

# NHS National Services Scotland

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for NHS National Services Scotland

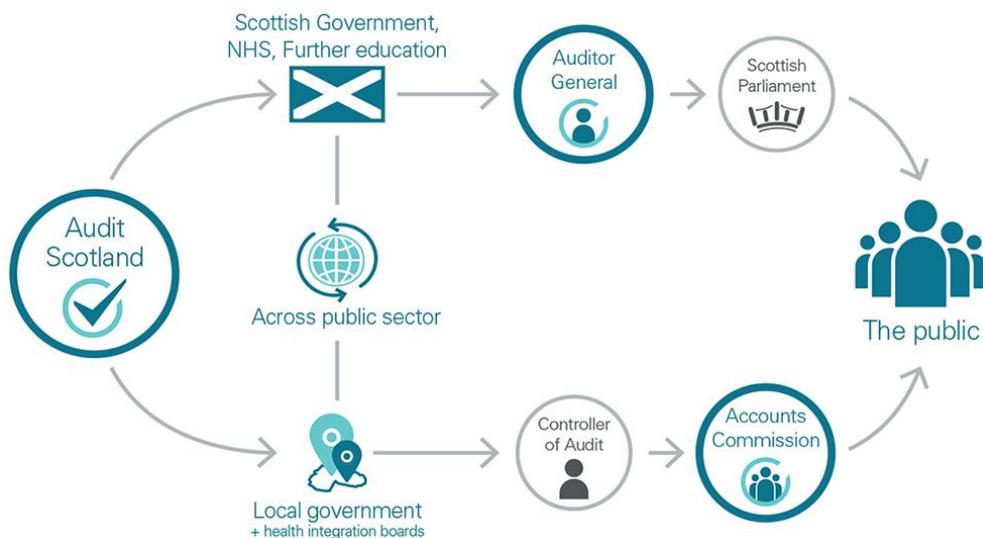
January 2020



## 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 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 National Services Scotland (NHS NSS) 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 National Services Scotland 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 National Services Scotland. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p>1 <b>Risk of material misstatement caused by management override of controls</b></p> <p>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"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p>2 <b>Risk of material misstatement caused by fraud in income recognition.</b></p>	<p>Effective budget monitoring by management.</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on income streams.</li> <li>• Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. NHS National Services Scotland receives income from a variety of sources: NHS funding from the Scottish Government is not considered to represent a risk of material misstatement, although we will review the audit trail for funding allocation adjustments (as in previous years). Our testing will focus on income from other sources.</p>	<p>Internal audit and service audit coverage of internal controls.</p> <p>Regular monitoring of National Fraud Initiative and NHS NSS fraud monitoring reports.</p>	
<p><b>3 Risk of material misstatement caused by fraud in expenditure</b></p> <p>The Financial Reporting Council's Practice Note 10 (revised) and the Code of Audit Practice require consideration of the risk of fraud over expenditure. The extent and nature of expenditure at NHS National Services Scotland means that there is an inherent risk of fraud; we will carry out audit procedures to address this risk.</p>	<p>Effective budget monitoring by management.</p> <p>Internal audit and service audit coverage of internal controls.</p> <p>Regular monitoring of National Fraud Initiative and NHS NSS fraud monitoring reports.</p>	<ul style="list-style-type: none"> <li>• Analytical procedures over expenditure streams</li> <li>• Review of contracts and agreement to actual spend</li> <li>• Detailed testing of expenditure transactions focusing on the areas of greatest risk.</li> </ul>
<p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account area of non-current assets. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Experienced, qualified valuer engaged to provide valuation.</p>	<ul style="list-style-type: none"> <li>• Completion of 'review of the work of an expert' for the relevant professional valuer.</li> <li>• Focused substantive testing of key areas to valuation certificates.</li> <li>• Review of accounting policies to ensure they are reasonable and appropriately applied.</li> </ul>
<p><b>5 Inventories</b></p> <p>The inventories balance is material in the NHS NSS financial statements and this balance is expected to increase as a result of Scottish Government instructions to raise stock levels ahead of EU withdrawal. There is a risk that the existence, accuracy and valuation of stock are not properly recorded leading to an increased risk of material misstatement in the financial statements.</p>	<p>Monthly stock counts to ensure stock system records are correct.</p>	<ul style="list-style-type: none"> <li>• Attendance at stock count to ensure procedures are followed appropriately.</li> <li>• Review of stock valuation and any arrangements for stockpiling in advance of the UK's withdrawal from the EU.</li> </ul>
<p><b>6 Financial statements preparation</b></p> <p>The reconciliations process supporting the accounts preparation is to be automated during the year.</p>	<p>Recruitment of an assistant accountant within the finance function</p>	<ul style="list-style-type: none"> <li>• Review of automated reconciliation processes to ensure we can rely on the year end reconciliations in</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>This change in process creates a risk that the new process does not operate as intended and that we would not be able to rely on the outputs as audit evidence.</p> <p>The timetable proposed for the audit of the financial statements is challenging and we are aware from our planning and risk assessment work that finance staff are continuing to work under pressure. There is a risk that we are unable to meet the agreed timescales for the scheduled June Audit and Risk Committee if any delays occur or audit issues are identified.</p>	<p>to help with financial statements preparation.</p> <p>Internal audit review of financial controls.</p>	<p>our financial statements audit.</p> <ul style="list-style-type: none"> <li>• Agreement of accounts timetable and a checklist of the working papers to be supplied with the unaudited financial statements.</li> <li>• We will also attend a finance team meeting in early 2020 to discuss the audit process, working papers and audit evidence with the staff responsible for the financial statements' supporting documentation.</li> </ul>

### Wider dimension risk

#### 7 Value for money: digital transformation

NHS NSS has an ambitious digital transformation strategy. To support NHS NSS' "Cloud First" vision, this includes building and supporting a private high-occupancy cloud infrastructure. Over time this will host both internal and national services that support patient care (e.g. the replacement CHI/CH service). As patient care services are migrated from the current managed service arrangements, NHS NSS will need to develop robust 24/7 wrap-around support. This creates a potential capacity risk that is likely to increase over time.

Internal audit coverage of the programme management for key strategic digital projects.

- Review of plans for the operational delivery of cloud-based services including the in-house 24/7 wrap around support.
- Review of plans for the management of capacity risk.

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](http://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 National Services Scotland and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

8. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end, i.e. 31 December.

Management are required to submit their audited financial statements by 30 June to meet the consolidation timetable.

## Exhibit 2

### 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Management Report	31 March 2020	31 March 2020
Service Audit Assurance Letter	31 May 2020	17 June 2020
Independent Auditor's Report	30 June 2020	17 June 2020
Annual Audit Report	30 June 2020	17 June 2020

Source: Audit Scotland

## Audit fee

**9.** The audit fee for the 2019/20 audit of NHS National Services Scotland is £186,000 (2018/19 £181,480). In determining the audit fee, we take account of the risk exposure of NHS National Services Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual report and accounts, with a complete working papers package on 27 April 2020.

**10.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## Responsibilities

### Audit Committee and Accountable Officer

**11.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

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

### Appointed auditor

**13.** Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**14.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual report and accounts

**15.** The annual report and accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of NHS National Services Scotland 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 National Services Scotland will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

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

- give a true and fair view of the state of the board's affairs as at 31 March 2020 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with the financial reporting framework and the requirements of the National Health Service (Scotland) Act 1978 and related directions made by Scottish Ministers.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual report and accounts

**17.** We also review and report on statutory other information published within the annual report and accounts including the management commentary, annual governance statement and the remuneration and staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**18.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## Materiality

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

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

## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2019 (based on the latest audited accounts).	£7.3 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£4.4 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1.5% of planning materiality (rounded).	£100 thousand

Source: Audit Scotland

## Timetable

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

## Exhibit 4

### Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	27 April 2020
Latest date for final clearance meeting with Director of Finance	5 June 2020
Issue of Letter of Representation and proposed independent auditor's report	10 June 2020
Agreement of audited unsigned annual report and accounts	17 June 2020
Issue of Annual Audit Report to those charged with governance	17 June 2020
Independent auditor's report signed	26 June 2020

## Internal audit

**22.** Internal audit is provided by KPMG LLP. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors

- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**23.** We have concluded that internal audit operates in accordance with the main requirements of PSIAS and that we can place reliance on internal audit work. We have previously reported that KPMG has not yet had an external assessment of its compliance with PSIAS, required every 5 years under PSIAS. We recommended in our 2018/19 Annual Audit Report that NHS NSS should arrange an external review of internal audit's PSIAS compliance. We will report in our 2019/20 Annual Audit Report on progress against our 2018/19 recommendations.

### 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. 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.

**25.** From our initial review of internal audit plans we plan to place formal reliance on internal audit work in the following areas:

- Financial controls (depending on scope of the review)
- Property transaction monitoring (if relevant transactions occur during 2019/20)

**26.** In respect of our wider dimension audit work, we will take account of the other areas of internal audit's work.

### 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



## Financial sustainability

**28.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will consider:

- 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

**29.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will consider:

- whether arrangements are in place to ensure systems of internal control are operating effectively.
- whether the effectiveness of budgetary control systems in communicating accurate and timely financial performance can be demonstrated.
- how NHS National Services Scotland 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. This year's audit will focus on assessing the risk of fraud in relation to procurement and the effectiveness of NHS National Services Scotland's arrangements for addressing this risk. All public sector auditors are asked to review this area in either 2019/20 or 2020/21.

## Governance and transparency

**30.** 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 consider:

- whether NHS National Services Scotland can demonstrate that the governance arrangements in place are appropriate and operating effectively, including services delivered by, or in partnership with, others.
- whether there is effective scrutiny, challenge and transparency on decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

## Value for money

**31.** Value for money refers to using resources effectively and continually improving services. We will consider whether NHS National Services Scotland can demonstrate:

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

**32.** We will review performance management arrangements for NHS NSS's digital services. Internal audit is reviewing NHS NSS's programme management of digital transformation. We intend to rely on this work to avoid duplication and will target our own work at an operational level, including how well these services are meeting stakeholder needs.

### **Best Value**

**33.** The Accountable Officer of NHS National Services Scotland 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 National Services Scotland is Mark Taylor, Audit Director. Auditing and ethical standards require the appointed auditor Mark Taylor 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 National Services Scotland.

### **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 National Services Scotland

## Annual Audit Plan 2019/20

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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