

NHS Greater Glasgow and Clyde

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for NHS Greater Glasgow and Clyde
February 2020



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

Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for NHS Greater Glasgow and Clyde. We have categorised these risks into financial statements 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
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards 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 that results in fraudulent 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. • Focussed 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 have been accounted for in the correct year.

	Audit Risk	Source of assurance	Planned audit work
2	<p>Risk of material misstatement caused by fraud over expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p>	<ul style="list-style-type: none"> NHSGGC has robust systems in place to prevent and detect fraud. Monthly meetings between Fraud Liaison Officer and Counter Fraud Services. Regular reports to Audit and Risk Committee. 	<ul style="list-style-type: none"> Detailed testing focussing on the areas of greatest risk.
3	<p>Provisions</p> <p>There is a significant degree of subjectivity in the measurement and valuation of provisions.</p> <p>This subjectivity represents an increased risk of misstatements in the financial statements.</p>	<ul style="list-style-type: none"> All provisions are calculated based on documented assumptions which will be presented in the audit working papers. 	<ul style="list-style-type: none"> Review of information provided by the Central Legal Office. Focussed substantive testing within provisions on values and balances which are derived by valuation and estimation.
4	<p>Deferred income – research and development contracts</p> <p>The board's trade payables balance includes a material amount for deferred income, the majority of which relates to research and development contracts. During the 2018/19 financial statements audit the board struggled to provide evidence that the deferred income balance was in adherence with the requirements of IFRS 15.</p> <p>There is a risk that the board's accounts could be materially misstated.</p>	<ul style="list-style-type: none"> The Board will conform to IFRS 15 once guidance is issued. The Board's Assistant Head of Financial Services is a member of the Technical Accounting Group. 	<ul style="list-style-type: none"> Review the principles established by the Technical Accounting Group for compliance with IFRS 15. Focussed testing prior to the year end around the approach to accounting for deferred income and adherence to the principles of IFRS 15. Focussed substantive testing of year end deferred income balances.
5	<p>Existence of assets</p> <p>The fixed asset register is the key information source for the non-current asset balances included within the accounts. The board do not have effective arrangements in place to ensure that the fixed asset team are consistently informed of changes in the location or condition of non-current assets. Furthermore, there is limited asset verification work completed within the board.</p> <p>There is a risk that the fixed asset register does not accurately reflect the assets owned by the board and this increases the risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> Over 90% of the Board's assets are buildings but the Board's Finance Department analyses the medical physics system to track asset movements. 	<ul style="list-style-type: none"> Review of arrangements in place within the board for verifying assets. Focussed verification work undertaken of a sample of portable assets.

	Audit Risk	Source of assurance	Planned audit work
6	<p>Integration Joint Boards</p> <p>The IJB figures for incorporation into the NHS Greater Glasgow and Clyde group accounts were received later than planned in each of the last three years. Issues have also been noted in the past two years of instances where the information provided was incomplete or inaccurate. We recognise that the timely submission of this information is not wholly within the Board's control.</p> <p>There is a risk that the Board's accounts do not include the necessary consolidation adjustments and are delayed if the financial information is received late.</p>	<ul style="list-style-type: none"> Largely outwith the Board's control as dependent on Local Authority accounts timetable but Chief Finance Officers have been advised of 2019/20 timetable and to advise Board of any adjustments. Template developed to ensure consistency. 	<ul style="list-style-type: none"> We shall seek assurances from the appointed external auditor at each IJB and liaise as appropriate. We will obtain assurances from the Board's Director of Finance for the group governance disclosure. Specific group account testing will assess the appropriateness of consolidation transactions. We will review arrangements within the board for gaining assurances throughout the year around IJB balances, budgets and performance.

Qualitative aspects of reporting

7	<p>Performance report and governance statement</p> <p>Last years' performance and accountability report submitted for audit required substantial update and amendment prior to finalisation. There was also a lack of evidence of quality control arrangements having been exercised over the document.</p> <p>The governance statement was also incomplete with significant elements outstanding when it was submitted for audit. Some of the assurance statements from directors were provided late in the audit process and the quality of the assurance statements was variable.</p>	<ul style="list-style-type: none"> Revised procedures will be implemented for 2019/20. Greater input from Board Secretariat and Corporate Communications to ensure consistency. 	<ul style="list-style-type: none"> Liaise with HB staff to ensure completion by agreed dates.
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Wider dimension risks

8	<p>Financial sustainability</p> <p>NHS Greater Glasgow and Clyde's financial plan for 2019/20 identified a savings requirement of £75 million. At month 6, the board are projecting a year end deficit of £29.8 million.</p>	<ul style="list-style-type: none"> Financial Improvement Programme ongoing work. Detailed finance reports prepared for budget holders. Regular reports presented to Board 	<ul style="list-style-type: none"> Monitor updates to the Financial Plan and the ongoing financial position. Review the monthly financial returns to the SGHSCD. Review the financial monitoring reports to the
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	Audit Risk	Source of assurance	Planned audit work
		and F&P Committee.	<p>board, acute services committee and finance, planning and performance committee.</p> <ul style="list-style-type: none"> • Attendance at the Finance Planning and Performance Committee. • Test a sample of transactions substantively before and after the year end to confirm expenditure and income have been accounted for in the correct financial year.
9	<p>Financial capacity</p> <p>Over the past year the finance function has experienced staffing changes. Although temporary arrangements have been established there is a risk that the finance function is not appropriately resourced in terms of experience and knowledge, which has the potential to impact on the quality of financial management and accounts preparation.</p>	<ul style="list-style-type: none"> • Revised structure being developed for implementation by 31 March 2020 before retirement of senior individuals. • At this time the Finance function is appropriately resourced although there are a number of interim appointments. 	<ul style="list-style-type: none"> • We shall undertake a follow up of the 2015/16 Financial Capacity Review • We shall have early discussion with officers regarding the annual accounts timetable. Discussions will continue throughout the course of the audit. • We will issue a working paper checklist to outline requirements and agree timescales for the receipt of unaudited accounts and working papers.
10	<p>Senior Management Capacity</p> <p>NHS Greater Glasgow and Clyde has experienced exceptional challenges this year; being placed in special measures, a public inquiry into the Queen Elizabeth University Hospital (QEUH) and litigation against the QEUH contractor. There is a risk that this may impact on Board and Senior Management capacity which could potentially result in a reduced wider strategic and operational oversight. This could have a detrimental impact on service delivery and damage broader partnership working.</p>	<ul style="list-style-type: none"> • The Board has developed proposals to increase capacity for a number of functions including MFT, Corporate Administration and Nursing. • A number of internal management changes will take effect from 2 March 2020 to strengthen operational management capacity. • In addition, external support has been put in place in a number of key areas. 	<ul style="list-style-type: none"> • Assessing impact on Board and Senior Management capacity. • Understand the impact on third and fourth tier management in terms of capacity and ability to respond to increased expectations.

5. As set out in ISA 240, there is a presumed risk of fraud over the recognition of income. We do not consider this to be a significant risk for NHS Greater Glasgow and Clyde Health Board as there are limited opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Reporting arrangements

6. 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.

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 officer(s) to confirm factual accuracy.

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

9. 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	28 February 2020	10 December 2019
Management Report	30 April 2020	17 March 2020
Independent Auditor's Report	30 June 2020	30 June 2020
Annual Audit Report	30 June 2020	30 June 2020

Source: Audit Scotland

Audit fee

10. The agreed audit fee for the 2019/20 audit of NHS Greater Glasgow and Clyde is £397,900 [18/19 £391,460]. In determining the audit fee, we have taken account of the risk exposure of NHS Greater Glasgow and Clyde, the planned management assurances in place and the extent we plan to use the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 11 May 2020.

11. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts 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 and Risk Committee and Accountable Officer

12. 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.

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

Appointed auditor

14. 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.

15. 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

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

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

- give a true and fair view of the state of affairs of NHS Greater Glasgow and Clyde and its group as at 31 March 2020 and of the income and expenditure of the Body and its group for the year then ended;
- have been properly prepared in accordance with the financial reporting framework.



characteristics



responsibilities



principal activities



risks



governance arrangements

Statutory other information in the annual report and accounts

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

19. 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

20. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

21. We determine materiality at different levels as described below. The materiality values for NHS Greater Glasgow and Clyde 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 0.6% of gross expenditure for the year ended 31 March 2020 based on the month 5 budget reports.	£20.0 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 set performance materiality at 60% of planning materiality.	£12.0 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.	£0.2 million

Source: Audit Scotland

Timetable

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

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Latest date for the Health Board to submit annual report and accounts (with a complete working papers package) for audit.	11 May 2020
Latest date for receipt of assurances from Group's Component Auditors	16 June 2020
Consideration by management of Service Auditors reports	16 June 2020
Latest date for final clearance meeting with Director of Finance	9 June 2020
Issue of Letter of Representation and proposed independent auditor's report	18 June 2020
Agreement of audited unsigned annual report and accounts	17 June 2020
Issue of Annual Audit Report to those charged with governance	18 June 2020
Independent auditor's report signed	30 June 2020

Internal audit

23. Internal audit is provided by Scott Moncrieff. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with 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.

24. We will report any significant findings to management on a timely basis.

Using the work of internal audit

25. 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. 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.

26. From our initial review of internal audit plans we plan to use their work in the following areas:

- Financial systems health check
- Payroll

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

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 arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control system in communicating accurate and timely financial performance can be demonstrated
- how NHS Greater Glasgow and Clyde has assured itself that its financial capacity and skills are appropriate
- whether there are 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 together with transparent reporting of financial and performance information. We will review, conclude and report on:

- whether NHS Greater Glasgow and Clyde can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency of decision-making particularly with reference to the finance and performance reports.
- the 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 Greater Glasgow and Clyde 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 Greater Glasgow and Clyde 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 Greater Glasgow and Clyde is John Cornett, Audit Director. Auditing and ethical standards require the appointed auditor John Cornett to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of NHS Greater Glasgow and Clyde.

Quality control

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.

NHS Greater Glasgow and Clyde

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