



Scott-Moncrieff
business advisers and accountants

With **Campbell Dallas**
a Digital company

NHS Lothian

External Audit Annual Plan 2019/20

February 2020

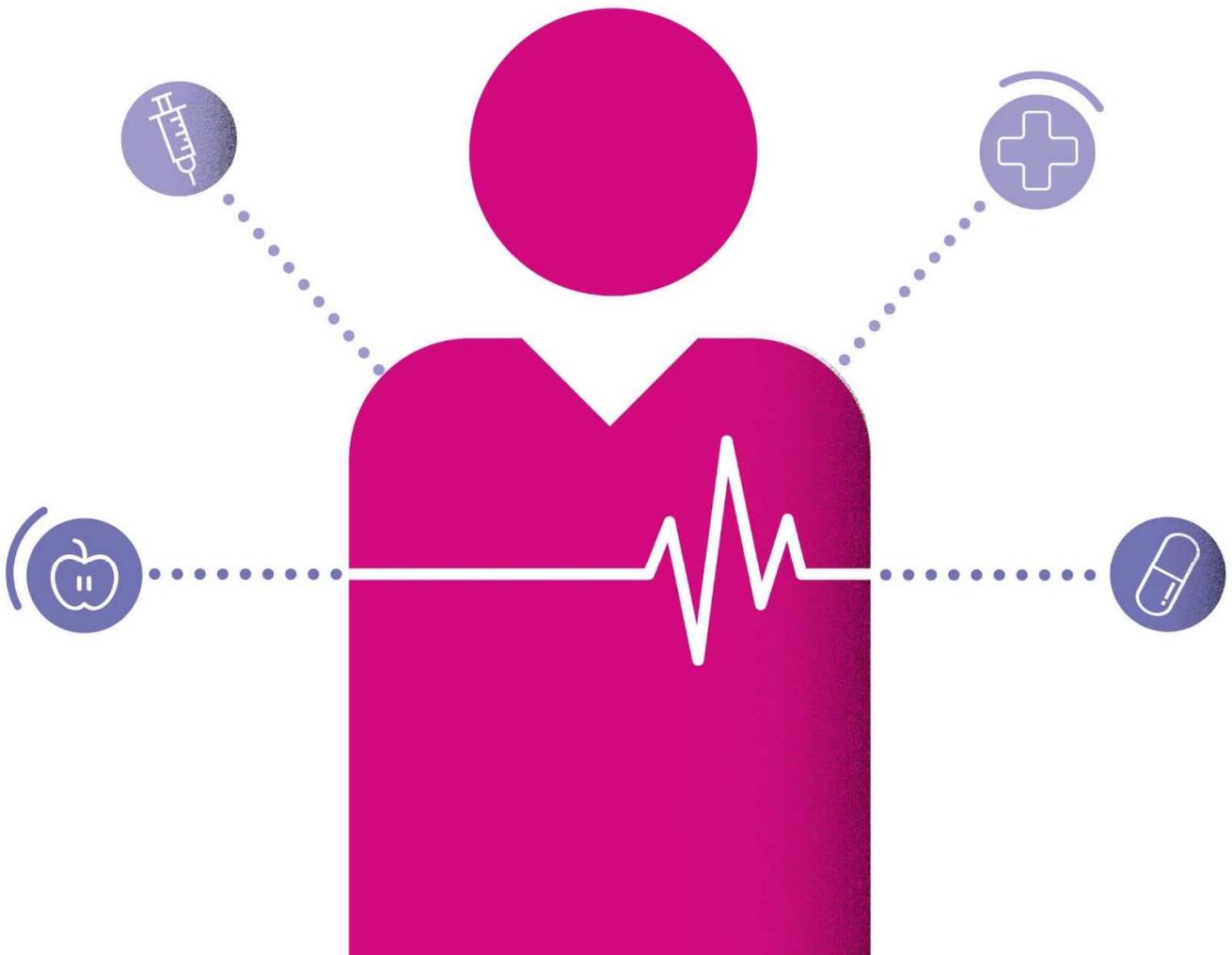




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1. Introduction





Introduction

1. This document summarises the work plan for our 2019/20 external audit of NHS Lothian (“the Board”).
2. The core elements of our work include:
 - an audit of, and provision of an audit opinion on, the 2019/20 annual report and accounts;
 - consideration and reporting on financial sustainability, financial management, governance and transparency, and value for money;
 - sharing intelligence with health and social care national agencies;
 - monitoring the Board’s participation in the National Fraud Initiative (NFI); and
 - any other work requested by Audit Scotland, including the contribution to national performance audits.

Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of the Scottish Government and most public bodies, including NHS bodies in Scotland, and reporting to Parliament on their financial health and performance.
4. Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out her statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Auditor General has appointed Scott-Moncrieff as external auditor of NHS Lothian for the five-year period 2016/17 to 2020/21. This document comprises the audit plan for 2019/20 and summarises:
 - our responsibilities;
 - our audit strategy;
 - our planned audit work and how we will approach it;
 - our proposed audit outputs and timetable; and
 - background to Scott-Moncrieff and the audit management team.

Confirmation of independence

6. Auditing Standards require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. As in the prior year, the Board has requested Scott-Moncrieff audit the abstract of receipts and payments of patients’ private funds. The non-audit fee (“non-audit” in terms of the NHS Lothian statutory audit) for this work in 2019/20 is expected to be around £7,200.
8. In line with Audit Scotland planning guidance, approval is being obtained from the Scott-Moncrieff ethics partner and Audit Scotland before commencing this work (with safeguards in place to ensure objectivity and independence, including separate engagement lead, management, and review).
9. We confirm that we comply with the Financial Reporting Council’s (FRC) Ethical Standards. In our professional judgement, the audit process is independent, and our objectivity has not been compromised in any way.
10. We set out in Appendix 2 our assessment and confirmation of independence.

Adding value through the audit

11. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

12. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

Openness and transparency

13. This plan will be published on Audit Scotland’s website www.audit-scotland.gov.uk.



2. Respective responsibilities of the auditor and the Board





Respective responsibilities of the auditor and the Board

Auditor responsibilities

Code of Audit Practice

14. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Auditor General for Scotland and it is a condition of our appointment that we follow it.

Our responsibilities

15. Auditor responsibilities are derived from statute, the Code, Auditing Standards, professional requirements and best practice and cover our responsibilities for financial statements and wider scope audit (paragraph 17). These are to:

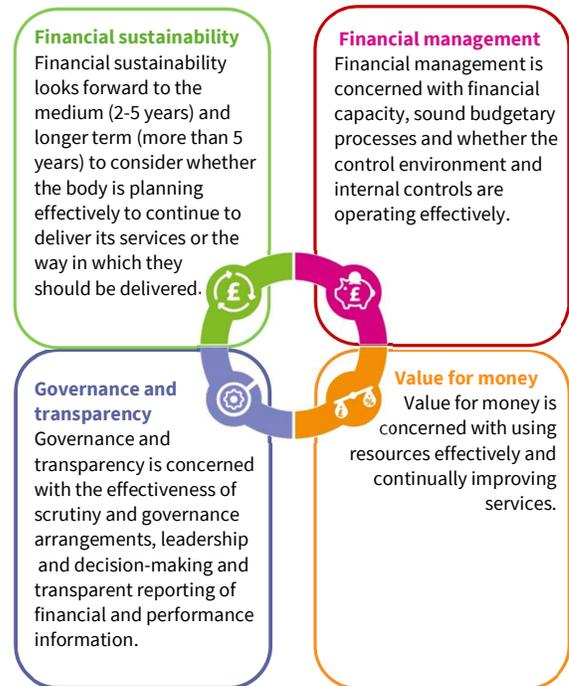
- undertake statutory duties, and comply with professional engagement and ethical standards
- provide an opinion on the financial statements and, where appropriate, the regularity of transactions
- review and report on, as appropriate, other information such as the annual governance statement, management commentary and remuneration report
- notify the Auditor General when circumstances indicate that a statutory report may be required
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the:
 - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets
 - suitability and effectiveness of corporate governance arrangements
 - financial position and arrangements for securing financial sustainability.

16. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Wider scope audit work

17. The special accountabilities that attach to the conduct of public business, and the use of public

Exhibit 1: Audit dimensions of wider scope public audit



money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

18. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.
19. The extent of application of our wider scope responsibilities depends on our assessment of the size, nature and risks of the organisation. Taking these considerations, we have concluded that application of the full wider scope is appropriate at the NHS Lothian.



Board responsibilities

20. The Board 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. The Board's responsibilities are summarised in Exhibit 2.

Exhibit 2 – Board responsibilities

| Area | Board responsibilities |
|--|--|
| <p>Financial statements: Annual accounts containing financial statements and other related reports should be prepared.</p> | <p>The Board has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority • maintaining proper accounting records • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements |
| <p>Financial sustainability: Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.</p> | <p>The Board is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with any statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • How the organisation plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position. |



| Area | Board responsibilities |
|---|--|
| <p>Financial management: Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p> | <p>It is the Board's responsibility to ensure that financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>The Board is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>It is the Board's responsibility to establish arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p> |
| <p>Governance and transparency: 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.</p> | <p>The Board, through its chief executive (as accountable officer) is responsible for establishing arrangements to ensure the proper conduct of their affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> <p>The Board is also responsible for establishing effective and appropriate internal audit and risk management functions.</p> |
| <p>Value for money: Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p> | <p>Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p> |



3. Audit strategy





Audit strategy

Risk-based audit approach

21. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our

audit focuses on the areas of highest risk. Our audit planning is based on:

| | | |
|--|---|---|
| Discussions with senior officers | Our understanding of the health sector and its key priorities and risks | Attendance at the Audit & Risk Committee |
| Guidance from Audit Scotland | Discussions with Audit Scotland and other NHS auditors | Review of internal audit's plan and reports |
| Review of the Board's corporate strategies and plans | Review of the Board's corporate risk register | Consideration of the work of other inspection bodies as appropriate |

22. Planning is a continuous process and our audit planning is therefore updated during the course of our audit to take account of developments as they arise.

Communications with those charged with governance

23. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with the Board that these communications will be through the Audit & Risk Committee (which then reports to the Board). The financial statements and our annual report will also be reported to the Board.

Professional standards and guidance

24. We perform our audit of the financial statements in accordance with International Standards on Auditing (UK), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

Partnership working

25. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Audit Scotland

26. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with them throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

27. Audit Scotland undertakes national performance audits on issues affecting the public sector. We will review the Board's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We also consider the extent to which the Board uses the national performance reports as a means to help improve performance at the local level.

28. During the year we may also be required to provide information to Audit Scotland to support the national performance audits or provide information to support the assessment of the impact of specified published performance audit reports.



Sharing intelligence for health and social care

29. The Sharing Intelligence for Health and Social Care Group is a mechanism that enables seven national agencies¹ to share and consider intelligence about the quality of health and social care systems across Scotland. The aim of the group is to support improvement in the quality of health and social care. When any of the agencies has a potentially serious concern about a health and social care system, the group ensures this is shared and acted upon appropriately.
30. We are required to complete an intelligence return and attend the group meeting when the Board is being considered. Attendance at the meeting also provides us with the opportunity to hear intelligence from other agencies.
31. NHS Lothian was last considered by the group in April 2019. Based on the discussions at the meeting, the group agreed there were no actions beyond any already planned that any of the seven¹ national agencies needed to take.
32. Through our involvement in the Sharing Intelligence for Health and Social Care Group and enquiry of Board management as part of our initial planning discussions, we have not identified any other inspection work planned for 2019/20 which is directly relevant to our audit, other than the work of internal audit and Audit Scotland. We will monitor this situation over the course of 2019/20 and update our plans as necessary. We will also monitor developments in relation to the independent public enquiry covering the Royal Hospital for Children and Young People, Department of Clinical Neurosciences and Child and Adolescent Mental Health Services.

appropriate division of work and sharing audit findings. The Board also uses the National Single Instance (NSI) e-financials service (financial ledger services hosted by NHS Ayrshire and Arran). The appointed auditors to these organisations will share with us their findings on work carried out on those systems.

Internal audit

33. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the Board's total audit resource. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to the Board is used efficiently and effectively.

Shared systems and functions

34. Audit Scotland encourages auditors to seek efficiencies and avoid duplication of effort by liaising closely with other external auditors, agreeing an

¹ The seven national agencies referred to are: Healthcare Improvement Scotland, NHS Education for Scotland, the Care Inspectorate, Audit Scotland, the Scottish Public Services

Ombudsman, the Mental Welfare Commission for Scotland, and Public Health & Intelligence.



4. Annual report and accounts





Annual report and accounts

Introduction

35. Health boards' annual reports and accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section of our plan sets out our approach to the audit of the Board's annual report and accounts.
36. The annual report and accounts comprise the financial statements, the performance report and the accountability report.

Approach to audit of the financial statements

37. Our opinion on the financial statements will be based on:

Risk-based audit planning

38. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the financial statements will be based.

An audit of key systems and internal controls

39. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements.
40. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We examine and test compliance with best practice and the Board's own policies and procedures.
41. We take cognisance of any relevant internal audit reviews of systems and controls.
42. We update the risk assessment following our evaluation of systems and controls which ensures that we continue to focus attention on the areas of highest risk.

A final audit of the financial statements

43. During our final audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on our risk assessment.
44. Our final audit will seek to provide reasonable assurance that the financial statements are free

from material misstatement and comply with the Government Financial Reporting Manual (FRM) and the Accounts Direction issued by Scottish Ministers.

45. In order to provide assurance on the regularity of transactions, we also review whether, in all material respects, expenditure has been incurred and income applied in accordance with guidance issued by Scottish Ministers.

Independent auditor's report

46. Our opinion on whether the financial statements give a true and fair view of the financial position and its net expenditure and of the regularity of transactions will be set out in our independent auditor's report which will be included in the annual report and accounts.
47. We also provide an opinion on the audited part of the remuneration report, annual governance statement and performance report.

Group audit

48. The Board prepares its annual report and accounts on a group basis. The group consists of the Board, the Lothian Health Board Endowment Fund and the four integration joint boards (Edinburgh, West Lothian, Midlothian and East Lothian).
49. The Endowment fund is fully consolidated. The integration joint boards are deemed joint ventures with the respective local authority and accounted for under the equity method. We do not consider the consolidated entities to be of individual financial significance to the group or, due to their specific nature, circumstances and basis of accounting, likely to include significant risks of material misstatement of the group financial statements.
50. The consolidation of the joint boards is expected to be immaterial to the financial statements as a whole in net terms. Income and net expenditure for the endowment fund is also expected to be immaterial. While the Board expects the endowment fund to hold a material level of assets at 31 March 2020, the level is not expected to be significant to the group overall (reflecting less than 10% of group assets). We will monitor and review this position as appropriate across the 2019/20 audit.
51. As part of our audit we will perform analytical procedures at the group level, and we will design testing sufficient to give us assurance over the



valuation of endowment fund investments. We will review the consolidation entries made within the group accounts and confirm those entries back to audited financial statements (the endowment fund) and external confirmations (joint boards).

Materiality

52. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout our audit.
53. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.
54. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceeds overall materiality.
55. Our initial assessment of materiality and performance materiality is set out in the table below.

56. We will also report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements over £250,000; and
- Other misstatements below £250,000 that we believe warrant reporting on qualitative grounds.

Key audit risks in the financial statements

57. Auditing standards require that we inform the Audit & Risk Committee of our assessment of the risk of material misstatement in the financial statements. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Audit & Risk Committee if our assessment changes significantly during the audit.

| Materiality | |
|---|-------|
| £m | |
| Overall materiality: Our initial assessment is based on approximately 1.5% of the Board's Revenue Resource Limit (RRL). Achieving a breakeven position against RRL is a key target for the Board and one of the principal considerations for the users of the financial statements when assessing financial performance. | 24.23 |
| Performance materiality: using our professional judgement we have calculated performance materiality at 65% of overall materiality. | 15.75 |



Exhibit 3 – Key audit risks in the financial statements

Management override

In any organisation, there exists a risk that management has the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

58. In response to this risk we will review the Board's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We will adopt data analytics techniques to review and test aspects of this significant risk. We will review the key accounting estimates, judgements and decisions made by management. This will include, for example, depreciation and amortisation rates, asset valuations, provisions and arrears.

Revenue recognition

Under ISA (UK) 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

59. In respect of the Board's revenue resource allocation from SG, we do not consider the risk of fraud in relation to revenue recognition to be significant due to a lack of incentive and opportunity to manipulate this revenue stream.
60. However, the risk of fraud in relation to revenue recognition is present in all other revenue streams. We will evaluate each material revenue stream, including the controls over revenue accounting. We will conduct substantive testing on all material revenue streams to confirm revenue has been recognised appropriately and in line with accounting policies.

Risk of fraud in the recognition of expenditure

Audit Practice Note 10 "*The Audit of Public Sector Financial Statements*" recognises that most public sector bodies are net spending bodies and that there is an increased risk of material misstatement due to improper recognition of expenditure.

61. In response to this risk we will evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing). We will consider the Board's key areas of expenditure and obtain evidence that the expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.



Capital transactions

The Board holds a significant amount of high value estate (net book value of land and buildings was £846.2million at 31 March 2019). The Board values its assets on a five-year cycle, with an element of the estate being subject to valuation each year. In addition, there is an expectation of significant capital additions during 2019/20. The Board's Capital Resource Limit for 2019/20 is £53.263million and it is expected that this will be fully utilised.

Given the value of assets held and potential scale of the in-year capital transactions, any misstatement in the accounting for assets could potentially result in a material misstatement in the financial statements.

62. We will review asset valuations and ensure the Board has completed a recent assessment for impairment across its estate. We will ensure that assets, including capital additions, are recorded in line with the FReM and the Board's accounting policies and have been accounted for appropriately.

PFI/NPD and related assets

The Board has a range of legacy facilities which were delivered through the Public-Private Partnerships (PPP) / Private Finance Initiatives (PFI), including The Royal Infirmary of Edinburgh, Midlothian Community Hospital, East Lothian Community Hospital, Ellens Glen and Findlay House. More recently, several Non-Profit Distributing Model (NPD) agreements have been entered into and commenced. The cumulative estimated base capital value of these agreements is in excess of £390million.

Due to the complexity of accounting and the high value of the transactions, there is a risk that the Board's financial statements do not show the correct accounting entries and related commitments, and that the unitary payments in relation to these facilities are not correctly accounted for.

63. We will review the Board's PPP/PFI accounting and the commitment disclosures against the requirements of the FReM, the Manual and against the supporting contracts. We will also review relevant aspects of the transactions against the NHS Scotland Capital Accounting Manual.

The performance report, accountability report and other information

64. The HM Treasury Government Financial Reporting Manual 2019/20 sets out the content required within the annual report and accounts. In addition to presenting our opinions over the financial statements our independent auditor's report will also present our opinion on other aspects of the annual report and accounts:

Other information

65. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's

report thereon. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.

66. We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our independent auditor's report



The performance report

67. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It contains two sections:
- an overview of the organisation, its purpose, the key risks to the achievement of its objectives and how it has performed during the year; and
 - a detailed summary of how the entity measures its performance.
68. Our independent auditor's report will confirm whether in our opinion the performance report has been properly prepared and is consistent with the financial statements.

The accountability report

69. The accountability report is required in order to meet key parliamentary accountability requirements. It has three sections:
- A corporate governance report (including a governance statement) explaining the composition and organisation of the entity's governance structures and how they support the achievement of the entity's objectives.
 - A remuneration and staff report setting out staff numbers and costs as well as the entity's remuneration policy for directors and the remuneration awarded to directors.
 - A parliamentary accountability report disclosing the regularity of expenditure and other parliamentary accountability requirements.
70. Our independent auditor's report will confirm whether in our opinion the governance statement and the audited part of the remuneration and staff report have been properly prepared and are consistent with the financial statements.



5. Wider scope





Introduction

71. As described in section 2, the Code frames a significant part of our audit responsibilities in terms of four wider scope audit dimensions. As part of our annual audit we consider and report against these four dimensions:
- financial sustainability
 - financial management
 - governance and transparency; and
 - value for money.
72. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years and is further informed by planning undertaken for 2019/20, supporting our understanding of the Board's key priorities and risks. In 2019/20, Audit Scotland has also identified the following wider scope risks, which we will consider during our audit as they relate to the Board:
- Fraud and corruption in respect of the procurement function; and
 - EU withdrawal
73. At this stage of our audit planning process, we have identified one significant risk to the wider scope of our audit in relation to financial sustainability, and two significant risks in relation to value for money (Exhibit 4).
74. We have not, at this stage, identified any significant risks specifically for financial management or governance and transparency. However, there is clear cross over between these areas and other significant risks identified. Audit planning is always a continuous process and we will report any identified significant risks, as they relate to the four dimensions, in our annual audit report. Exhibit 5 summarises our audit work in respect of each dimension.

Exhibit 4 – Wider scope significant risks

Financial sustainability

In April 2019, the Board and Finance and Resources Committee considered a Financial Plan to support the Annual Operational Plan. The paper outlined a remaining financial gap of £26 million. Our work on the financial projections from 2019/20 onwards notes ongoing challenges in achieving the recurring savings targets and medium to longer term financial stability.

NHS Lothian has an ongoing challenge relating to the impact of demography as funding has not kept pace with population changes. Since the NRAC formula was introduced in 2009, NHS Lothian's allocation has consistently been below the target level of funding. While all Boards have moved to within 0.8% of NRAC parity, NHS Lothian has estimated that the value of this shortfall will be £15m for 2019/20.

75. During our audit we will consider how NHS Lothian balances the management of its longer-term financial position with demand and performance targets. Our work will include an assessment of progress made in developing financially sustainable operating plans that continue to support the delivery of the Board's statutory functions and strategic objectives.



Value for Money: Performance against targets

In our 2018/19 audit we noted that NHS Lothian met just 50% of performance indicators, a slight improvement from the 48% of 2017/18. Within the metrics, there were a number of areas in which performance had deteriorated since 2017/18, such as the percentage of outpatients treated within 12 weeks, percentage of patients referred with suspicion of cancer receiving treatment within 62 days, and percentage of inpatient and day cases covered under the Treatment Time Guarantee seen within 12 weeks.

Performance against targets has been an area of challenge for the Board, particularly due to ongoing financial pressures. The Board has set out in its 2019/20 Operational Plan an outline of the improvement plans in place to address these areas of performance pressure.

- 
76. As part of our work on value for money, we will review the effectiveness of the Board's monitoring of performance against targets and review plans to help ensure continuous improvement in performance. We will also consider efficiency measures of Board performance, to help assess NHS Lothian's relative performance compared to other health boards and help understand and contextualise some of the performance metrics.

Value for Money: Developments in relation to Royal Hospital for Children and Young People, Department of Clinical Neurosciences and Child and Adolescent Mental Health Services

In our 2018/19 audit we carried out a high-level review of value for money and governance aspects of the settlement agreement made for the development of the Royal Hospital for Children and Young People, Department of Clinical Neurosciences and Child and Adolescent Mental Health Services.

The planned opening date of the hospital was 9 July 2019, but on the 4th July 2019, this was postponed due to issues identified in the final safety checks (relating primarily to the ventilation system). The hospital is now planned to open in Autumn 2020, representing a delay of almost three years from the original timescale.

Following the most recent delay to the opening of the hospital, two investigations were commissioned. One was carried out by KPMG on the governance arrangements in place for the project, and the other was conducted by NHS National Services Scotland (NSS) focussing on technical specifications. The NSS report raised a number of remedial actions that needed to be completed by NHS Lothian to ensure compliance with relevant standards. Given the cumulative issues with the project, a public enquiry has also been announced, with details to follow at time of writing.

- 
77. As part of our 2019/20 audit, we will review matters arising with the development of the Royal Hospital for Children and Young People, Department of Clinical Neurosciences and Child and Adolescent Mental Health Services since completion of our 2018/19 audit. We will follow up on progress made by the Board against the remedial actions and related actions arising from the NSS and KPMG reports, and consider ongoing financial and governance arrangements as the organisation pursues satisfactory progress and conclusion.



Exhibit 5 - Our audit approach to the wider scope audit dimensions



Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the organisation's planning processes support the future delivery of services.

| Consideration | Our audit approach |
|---|---|
| <p>In 2018/19, we concluded that NHS Lothian has effective arrangements in place for financial planning and monitoring in the short term but that, until the Board is in a position to agree a medium-term financial strategy, there remains a challenging financial outlook and uncertainty around the sustainability of services at the current levels.</p> <p>The Scottish Government published the Health and Social Care Medium Term Financial Framework in October 2018, which led NHS Lothian to develop a tiered approach to deliver financial sustainability. A Programme Management Office is in place to monitor and report on progress against individual workstreams. At time of writing, NHS Lothian is awaiting national budget confirmations as it works up and refines financial plans for 2020/21 and beyond.</p> | <p>During 2019/20, we will review and conclude on:</p> <ul style="list-style-type: none"> • The ongoing development of financial planning and modelling to identify and address risks to financial sustainability; and • The appropriateness and effectiveness of arrangements in place to address any identified funding gaps, including whole system reviews with the Board's Integration Authority partners. |



Financial management

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

Consideration

NHS Lothian met all its key financial targets in 2018/19 and we concluded that the Board had effective arrangements in place for financial management and the use of resources. Our conclusion was based on a review of NHS Lothian's financial performance, underlying financial position, financial reporting and achievement of savings targets at that time.

Since then, we understand that the Board has further progressed the development of a financial model to underpin budgetary control.

Our audit approach

During our 2019/20 audit we will review, conclude and report on the following:

- The achievement of financial targets and effectiveness of financial performance reporting during the year;
- Whether NHS Lothian continues to have arrangements in place to ensure systems of internal control are operating effectively;
- The effectiveness of the budgetary control system in communicating accurate and timely performance;
- Whether the Board has established appropriate and effective arrangements for the prevention and detection of fraud and corruption, with particular focus on the procurement function.



Governance and transparency

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.

Consideration

In previous years, we have concluded that NHS Lothian has well developed governance arrangements in place, including an effective Assurance Framework for the Board and its main governance committees. During 2018/19, the Board conducted a self-assessment against the Blueprint for Good Governance, reflecting an openness and desire for continuous improvement in governance arrangements.

Our audit approach

As part of our work on governance and transparency work in 2019/20 we will review, conclude and report on:

- Whether NHS Lothian can demonstrate that the governance arrangements in place are appropriate and operating effectively, including services delivered in partnership with Integration Authorities;
- Whether induction arrangements for new Board members support effective scrutiny and challenge;
- The transparency of decision-making, and on financial and performance reporting;
- The Board's work on the potential impact of Brexit;
- Reasonableness and consistency of the governance statement in relation to other information gathered during our audit.



Value for money

Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.

Consideration

Our Annual Audit report for 2018/19 highlighted growing pressures on the Board to achieve performance targets while delivering the financial savings required to break even.

NHS Lothian has produced a Quality Strategy for 2018-2023 which aligns to the current operational plans and looks to improve the quality of performance outcomes over five years.

Our audit approach

During 2019/20, we will review, conclude and report on:

- How NHS Lothian has progressed against the Quality Strategy;
- How NHS Lothian provides evidence of a clear link between investments and prioritised spending against outcomes delivered; and
- The effectiveness of working with partners (including Integration Joint Boards, particularly in Edinburgh) to address significant delayed discharges.

In relation to the Royal Hospital for Children and Young People development, We will follow up on progress made by the Board against the remedial actions and related actions arising from NSS and KPMG reports, and consider ongoing financial and governance arrangements as the organisation pursues satisfactory progress and conclusion. (This area cuts across various Code of Audit Practice dimensions).



6. Audit outputs, timetables and fees

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Audit outputs, timetable and fees

This section of our plan provides details of our audit outputs, timetable and proposed audit fees for the audit of the Board.

| Audit output | Description | Target month |
|---|--|---------------|
| External audit plan | This sets out the scope of our audit for 2019/20. | February 2020 |
| Independent Auditor's Report | This report will contain our opinion on the financial statements, the regularity of transactions and the audited part of the remuneration report, annual governance statement and performance report. | June 2020 |
| Annual Report to the Board and the Auditor General for Scotland | At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice. | June 2020 |

Audit outputs

78. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
79. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

details for the NHS Lothian 2019/20 audit are as follows:

| Fee element | 2018/19 | 2019/20 |
|----------------------|-----------------|-----------------|
| Auditor remuneration | £222,730 | £234,583 |
| Pooled costs | £26,060 | £25,630 |
| Audit support costs | £13,380 | £12,940 |
| Total fee | £262,170 | £273,153 |

Audit fee

80. Audit Scotland sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary, based on auditors' experience, new requirements, or significant changes to the audited body.
81. As auditors we negotiate a fee with the audited body during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.
82. Auditors have scope to increase fees to reflect local circumstances, by up to 10% for larger audits. For 2019/20 we propose setting the audit fee at 2.5% (£6,663) above the expected fee level. This is to cover additional resources not reflected in the setting of the notionally expected fee. This includes the senior management time required in relation to Royal Hospital for Children and Young People development and work scrutinising relative performance against performance standards. Fee

83. We take account of the risk exposure of the Board and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.



Audit timetable

84. The dates for our interim and final audits have been discussed with the Deputy Director of Finance and the Head of Financial Services. We have agreed the principle of commencing work as early as possible in the process. This includes undertaking some wider scope work during the current year and bring forward some of our final audit visit work to April 2020 (the latter including some sample selection and testing which would routinely be performed during our final audit visit in May). The more detailed scope of and approach to this work will be discussed and agreed with NHS Lothian management in due course.
85. We will also produce a Financial Statements Strategy for 2019/20, to provide a framework for the detailed financial statements audit work. This will involve input and agreement with NHS Lothian's finance team, to help agree expectations, roles & responsibilities and ensure relevant detail is agreed as far in advance as possible to support an efficient and effective audit process. This will take full cognisance of changes being made to the NHS Accounts Manual. We intend to run a workshop for all our NHS audit clients in March 2020, focussing on this Financial Statements Strategy.
86. A summary timetable, including audit outputs, is set out as follows:

| | | |
|---------------|---|---|
| JAN 20 | ● | Planning meetings and visits to inform the 2019/20 audit |
| FEB 20 | ● | Presentation of External Audit Plan to the Audit & Risk Committee |
| FEB 20 | ● | Interim planning audit visit & ongoing wider scope work |
| MAY 20 | ● | Accounts presented for audit and final audit visit begins |
| JUN 20 | ● | Presentation of our Annual Report on the Audit to the Audit & Risk Committee and submitted to the Auditor General for Scotland. |



7. Appendices





Appendix 1: Audit management team

Scott-Moncrieff is one of Scotland's leading firms of auditors and business advisers. We are part of the fast-growing Cogital Group, giving us a both a UK-wide presence and international reach in 190 offices with 6,500 staff. Cogital Group is an innovator, investor and early adopter of technologies that provide continuous improvement to the services we provide our clients.

Scott-Moncrieff have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies. Scott-Moncrieff's offices are as follows:

| Edinburgh | Glasgow | Inverness |
|---|---|---|
| Exchange Place 3 Semple Street Edinburgh EH3 8BL | 25 Bothwell Street Glasgow G2 6NL | 10 Ardross Street Inverness IV3 5NS |
| (0131) 473 3500 | (0141) 567 4500 | (01463) 701 940 |

Audit management team



Chris Brown

Audit Partner

chris.brown@scott-moncrieff.com

Chris is the audit partner in charge of our audit of NHS Lothian as well as most of our other external and internal audit appointments in the health sector. Chris has over 25 years' experience in NHS auditing. Chris is a recognised specialist in public sector governance and risk management and is always available to provide accounting and other advice to the Board. He is also a member of the Scott-Moncrieff board.



David Eardley

Director

david.eardley@scott-moncrieff.com

David is an experienced NHS external and internal audit director, with over a decade and a half in practice. He joined the firm in August 2006 and has led the management of our more complex and sizeable NHS external audit appointments. He is a member of the NHS Technical Accounting Group and has a decade and a half of experience across the NHS, Local Authority, Central Government and Education sectors.



Paul Kelly

Business Technology and Consultancy Director

paul.kelly@scott-moncrieff.com

Paul leads the delivery of our computer audit services and has over 20 years' experience of delivering services such as network infrastructure and security reviews and determining compliance with the requirements of the information security standard, BS7799.



Emily Rodgers

Associate

emily.rodgers@scott-moncrieff.com

Emily joined Scott-Moncrieff in 2017 as a public sector audit trainee. She has been involved in the audit of NHS Lothian since 2017/18, in amongst extensive experience across the Scottish public sector.



Appendix 2: Confirmation of independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

As in the prior year, the Board has requested Scott-Moncrieff audit the abstract of receipts and payments of patients' private funds. The non-audit fee for this work in 2019/20 is expected to be around £7,200. In line with Audit Scotland planning guidance, approval is being obtained from the Scott-Moncrieff ethics partner and Audit Scotland before commencing this non-audit work.

We confirm that we comply with FRC's Ethical Standards. In our professional judgement, the audit process is independent, and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the Board, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.



Appendix 3: Statement of understanding

Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of NHS Lothian (the “Board”) and Scott-Moncrieff.

Annual report and accounts

We will require the annual report and accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant Board staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy in advance of our final audit visit which sets out our expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the Board's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the Board during the course of the audit on matters having a material effect on the annual report and accounts. This will take place by means of a letter of representation, which will require to be signed by the Chief Executive.

Internal audit

It is the responsibility of the Board to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists. We will liaise with internal audit to ensure an efficient audit process.

Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation or theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 impose an obligation on the Auditor General to inform the National Crime Agency (NCA) if she knows or suspects that any person has engaged in money laundering or terrorist financing.

We require the Board to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants in England and Wales.

Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable, we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service, you are receiving please let us know by contacting Chris Brown. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of you not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants in England and Wales.



We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work. Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

Agreement of terms

We shall be grateful if the Audit & Risk Committee would consider and note this statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.

