

NHS Fife

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

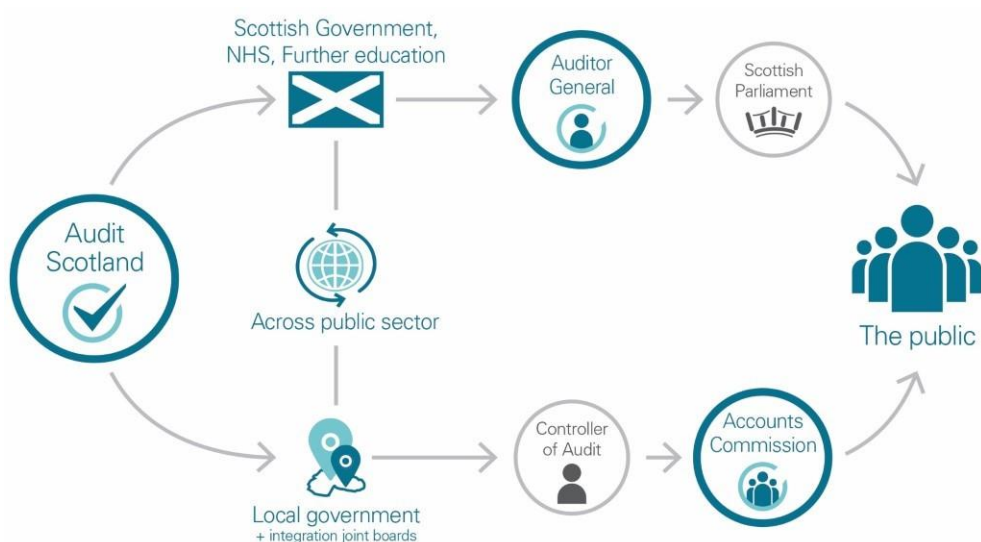
Prepared for NHS Fife
March 2021



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.

3. The public health crisis caused by the coronavirus disease 2019 (COVID-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

4. Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from COVID-19 across the full range of audit work including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value


5. We aim to add value to NHS Fife 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 Fife promote improved standards of governance, better management and decision making and more effective use of resources.


Audit risks


6. 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 Fife. 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

2020/21 Significant audit risks

	Risk	Source of assurance	Planned audit work
Financial statements risks			
1	<p>Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Review of accounting estimates. Focused testing of accruals and prepayments including the holiday pay accrual. Evaluation of significant transactions that are outside the normal course of business. Data analytics risk assessment of ledger transactions (including journals) and testing of these. Testing of transactions at the year end.
2	<p>Risk of material misstatement caused by estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, provisions and the holiday pay accrual. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> Valuations of all land and building assets are reassessed under a five-year programme of professional valuations by the District Valuer and adjusted in intervening years to take account of movements in prices since the latest valuation. All legal claims notified to NHS Fife are processed by the Scottish NHS Central Legal Office (CLO) who decide upon the risk liability and likely outcome of each case. Settled claims are reimbursed by the scheme less a £25k "excess" fee. A contribution rate is agreed with the CLO for the cost of NHS Fife's participation in CNORIS. 	<ul style="list-style-type: none"> Review of reports from the District Valuer to confirm asset valuations. Walk through and review of the valuation process including engagement with the District Valuer. Sample testing of indexation calculations. Sample testing of CNORIS claims and associated reimbursements. Verification of the CNORIS process. Detailed review of holiday pay accrual.

 Risk	Source of assurance	Planned audit work
Wider dimension risks		
<p>3 Financial sustainability</p> <p>Medium term financial plans</p> <p>Throughout 2020/21, NHS Fife has continued to rely on non-recurring savings to balance its budget.</p> <p>In January 2021 NHS Fife reported unmet savings totalling £20million and that NHS Fife were anticipating this figure would reduce to £9million by the end of the financial year. In February 2021 Scottish Government confirmed that all unachieved saving would be centrally funded for the current year. However, there has been no commitment from Scottish Government to fund unachieved savings in future years.</p> <p>NHS Fife has been planning to meet its efficiency savings targets through delivery of its transformation programme, but this programme has been paused for the last year as priorities have been redefined by the Scottish Government in responding to the pandemic.</p> <p>Our 2019/20 Annual Audit Report commented that NHS Fife does not currently have a medium-term financial plan and the development of a new Strategic Planning and Resource Allocation process is in its early stages.</p> <p>There is a risk that financial plans are not in place to ensure financial, balance over the medium term.</p>	<ul style="list-style-type: none"> The Executive Management Team have considered and supported a new Strategic Planning and Resource Allocation Process. Information gathering from Directorates and Programmes has commenced and will inform the new medium-term financial and organisational strategy. This will include a full assessment of the impact of COVID-19. 	<ul style="list-style-type: none"> We will monitor implementation of the new Strategic Planning and Resource Allocation Process, providing comment in our Annual Audit Report.
<p>4. Financial management</p> <p>In addition to the challenges in delivering efficiency savings, the impact of COVID-19 on financial performance has been a key issue during 2020/21. NHS Fife is facing uncertainties surrounding the availability of COVID-19 funding to match net additional costs and costs associated with remobilisation plans.</p> <p>The impact of covid-19 has created additional uncertainty in the current years financial position.</p>	<ul style="list-style-type: none"> Scottish Government confirmed an initial allocation of COVID funding in October 2020 and then a second allocation in January 2021. Forecast costs have been projected at different points in the year in line with the status and impact of the pandemic. NHS Fife anticipate a break-even position will be achieved in 2020/21 however legacy undelivered savings in 2020/21 present a 	<ul style="list-style-type: none"> Monitor the development of the budget projection for the remainder of the financial year. Assess the accounting treatment and reporting of costs, funding and balances associated with COVID 19.

	Risk	Source of assurance	Planned audit work
	NHS Fife and Fife Council are also to agree the IJB risk share agreement for 2020/21.	significant opening financial challenge for 2021/22.	<ul style="list-style-type: none"> Review and agree IJB risk share arrangement.
5	Financial Services –capacity and capability Our 2019/20 Annual Audit Report commented that financial capacity issues led to a delay in the submission of the unaudited accounts. NHS Fife is continuing to have capacity and capability issues within Financial Services. There is ongoing restructuring and recruitment of the Finance Directorate but it is not yet operating at full capacity. There is a risk that the financial statements audit timetable may be delayed in 2021 and overall financial governance of NHS Fife affected.	<ul style="list-style-type: none"> NHS Fife has recruited to a new Head of Financial Services post with the individual commencing in post on 10 March 2021. The plans are in place for the 2020/21 financial statements audit with clear timetabling and responsibilities agreed across the financial services and financial management teams. The finance directorate restructuring is nearing completion with recruitment to the full Deputy Post planned for Q4 2020/21. 	<ul style="list-style-type: none"> Agreement of a financial statements timetable setting out clear expectations and deadlines. Preparation of a working papers checklist to facilitate the audit process. Regular liaison with the client to discuss the agreed timetable for submission of the unaudited accounts.

Source: Audit Scotland

7. We have considered the risk of fraud in ISA 240, including income recognition, and expenditure in accordance with Practice Note 10. We have rebutted the presumption that a material risk exists, with the exception of management override above. This is on the basis of the extent of income and expenditure which is received and issued to other parts of the public sector (including Scottish Government Funding and expenditure on the IJB, other NHS boards and councils). For the areas that are subject to some risk, we have considered the incidence of fraud using National Fraud Initiative and Counter Fraud Service outcomes. We have assessed that the volume of transactions, that would need to be fraudulent to prove a material risk, is implausible. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We will review any additional controls required due to Covid-19 additional funding and expenditure.

Reporting arrangements

8. 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.

9. 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.

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

11. 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.

12. The management of the unique and continuing challenges presented by Covid-19 means that we need to continue to take into consideration that audits are taking longer, and we are starting the current year's audit later. This has an impact on the proposed reporting timescales, based on resources available and prioritisation decisions. This is reflected in the timetables below, which we will endeavour to meet, whilst recognising that greater uncertainty exists during the Covid-19 pandemic.

Exhibit 2

2020/21 Audit outputs

Audit Output	Target date	Committee Date
Output	Target date	Committee date
Annual Audit Plan	4 March 2021	18 March 2021
Management Report	7 June 2021	17 June 2021
Independent Auditor's Report	28 September 2021	28 September 2021
Annual Audit Report	28 September 2021	28 September 2021

Source: Audit Scotland

Audit fee

13. The proposed audit fee for the 2020/21 audit of NHS Fife is £160,970 [2019/20: £157,600]. In determining the audit fee we have taken account of the risk exposure of NHS Fife, 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 Consolidated accounts, with a complete working papers package on 1 June 2021.

14. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited Annual Report and Consolidated 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 and Risk Committee and Accountable Officer

15. 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.

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

Appointed auditor

17. 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.

18. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual 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 accounts

19. The annual 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 Fife 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 Fife 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.

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

- whether they give a true and fair view of the state of affairs of NHS Fife and its group at the year end and net expenditure for the year
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income.

Statutory other information in the annual accounts

21. We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration 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.

22. 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

23. 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.

24. We calculate materiality at different levels as described below. The calculated materiality values for NHS Fife are set out in Exhibit 3.



Exhibit 3

Materiality values

Materiality	Amount
Planning materiality – 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 estimated gross expenditure for the year ended 31 March 2021.	£14 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£8 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£200,000

Source: Audit Scotland

Timetable

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

Exhibit 4

Annual accounts timetable

Key stage	Date
Latest submission date of unaudited Annual Report and Consolidated Accounts with complete working papers package	1 June 2021
Latest date for receipt of assurances from Group's Component Auditors	30 June 2021
Consideration by management of Service Auditors reports	16 September 2021
Latest date for final clearance meeting with Director of Finance and other relevant officers	12 August 2021
Issue of Letter of Representation, proposed independent auditor's report, draft Annual Audit Report, and audited unsigned Annual Report and Consolidated Accounts to NHS Fife Audit and Risk Committee	6 September 2021
Issue of Annual Audit Report to those charged with governance (the Board)	17 September 2021
Approval of audited unsigned Annual Report and Consolidated Accounts	28 September 2021
Independent auditor's report signed	28 September 2021

Internal audit

Using the work of internal audit

26. International 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, provided by FTF Audit and Management Services (FTF) wherever possible and as part of our planning process we carry out an annual assessment of the internal audit function. We concluded that FTF operates in accordance with the PSIAS.

27. From our initial review of internal audit plans we do not plan to place formal reliance on internal audit work.

Audit dimensions

28. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

29. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

Financial sustainability

30. 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 medium term (two to five years). We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, and medium term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Financial management

31. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control systems in communicating accurate and timely financial performance can be demonstrated
- how NHS Fife has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

Governance and transparency

32. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether NHS Fife can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

Value for money

33. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether NHS Fife can provide evidence that it is demonstrating value for money in its achievement of performance targets.

Strategic plan for the six year appointment

34. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the areas of proposed audit work listed in Exhibit 6 (this will be subject to annual review).

Exhibit 6 Strategic plan

Dimension	2020/21	2021/22
Financial sustainability	Financial planning	Financial planning
Financial management	Financial reporting and budgeting Management of COVID-19 funding	Financial reporting and budgeting
Governance and transparency	-	
Value for money	Follow up prior year action points	Equalities and diversity

Best Value

35. The Accountable Officer of NHS Fife has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements.

Independence and objectivity

36. 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.

37. The engagement lead (i.e. appointed auditor) for NHS Fife is Brian Howarth, Audit Director. Auditing and ethical standards require the appointed auditor 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 Fife.

Quality control

38. 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.

39. 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.

40. 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 Fife

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