

NHS Grampian

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

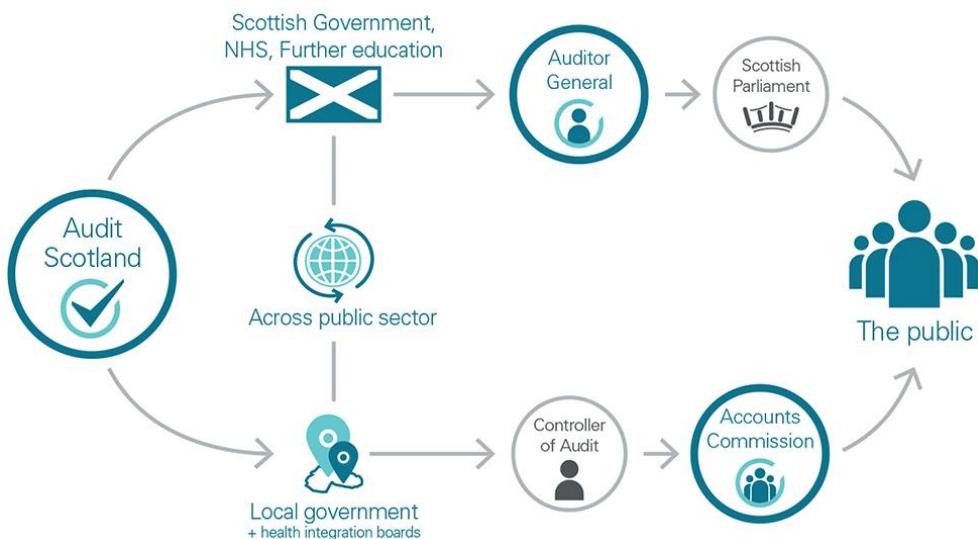
Prepared for NHS Grampian

January 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 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 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 Grampian 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 Grampian promote improved standards of governance, better management, 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 Grampian. 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 2019/20 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
1 Risk of management override of controls 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.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	Detailed testing of journal entries Review of accounting estimates Focused testing of accruals and prepayments Cut off testing procedures on income and expenditure transactions at year-end Evaluation of significant transactions that are outside the normal course of business

Audit Risk	Source of assurance	Planned audit work
<p>2 Risk of fraud over income and expenditure</p> <p>In addition to Scottish Government funding, NHS Grampian receives a significant amount of income from other sources.</p> <p>The extent and complexity of income and expenditure means that, in accordance with ISA240, there is an inherent risk of fraud</p> <p>Practice Note 10* 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. Similar to other public sector bodies, NHS Grampian is a net expenditure body where the risk of fraud in expenditure is higher.</p> <p>*Practice Note 10 relates to the audit of financial statements of public sector bodies in the UK</p>	<p>Governance arrangements are in place to assist prevent and detect fraud i.e. Board assurance framework, performance management framework, Standing Financial Instructions, Standing Orders, Schedule of Reserved Decisions, Code of Conduct, whistle blowing and anti-fraud policies</p> <p>Regular review of financial systems and internal controls by internal audit</p> <p>Budgetary control arrangements</p> <p>Primary care income verification checks.</p>	<p>Analytical procedures on income streams and expenditure transactions</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk</p> <p>Reliance on Internal Audit's review of Key Financial Controls under ISA 610</p> <p>Consideration of service auditor's report (refer to Page 12) covering the financial ledger, IT contracts and Practitioners Services Division under ISA 402</p> <p>Cut off testing procedures on income and expenditure transactions at year-end</p> <p>Review of the board's National Fraud Initiative (NFI) matches investigation</p> <p>Monitoring of frauds and false exemptions reported.</p>
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas such as revaluation of land and buildings, clinical negligence provisions, and certain staff accruals.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Rationale and supporting evidence include expert views where appropriate for provisions held</p> <p>An appropriate programme of valuations is carried out each year.</p> <p>.</p>	<p>Reliance on 'the work of an expert' under ISA 500 in respect of the professional valuer</p> <p>Review accounting treatment of property revaluation and ensure it accords with the requirements of FReM</p> <p>Review reasonableness of total increase or decrease in revalued amounts against valuation report</p> <p>Review the basis and calculation of accruals and provisions for bias and subjectivity including reasonableness of methodology and consistency with prior years and guidance</p> <p>Review Central Legal Office (CLO) reports covering clinical negligence claims</p> <p>Review of the CLO as a management expert (reliance on central review anticipated)</p> <p>Focused substantive testing of key areas.</p>

	Audit Risk	Source of assurance	Planned audit work	
	4 Group accounts and IJB balances	<p>Delays were incurred in confirming balances for two of the three IJBs for two years in a row, primarily due to late receipt of information from council finance teams. This is despite early discussions between NHS Grampian, IJB and council officers.</p> <p>There is a risk that the board's statutory reporting deadline is not met.</p>	<p>Regular liaison between NHS finance and IJB s95 officers</p> <p>Agreement of a 'group' timetable to deliver the board's audited financial statements by 30 June 2020.</p>	<p>Hold early discussions with senior Finance officers on the planned timetable for group accounts including expectations from group accountants</p> <p>Review year-end instructions to IJB accountants</p> <p>Discuss progress during the year as appropriate.</p>

Wider dimension issues and risks

	5 Performance	<p>The board continues to struggle in meeting its waiting times performance targets.</p> <p>There is a risk that planned actions are not effective resulting in significant exposure to both clinical and reputational risks and failure to meet statutory targets.</p>	<p>The Annual Operational Plan for 2019/20 confirmed additional funding from the Scottish Government to reduce the backlog in patients waiting for treatment</p> <p>Regular performance reporting to senior leadership team, the board and committees.</p>	<p>Review performance reporting to the Board and Clinical Governance and Performance Governance Committees to assess the response by management and the impact of the board's improvement plans</p> <p>Assess how quality outcome indicators are managed within the board's risk framework</p> <p>Review clinical negligence claims for any trends</p> <p>Comment in our Annual Audit Report on our findings and conclusions.</p>
	6 European Union (EU) withdrawal	<p>While most Brexit preparations covering the supply and procurement of medicines are led and co-ordinated at the UK and Scottish level, NHS Grampian is more exposed around workforce issues. For example, a higher percentage of EU nationals are employed as care staff in Grampian.</p> <p>There is a risk that the level of preparedness is not adequate leading to disruptions in services and potential casualties.</p>	<p>System Leadership subgroup established to oversee the planning for EU withdrawal</p> <p>Periodic reports to Audit Committee and Board on EU withdrawal preparedness, together with reporting to Scottish Government</p>	<p>Review update reports to committees</p> <p>Discuss status with senior officers.</p> <p>Review actions being taken by the board to mitigate risks.</p>

	Audit Risk	Source of assurance	Planned audit work	
7	Workforce issues	<p>The board continues to face significant workforce supply challenges, particularly in relation to some medical specialties, Nurses and Midwives, Allied Health Professions and small occupational groups such as Healthcare Scientists resulting in high locum and bank spend; an ageing workforce and the implications for working longer; and GP recruitment.</p> <p>There is a risk that the board's workforce is not sustainable leading to failure in delivering safe, timely and effective healthcare services.</p>	<p>A short life working group chaired by the Chief Executive was established to review use of supplementary staffing</p> <p>Head of Operational Workforce has a strategic intent programme to support the recruitment and retention of staff</p> <p>Proactive planning and links with the local universities and college, and a strategic partnership with Western Australia.</p>	<p>Review the board's current workforce strategy and plans to mitigate identified risks</p> <p>Review the board's consideration of the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver NHS Grampian's services</p> <p>Consider Internal Audit's findings on appointment and monitoring of locums</p>
8	Financial position	<p>The results for the eight months to November 2019 show a year to date overspend of £2.5m compared with £1.2m for the same period last year. The level of overspend continues to be above the financial trajectory agreed with the Scottish Government due to high medical locum staffing costs.</p> <p>While the board continues to forecast a break-even position for the year, this as in previous years is likely to be heavily underpinned by its inability to spend some earmarked funding allocations from the Scottish Government.</p> <p>There is a risk the board is not able to sustain operational overspends in the longer term.</p>	<p>Budgetary control arrangements</p> <p>Budget Steering Group</p> <p>Achievement of savings is monitored and there is regular reporting to committee/board</p> <p>Regular monitoring and challenge by the management team.</p>	<p>Review financial performance and savings tracker reports</p> <p>Monitor progress with delivery of efficiency savings and financial targets</p> <p>Regular discussions with senior officers to understand how the board is managing cost pressures.</p>

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 Grampian, 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	Audit Committee (or equivalent) Date
 Annual Audit Plan	26 November 2019	7 January 2020 (Meeting rescheduled from 3 December 2019)
 Quarterly Fraud Return	Commencing 30 November 2019 (if appropriate)	N/A
 National Fraud Initiative completed questionnaire – part 2	28 February 2020	Reference in our Annual Audit Report
 Management Report	10 March 2020	17 March 2020
 Annual Audit Report	16 June 2020	23 June 2020
 Independent Auditor's Report	16 June 2020	23 June 2020
 Signed Assurance Statement on the Scottish Government consolidation template	30 June 2020	N/A

Source: Audit Scotland

Audit fee

9. The agreed audit fee for the 2019/20 audit of NHS Grampian is £192,630 (2018/19 £189,500). In determining the audit fee, we have taken account of the board's risk exposure, planned management assurances and the level of reliance we plan to take from the work of internal audit. We have agreed receipt of the first batch of working papers on 27 April 2020. The remainder of the working papers package will follow on 8 May 2020 including the Scottish Government consolidation template and the complete annual report and full set of unaudited accounts are expected on 13 May 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 outwith our planned audit activity.

Responsibilities

Audit Committee and Chief Executive (as 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 financial statements does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.
13. The Audit Committee should consider the financial statements, in particular key accounting policies and disclosures, comparisons with prior year and current year budget, and significant judgements and estimates made in the preparation of the accounts.

Appointed auditor

14. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.
15. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. 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.
16. We include full details of the local audit team in [Appendix 1](#). The team is led by Anne MacDonald, Senior Audit Manager, who is responsible for day to day management of the audit and will be your primary contact. The audit team will be supplemented by additional staff during peak times.

Audit scope and timing

Financial statements

17. The statutory financial statements audit 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 Grampian 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 Grampian 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.

18. We will give an opinion on the financial statements as to:

- whether they 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
- whether they have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, as interpreted and adapted by the 2019/20 FReM; and
- the regularity of the expenditure and income.

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 opinion in the auditor's report.

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



Exhibit 3

Materiality values

Materiality level	Amount
   Overall 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 1.5% of gross expenditure for the year ended 31 March 2020 based on the latest outturn forecast for 2019/20.	£19.3m
 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 65% of planning materiality.	£12.5m
 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 1.5% of planning materiality or £250,000 whichever is lower.	£250,000

Source: Audit Scotland

- 21.** We review and report on other information published with the financial statements including the performance report, governance statement and the remuneration and staff report. Any issues identified will be reported to the Audit Committee or equivalent.

Timetable

- 22.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us to produce the unaudited 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 (working papers largely complete by 8 May 2020)	13 May 2020
Clearance meeting with the Director of Finance	10 June 2020
Issue of letter of representation and proposed independent auditor's report	12 June 2020
Agreement of audited unsigned annual report and accounts	12 June 2020
Issue of Annual Audit Report (including ISA 260 issues) to those charged with governance	15 June 2020
Independent auditor's report signed	23 June 2020
Latest date for certifying the Scottish Government consolidation template	30 June 2020

Internal audit

23. Internal audit is provided by PricewaterhouseCoopers (PwC). As part of our planning process, we assessed the internal audit function and concluded that it continues to operate in accordance with Public Sector Internal Audit Standards (PSIAS). We also took cognisance of the positive independent review of internal audit commissioned by NHS Grampian in 2018.

Using the work of internal audit

24. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication and to ensure the total resource is used as efficiently as possible.

25. From our initial review of the internal audit plan, we plan to place formal reliance on the review of Key Financial Controls. This work is expected to be completed by 31 March 2020 and this will provide sufficient time for us to assess the results and determine whether any further work is required in advance of our audit of the financial statements.

26. In respect of our wider dimension audit responsibilities, we also plan to consider other areas of internal audit work including:

- Appointment and Monitoring of Locums
- Mobile Devices (Cyber Security)
- Property Transaction Monitoring
- Risk Management Follow-up
- Records Management Planning
- Waiting Times Improvement Plan
- Business Continuity Management within IJBs and GP Services
- User Lifecycle Management
- Backlog Maintenance
- Governance Statement
- GP Sustainability Loans
- Digital Health and Social Care Strategy.

Service auditor assurances for shared systems and functions

27. 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 KPMG)
- National IT Services Contract (host NHS National Services Scotland and service auditor currently KPMG)

- National Single Instance (NSI) financial ledger (host NHS Ayrshire and Arran and service auditor currently BDO UK LLP)
- NHS payroll system (NHS Tayside host. While there is no formal service auditor arrangement for payroll, assurances on the system are provided by NHS Tayside's internal auditor.)

Audit dimensions

- 28.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#). As part of the 2019/20 audit, follow up wider dimension audit activity will also be carried out to report progress on previous year recommendations including public performance reporting, leadership capacity and IT management.

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

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 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
- whether the board can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

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 the board:

- has arrangements in place to ensure systems of internal control are operating effectively
- can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- has assured itself that its financial capacity and skills are appropriate
- has effective arrangements for the prevention and detection of fraud and corruption including the board's approach to managing the risk of procurement fraud e.g. effective declaration of gifts and hospitality, appropriate training and awareness, and protection for whistle blowers.

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 Grampian can demonstrate that governance arrangements are appropriate and making an impact e.g. the board's Performance, Assurance, Improvement and Risk (PAIR) framework and changes in leadership
- there is effective scrutiny, challenge and transparency on decision-making and on finance and performance reports
- there is quality and timely financial and performance reporting
- there are robust arrangements in place to support the annual governance statement.

Value for money

32. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the board can demonstrate that:

- arrangements are in place to secure best value in public services and value for money in the use of its resources
- there is a clear link between money spent, output and outcomes delivered
- effective action has been taken to improve outcomes
- there is sufficient focus on improvement and the pace of change.

Best Value

33. The Chief Executive, as Accountable Officer, has a duty to ensure arrangements are in place to secure best value. As part of our audit work, we will assess how NHS Grampian assures their stakeholders that Best Value principles are being achieved. As part of the 2019/20 audit, our work will focus on the board's arrangements in respect of Equality. We will review, conclude and report on how effective the board is in embedding equality in its vision and strategic direction, and throughout all its work including partnership working.

Independence and objectivity

- 34.** Auditors appointed by the 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 for NHS Grampian is Gillian Woolman, Audit Director. Auditing and ethical standards require Gillian Woolman 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 Grampian.

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. 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.** Each year, Audit Scotland publishes an Audit Quality report which summarises the results of the above quality activity carried out on audit work delivered by Audit Scotland and the appointed firms.
- 39.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Appendix 1: The audit team

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

Gillian Woolman FCA CPFA

Audit Director

 gwoolman@audit-scotland.gov.uk  0131 625 1981

Gillian is 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.

She has worked in the public and private sector, internal and external audit, in the UK and overseas. She is the lead Audit Director for equality and diversity matters at Audit Scotland and holds a mixed portfolio of audits. She is currently chair of the regional strategic board for the Institute of Chartered Accountants in England and Wales and Chair of the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).

Anne MacDonald CA

Senior Audit Manager

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Anne 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.

She has many years of public sector experience covering both financial audit and best value audit.

Arlene Deeming CPA

Senior Auditor

 adeeming@audit-scotland.gov.uk  0131 625 1902

Arlene will lead the audit team and will be the main contact for the audit.

Arlene has been involved in both health and local government audit over a number of years. During 2017 and 2018, she was also part of the Audit Scotland team which delivered the NHS Overview Report.

Prior to joining Audit Scotland, she occupied senior finance posts in private companies for more than 10 years. She also has 5 years' experience as an auditor in a firm carrying out audits of the private sector.

NHS Grampian

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