasonableness of external revaluations.
5	<p>Risk of material misstatement caused by estimates and judgements in the assessment of provisions</p> <p>NHS Forth Valley recognised provisions of almost £60 million at 31 March 2019 for clinical and medical claims against the health board and its share of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). These provisions are based on the assessed likelihood and settlement value of claims against the health board.</p>	<p>The clinical and medical negligence provision is calculated using information received from the Central Legal Office regarding the claims they have received relating to NHS Forth Valley.</p> <p>The board's share of NHS Scotland CNORIS liability is estimated based on actual settlement trends in prior years.</p> <p>The impact of these provisions is mitigated since a substantial proportion of the provision is recoverable from the Scottish Government.</p>	<ul style="list-style-type: none"> Completion of 'review of the work of Management's expert' for the Central Legal Office (CLO). Review of information provided by the CLO in support of the provisions held by NHS Forth Valley for clinical and medical legal claims and CNORIS.
Wider dimension risks			
6	<p>Financial sustainability</p> <p>NHS Forth Valley's financial planning shows that efficiency savings of £19.2 million are required to achieve its financial target for 2019/20.</p> <p>In the longer term, efficiency savings of £36 million are required over the three-year funding cycle to 2021/22; and savings of £60.1 million are required over the five-year period to 2023/24 to break even. The plan highlights a number of longer-term cost pressures that could impact future savings requirements.</p> <p>The Finance Report to 31 October 2019 reports an overspend of £0.943 million and we recognise this might be fully mitigated by non-recurring income streams available to the health board. Savings of £18.7 million have been identified for 2019/20 and are on trajectory to being delivered. However, £7.171 million of savings identified are non-recurring and this will increase savings requirements in future years. The forecast year end outturn could be affected by a number of factors including</p>	<p>A savings plan has been developed in consultation with internal heads of department.</p> <p>Performance against agreed targets is monitored monthly. All savings are risk assessed regarding the likelihood of being achieved and the impact on service delivery.</p> <p>The Scottish Government announced changes to the health financial framework during 2018/19 through the Health and Social Care: medium term financial framework. This is designed to enable the board to manage finances over a medium term, albeit the shorter-term risks to financial sustainability still exist.</p> <p>A five-year financial plan has been developed, based on the Health and</p>	<ul style="list-style-type: none"> Review and assess progress and impact in delivering savings. Appraise the approach for agreeing year end IJB outturns between partner bodies. Review progress in updating and assessing the impact of the five-year financial plan.

	Audit Risk	Management source of assurance	Planned audit work
	<p>agreement of pay uplifts for 2019/20, EU withdrawal and NHS Forth Valley's share of IJB overspends.</p> <p>The factors above and the longer-term financial pressure mean there is a risk to financial sustainability and the sustainability of services in future.</p>	<p>Social Care: medium term financial framework.</p>	
7	<p>Performance targets</p> <p>NHS Forth Valley has struggled to achieve the eight key waiting times targets during the year. The Executive Performance Report to 31 October 2019 reports the health board was only meeting one of the eight key waiting time targets, with the majority being classed as red (out with 5% of meeting trajectory).</p> <p>The health board was moved to stage three of the NHS Board Performance Escalation Framework in December 2018 and is still at this level. This was due specifically to NHS Forth Valley's performance against the four-hour A&E target. As a result of the escalation, support was provided to the health board by the North of England Commissioning Support unit.</p> <p>NHS Forth Valley's difficulties in achieving key waiting times targets, along with financial pressures and increasing demand, mean there is a risk this will continue, and the delivery of safe, affordable services is not sustained.</p>	<p>Performance against standards/ targets is monitored monthly across the organisation and reported to the Performance & Resources Committee/ Board in alternate months.</p> <p>A Programme Management Office (PMO) approach has been introduced at NHS Forth Valley to help address waiting time targets.</p> <p>Weekly monitoring information is provided to service leads to show progress. A review of performance is undertaken at the CEO Operation Group on a weekly basis.</p> <p>The risks associated with performance targets is monitored through the corporate risk register.</p>	<ul style="list-style-type: none"> • Review of progress in achieving targets and actions being taken to improve performance. • Review progress by the PMO approach towards helping to address waiting time targets.

Source: Audit Scotland

Reporting arrangements

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

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

7. We will provide an independent auditor's report to NHS Forth Valley, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual 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 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	10 January 2020	17 January 2020
Management Report (may be reported in quarterly progress report)	6 March 2020	13 March 2020
Annual Audit Report	5 June 2020	12 June 2020
Independent auditor's report	12 June 2020	12 June 2020

Source: Audit Scotland

Audit fee

9. The proposed audit fee for the 2019/20 audit of NHS Forth Valley is £147,000 (2018/19: £144,610). In determining the audit fee, we have taken account of the risk exposure of NHS Forth Valley, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual report and accounts, with a complete working papers package on 30 April 2020.

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

16. 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 the affairs of the board 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 IFRSs as adopted by the European Union, as interpreted by the 2019/20 FReM; and
- have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions thereunder by the Scottish Ministers.



characteristics



responsibilities



principal activities



risks



governance arrangements

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, 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 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. The materiality values for NHS Forth Valley are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	Amount
Planning materiality – This is the figure we use to assess 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 2018/19 audited annual report and accounts.	£6.700 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 75% of planning materiality.	£5.000 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2.5% of planning materiality.	£0.168 million

Source: Audit Scotland

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 report and accounts timetable

 Key stage	 Date
Latest date for NHS Forth Valley to submit unaudited annual report and accounts with complete working papers package	30 April 2020
Latest date for final clearance meeting with Director of Finance	2 June 2020
Issue of Letter of Representation and proposed independent auditor's report	5 June 2020
Agreement of audited unsigned annual report and accounts	5 June 2020
Audit Scotland to issue Annual Audit Report to those charged with governance	5 June 2020
Independent auditor's report signed	by 18 June 2020

Source: Audit Scotland

Internal audit

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

Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This 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 the internal audit function applies a systematic and disciplined approach, including quality control.

23. Our external audit colleagues working on the NHS Fife audit have concluded their review of the internal audit function provided by FTF. Overall, they concluded that FTF generally complies with the PSIAS and that appropriate documentation standards and reporting procedures are in place. We have relied on this work for our own purposes.

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 use the work of internal audit wherever possible to avoid duplication.

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

26. In respect of our wider dimensions audit responsibilities, we plan to use the following areas of internal audit work:

- Risk management – assurance on the Board's risk management arrangements
- Organisational performance management and waiting time methodology – focussing on delivering national waiting times targets and accuracy of data
- Information assurance / information security framework – follow up to prior year action plan
- Workforce planning – review of the delivery of the workforce strategy and workforce plan
- Management of savings programme.

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

28. 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

29. 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. 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

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

- arrangements in place to ensure systems of internal control are operating effectively;
- effective budgetary control systems in place to communicate accurate and timely financial performance;
- assured itself that its financial capacity and skills are appropriate; and
- appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

Governance and transparency

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

- can demonstrate that the governance arrangements in place are appropriate and operating effectively;
- has effective scrutiny, challenge and transparency in the decision-making process, particularly in respect of finance and performance reports; and
- can demonstrate quality and timeliness of financial and performance reporting.

Value for money

32. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether NHS Forth Valley 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

33. The Accountable Officer of NHS Forth Valley has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements.

Independence and objectivity

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

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

Quality control

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

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

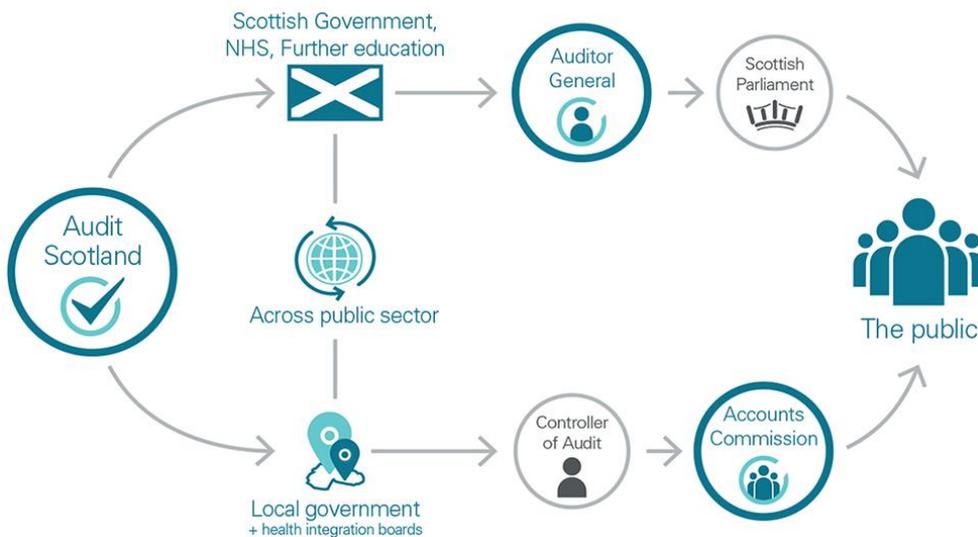
38. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision.

We welcome feedback at any time and this may be directed to the engagement lead.

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.

NHS Forth Valley

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