



Scott-Moncrieff
business advisers and accountants

With **Campbell Dallas**
a Cognia company

The State Hospitals Board for Scotland

External Audit Annual Plan 2019/20

January 2020

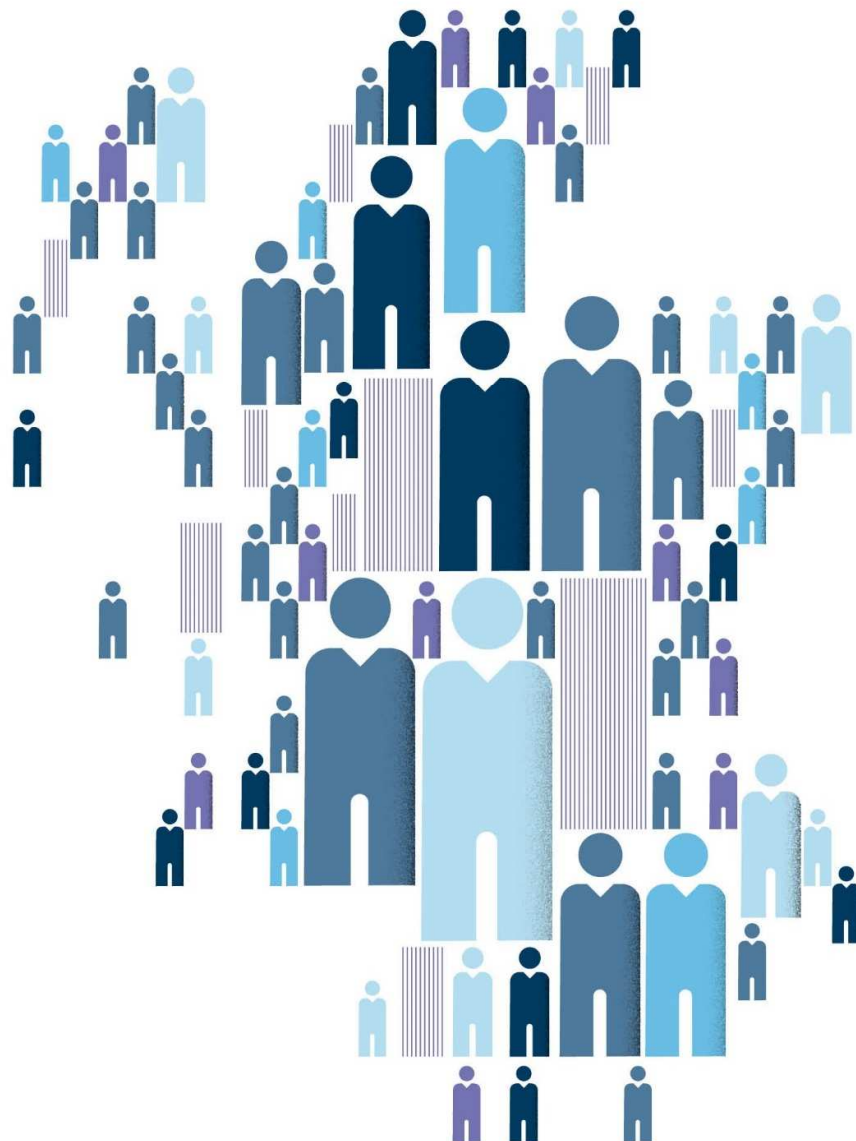




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1. Introduction



Introduction

1. This document summarises the work plan for our 2019/20 external audit of the State Hospitals Board for Scotland (“the Board”).
 2. The core elements of our work include:
 - an audit of, and provision of a specified audit opinion, on the 2019/20 annual report and accounts;
 - consideration and reporting on the Board’s arrangements on the four audit dimensions: 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 performance audits (including overview reports, performance audit reports, and impact reports).
- the responsibilities of Scott-Moncrieff as the external auditor;
 - 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.

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 the State Hospitals Board for Scotland for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2019/20 and summarises:

Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. 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.
8. We set out in Appendix 2 our assessment and confirmation of independence.

Adding value through the audit

9. 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

10. 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

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



2. Respective responsibilities of the auditor and the Board

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Respective responsibilities of the auditor and the Board

Auditor responsibilities

Code of Audit Practice

12. 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.

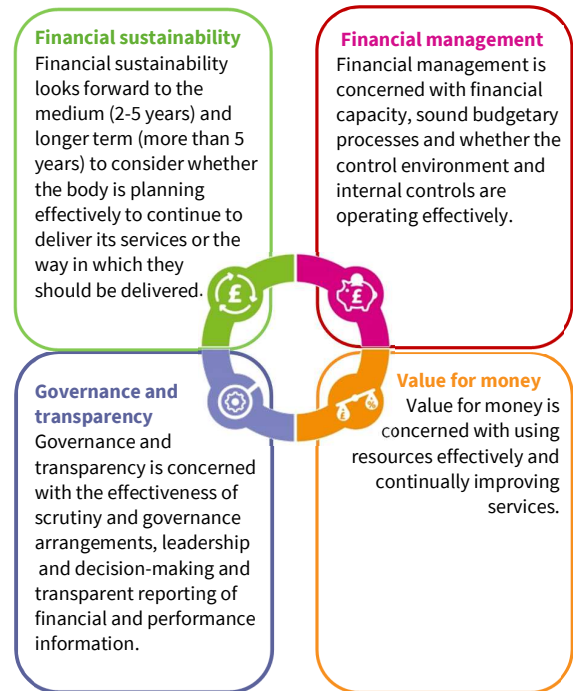
Our responsibilities

13. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK) (ISAs (UK)), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities (paragraph 15). These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards
- provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports
- 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 audited bodies':
 - 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

14. 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.

Exhibit 1: Audit dimensions of wider scope public audit



Wider scope audit work

15. The special accountabilities that attach to the conduct of public business, and the use of public 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.
16. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.
17. Our assessment takes into account the size, nature and risks of the organisation. Taking these factors into consideration, we have concluded that application of the full wider scope is appropriate at the Board.



Board responsibilities

18. 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

19. 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 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

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

Audit Scotland

Communications with those charged with governance

21. 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 Committee.

24. 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.

Professional standards and guidance

22. We perform our audit of the financial statements in accordance with International Standards on Auditing (UK) (ISAs (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).

25. 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.

Partnership working

23. 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.

26. 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

27. 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.
28. 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.
29. The State Hospitals Board for Scotland was last considered by the group in October 2019. Based on the discussions at the meeting, the group agreed, at that time, there were no actions beyond any already planned that any of the seven national agencies needed to take.
30. Through our attendance at 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.

findings. The Board also uses the National Single Instance (NSI) e-financials service (financial ledger services hosted by NHS Ayrshire and Arran). The Board also uses NHS National Services Scotland for purchase ledger and sales ledger services and NHS Greater Glasgow and Clyde for payroll services. The appointed auditors to these organisations will share with us their findings on work carried out on those systems.

Internal audit

31. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the Board's total audit resource. The Board's internal audit service is provided by RSMUK. 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

32. Audit Scotland encourages auditors to seek efficiencies and avoid duplication of effort by liaising closely with other external auditors, agreeing an appropriate division of work and sharing audit

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

33. Health boards' annual report 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 set outs our approach to the audit of the Board's annual report and accounts.
34. The annual report and accounts of the Board comprise the financial statements, the performance report and the accountability report.

Approach to audit of the financial statements

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

Risk-based audit planning

36. 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

37. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements.
38. 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.
39. We take cognisance of any relevant internal audit reviews of systems and controls.
40. 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

41. 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.

42. 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.
43. 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

44. 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.
45. We also provide an opinion on the audited part of the remuneration report, annual governance statement and performance report.

Materiality

46. 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.
47. 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.
48. 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 exceed overall materiality.



49. Our initial assessment of materiality and performance materiality is set out in the table below.

	Materiality £000
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.	565
Performance materiality: using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	420

50. We will also report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
 - Uncorrected misstatements with a value in excess of 5% of the overall materiality figure; and
 - Other misstatements below the 5% threshold that we believe warrant reporting on qualitative grounds.

Key audit risks in the financial statements

51. Auditing standards require that we inform the Audit 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 Committee if our assessment changes significantly during the audit.



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*.

52. 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 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.

53. We consider, in respect of the Board's revenue resource allocation (RRL), the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate this revenue stream. We have concluded, 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

In 2016, the Public Audit Forum issued Practice Note 10 "*The Audit of Public Sector Financial Statements*" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

54. In response to this risk we will evaluate the significant expenditure streams (excluding payroll which is not deemed to be a significant risk area) and review the controls in place over accounting for expenditure. 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.



The performance report, accountability report and other information

55. 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:

- 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.

Other information

56. "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.

57. 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

61. 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.

The performance report

58. 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.

59. 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

60. 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



5. Wider scope





Introduction

62. 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.
63. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an 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
64. At this stage of our audit planning, we have identified one significant risk to the wider scope of our audit in relation to financial sustainability (Exhibit 4).
65. We have not, at this stage, identified any significant risks in relation to the other dimensions. Audit planning however is 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 risk

1. Financial sustainability

An Annual Operational Plan is in place for 2019/20 along with a financial plan covering the three years from 2019/20. The Board has forecast a breakeven position across each of the three years. This is dependent on the realisation of a savings plan which the Board has already recognised will be challenging over the coming years due to a number of financial pressures.

There is a risk that delivery of the Board's efficiency savings plans are at the detriment of services and/or on-going financial health.

The achievement of future financial targets will depend on continuing tight control of expenditure, delivery of a challenging savings plan and may also require some difficult decisions to be taken in areas such as workforce.

66. During our audit we will continue to review whether the Board has appropriate arrangements in place to manage its financial position and deliver the scale of savings required. 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.



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

As noted in Exhibit 4:

An Annual Operational Plan is in place for 2019/20 along with a financial plan covering the three years from 2019/20. The Board has forecast a breakeven position across each of the three years. This is dependent on the realisation of a savings plan which the Board has already recognised will be challenging over the coming years due to a number of financial pressures.

The Board's capital plan outlines significant investment in its estate over the next five years, totalling c.£9.925million. This includes the Board's planned work on the Perimeter Security and Enhanced Internal Security System (c.£8.6million).

National health boards continue to work together to identify ways to collectively standardise and share services. A target has been set to reduce the operating costs of National Boards by £15million in 2019/20; with the aim that this revenue can be reinvested in frontline NHS Scotland priorities. The intention is to deliver the savings target through targeting real change in the way support services are delivered. The focus is on four key work streams; HR, procurement, finance and estates.

In October 2018, the Scottish Government published its Health and Social Care Medium Term Financial Framework. The Framework is supported by financial modelling and highlights the necessity for not only additional investment but continued reform of the Health and Social Care system. It is expected that the development of the Framework will provide NHS Boards with more information and funding assurances in order to develop longer term financial and reform plans.

There is a risk that delivery of the Board's efficiency savings plans are at the detriment of services and/or on-going financial health.

Our audit approach

During our 2019/20 audit we will update our assessment of the Board's financial standing. This will involve a review of the arrangements in place for developing short, medium and long term financially sustainable plans that continue to support the delivery of the Board's statutory functions and strategic objectives, budgetary control and financial reporting.

Our work will also consider the adequacy of the Board's preparations and scenario planning for the impact of EU withdrawal (building upon our assessment in the previous year), the impact that the Scottish Government's Medium Term Financial Strategy (MTFS) and Health and Social Care Medium Term Financial Framework has on the Board and the ongoing work with other national health boards.



Financial management

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

Consideration

As at the end of November 2019, the Board was reporting an underspend (£0.217million). The Board is forecasting a break-even position although it still faces certain cost and savings pressures. In the prior year, the Board reported (as at end of November 2018) an overspend of £0.289million. The Board reports that the main contributing factor to this positive position, in comparison with the prior year, is the reduction in Nursing ward overtime costs.

As noted under financial sustainability, National Health Boards have been tasked by SGHSCD to work together to identify ways to collectively standardise and share services with a target to reduce the operating costs of National Boards so that savings can be reinvested in frontline NHS Scotland priorities. The Board is expected to contribute £220,000 in 2019/20.

The Acting Head of Financial Accounts is due to retire in 2020. Plans are currently being developed to ensure appropriate arrangements are in place for the audit of the annual report and accounts.

Leaders of public bodies have a responsibility to embed effective standards for countering fraud and corruption in their organisations². In 2019/20, Audit Scotland has identified fraud and corruption in respect of the procurement function as this as a particular risk area and audit focus.

The National Fraud Initiative (NFI) is a counter fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error. The most recent NFI exercise commenced in 2018 and as part of our 2019/20 audit we will continue to monitor the Board's participation and progress in the NFI.

Our audit approach

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

- How the Board has assured itself that its financial capacity and skills are appropriate;
- Whether the Board can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance;
- Whether the Board has arrangements in place to ensure systems of internal control are operating effectively;
- Whether the Board has established appropriate and effective arrangements for the prevention and detection of fraud and corruption, with particular focus on fraud and corruption in the procurement function; and
- The Board's participation and progress in the National Fraud Initiative. We are required to complete and submit to Audit Scotland, by 28 February 2020, a questionnaire on the Board's participation in the NFI. The information provided will be used in Audit Scotland's next NFI report due to be published in summer 2020.

² <https://www.cipfa.org/services/networks/better-governance-forum/counter-fraud-documentation/code-of-practice-on-managing-the-risk-of-fraud-and-corruption>



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	Our audit approach
<p>Board meetings are open to the public and all papers are published on the website.</p> <p>The following changes in the governance arrangements happened during 2019:</p> <ul style="list-style-type: none"> • The Chair completed eight years in office at the end of March 2019 but has agreed to remain in post until 31 March 2020; • Gary Jenkins has been appointed as the new Chief Executive, taking up post on 1 April 2019; and • Tom Hair was appointed Employee Director in April 2019. <p>In January 2019, the Scottish Government published the Blueprint for Good Governance. The document draws on best practice to ensure all boards assess and develop their corporate governance systems.</p> <p>NHS Boards were asked to conduct a self-assessment against the areas outlined within the document. The Board carried out its self-assessment survey between 15 February and 1 March 2019. A Board Development Session took place in March 2019 to review the results and the findings were presented to the Board in April 2019.</p> <p>The Board Development Session allowed for consideration of the results against the five functions of governance described in the Blueprint (setting the direction; holding to account; assessing risk; engagement stakeholders and influencing culture), as well as identifying the key factors that influenced the results. The session clarified the key priorities for the Board in 2019/20.</p> <p>In 2019, the Board endorsed its preferred option for a new Clinical Care Model. The model outlines a 10 ward model with eight major mental illness wards and two intellectual disability wards. The intention is to transition to the new Clinical Model from April – June 2020. The implementation plan for this model provide the framework for a workforce plan which is anticipated to be developed by March 2020.</p>	<p>We will review the effectiveness of the Board's governance framework and the extent to which board and committee roles, membership and terms of reference comply with current guidance.</p> <p>We will consider whether the information provided to the board and committees is sufficient for members to assess the impact of decisions on resources and performance.</p> <p>We will consider how the Board has continued to develop its corporate governance systems based on the findings from its self-assessment based on the Blueprint for Good Governance.</p> <p>We will monitor progress made by the Board in developing and transitioning to its new Clinical Model.</p> <p>Our work will include consideration of how risk management has been addressed within the Board. We will also consider the Board's internal audit arrangements to determine their role in examining the control systems established by management.</p>



Value for money

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

Consideration	Our audit approach
<p>The Board has developed a performance management framework and receives reports on organisational performance and finance each quarter. An annual overview of performance is also prepared which is available on the Board's website. Performance reports are based on the Board's annual operating plan (AOP) and its associated targets and measures.</p>	<p>We will work with the Board to identify and review evidence which demonstrates the achievement of value for money in the use of its resources.</p> <p>We will seek evidence from the Board that outcomes are improving and there is sufficient focus on improvement and the pace of it.</p>
<p>Nursing ward overtime costs have historically been a significant cost pressure for the Board. The Board reported, as at the end of November 2019, a reduction of nursing ward overtime costs, in comparison to the same period in the prior year, of £0.648million. Specific nursing controls were introduced in 2019 with the aim of reducing overtime. This included, for example, limiting individual overtime hours in each month and restricting overtime for staff returning from sick leave. These controls are being monitored with the aim of evaluating their impact on 2019/20 and to provide meaningful comparisons for the future evaluation of the impact on the new clinical model in 2020/21.</p>	<p>We will review progress made by the Board in respect of addressing nursing ward overtime and sickness absence.</p> <p>Audit Scotland carries out a national performance audit programme on behalf of the Auditor General for Scotland and the Accounts Commission. We will work with Audit Scotland during the year to understand the outputs from this work and identify any particular reports that the Board may have a direct interest in.</p>
<p>Addressing sickness absence is a key priority for the Board and is recognised as such in its Annual Operational Plan. The Board, Staff Governance Committee and Audit Committee all receive regular reports on sickness absence. The sickness absence rate for quarter 2 (2019/20) was 5.82%. The indicator is assessed as amber as the Board is between 0.5% and 1% away from its local target level of 5%.</p>	



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	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2019/20.	January 2020
Independent Auditor's Report	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	Report	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

67. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
68. 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.

	2019/20	2018/19
Auditor remuneration	£40,710	£39,780
Pooled costs	£4,580	£4,650
Audit support costs	£2,310	£2,390
Total expected fee	£47,600	£46,820

Audit fee

69. 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.
70. 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.
71. For 2019/20 we propose setting the audit fee at the expected fee level. The expected fee for the State Hospitals Board for Scotland for the 2019/20 audit is as follows:

72. We will 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

73. A summary timetable, including audit outputs, is set out as follows:

- JAN 20** ● Planning meetings with senior officers from the Board
- JAN 20** ● Presentation of External Audit Plan to the Audit Committee
- FEB 20** ● Interim planning audit visit including a review of accounting systems and wider scope audit dimensions.
- MAY 20** ● Accounts presented for audit and final audit visit begins
- JUN 20** ● Presentation of our Annual Report on the Audit to the Audit Committee



7. Appendices





Appendix 1: Your 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 UK-wide presence of 190 offices and 6,500 staff and an international reach from offices across seven countries. Cogital Group is an innovator, investor and early adopter of technologies that provide continuous improvement to the service we provide our clients.

We 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.

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

Your audit management team



Chris Brown

Audit Partner

chris.brown@scott-moncrieff.com

Chris is the audit partner in charge of the audit of the Board as well as many of our other external and internal audit appointments in the NHS, FE and central government sectors. Chris has over 25 years' experience in NHS auditing. Chris is always available to provide accounting and other advice to the Board.



Karen Jones

Director

karen.jones@scott-moncrieff.com

Karen is one of our directors responsible for the audit of our Audit Scotland external audit appointments. She has considerable experience in planning and delivering audits, producing management reports and liaising with senior officers.



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.

In particular, FRC's Ethical Standards stipulate that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Scott-Moncrieff has not been appointed by the Board to provide any non-audit services during the year.

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.

With regard to our appointment for a second term, we can confirm that we comply with FRC's Ethical Standards which state that careful consideration must be given once an audit engagement partner has held the role for a continuous period of ten years. Therefore, the new appointment for a second five year term does not contradict the requirement of the Ethical Standards. This is in line with guidance from Audit Scotland which states that there is no expectation for the rotation of audit partners for special health board audits.



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 the State Hospitals Board for Scotland (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 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.

