

NHS National Services Scotland

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

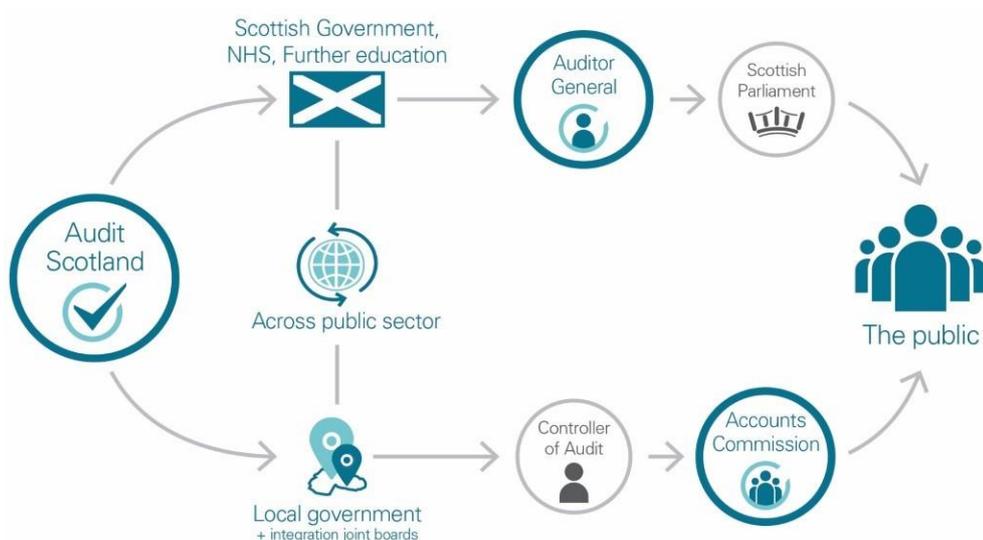
Prepared for NHS National Services Scotland

May 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.

Impact of the Covid-19 pandemic

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 make 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. We have recently published an update report [Covid-19: What it means for public audit in Scotland](#).

Adding value

5. We aim to add value to NHS National Services Scotland (NHS NSS) 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 the Board 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 National Services Scotland. We have categorised these risks into financial statements risks and wider dimension risks as detailed in [Exhibit 1](#).

Exhibit 1

2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement due to 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 consideration of management override of controls to change the financial statements disclosures.</p> <p>NHS NSS has a number of programmes which are required to be self-funding, and thus could create incentive to manipulate the revenue position.</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"> Detailed testing of journal entries. Assessment of the appropriateness of accounting estimates. Focused testing of accruals and prepayments. Identification and evaluation of significant transactions that are outside the normal course of business. Targeted audit testing of the income and expenditure associated with self-funding programmes.
<p>2 Risk of material misstatement caused by fraud in expenditure</p> <p>Practice Note 10 extends the requirements of ISA 240 to include the consideration of fraud in expenditure for public-sector bodies.</p> <p>NHS NSS's expenditure has increased significantly due to procurement for NHS Scotland's Pandemic response. Some procurement expenditure was incurred at pace to secure supplies (particularly PPE).</p> <p>There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p>	<ul style="list-style-type: none"> Effective budget monitoring by management. Internal audit and service audit coverage of internal controls. Regular monitoring of National Fraud Initiative and NHS NSS fraud monitoring reports. Regular review of key supplier accounts. 	<ul style="list-style-type: none"> Analytical procedures over expenditure streams to support detailed testing. Focused testing of PPE contracts to ensure appropriateness of award and subsequent spend. Detailed testing of expenditure transactions focusing on the areas of greatest risk, e.g. advance payments to new suppliers.

 Audit Risk	Source of assurance	Planned audit work
<p>3 Risk of error in areas of estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of material account areas such as non-current assets, provisions and inventories.</p> <p>A material uncertainty was disclosed in the 2019/20 accounts over non-current asset valuations as a result of the Covid-19 pandemic.</p> <p>Provisions is a potentially material account area in 2020/21, as the costs of decommissioning the NHS Louisa Jordan field hospital will be provided for at the year end.</p> <p>The inventories balance is material in the NHS NSS financial statements and may rise significantly due to increased procurement to support NHS Scotland's response to the Covid-19 pandemic. Inventories write off or impairment requires management judgement.</p> <p>The subjectivity of estimation and judgements by management represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Experienced, qualified valuer engaged to provide valuation. • Estimation and judgements for provisions based on management expertise and consultation with Scottish Government and auditors. 	<ul style="list-style-type: none"> • Assessment of the scope, independence and competence of the professional valuer. • Establish and assess the appropriateness of managements arrangements for ensuring the completeness and accuracy of non-current asset estimates. • Evaluation the appropriateness of the provisions and ensure correctly accounted for. • Attendance at stock count to ensure appropriate procedures are followed. • Confirmation, in partnership with the Scottish Government external audit team, of the ownership of pandemic stock and the application of appropriate accounting policies in determining any impairment of its value at year end.
<p>4 Risk of insufficient arrangements to support the preparation of the annual report and accounts</p> <p>The timetable for the preparation and audit of the financial statements is always challenging and we are aware that finance staff are continuing to work under additional pressure due to the response to the Covid-19 pandemic.</p> <p>There is a risk that, without robust and comprehensive arrangements for preparation and management review, the quality of the unaudited annual report and accounts may be reduced. This would impact on our ability to meet the agreed timescales for the Audit and Risk Committee.</p>		<ul style="list-style-type: none"> • Agreement of accounts timetable, including additional time for preparation and management review, and a later planned sign-off in August. • Preparation of a working papers checklist to be supplied with the unaudited financial statements and support the efficient delivery of the audit.

	Audit Risk	Source of assurance	Planned audit work
Wider dimension risks			
5	PPE procurement: governance, transparency and value for money As part of its role in NHS Scotland's Covid-19 response, NHS NSS has spent more than £300 million on the purchase of Personal Protective Equipment (PPE). Emergency procurement arrangements were put in place. There is a risk that the increased speed to deal with demand has impacted on the robustness of established processes.		<ul style="list-style-type: none"> Review and assessment of contract governance, including appropriateness of advance payments and due diligence. (<i>We will also place reliance on internal audit's work in this area</i>). Assessment of fraud risks around procurement of PPE and how this was managed by NHS NSS.
6	Digital and Security: capacity and Covid-19 impact Strategic Business Units in NHS NSS, particularly Digital and Security (DaS) and Procurement, Commissioning & Facilities (PCF) continue to make significant contributions to NHS Scotland's Covid-19 response. We have previously flagged a potential capacity risk in DaS, and since then there have been new demands and pressure placed on this SBU. There is a risk that delivery of "business as usual", including major ICT programmes and an ambitious digital transformation strategy to support NHS NSS's "Cloud First" vision, could be delayed.		<ul style="list-style-type: none"> Review of major digital programmes and digital transformation, using existing oversight reporting where possible to reduce the demands on DaS officers. Review progress against our previous audit recommendations: the need to document the overall approach to ICT contract procurement and management; and the need to ensure knowledge transfer and succession planning. We will assess arrangements to increase DaS capacity.

Source: Audit Scotland

7. As set out in ISA(UK) 240, there is a presumed risk of fraud in revenue recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk in 2020/21. The majority of NHS NSS income is from the Scottish Government or other public sector bodies, and we consider that there is little incentive to manipulate this revenue recognition.

Reporting arrangements

8. Audit reporting is the visible output for the annual audit and is detailed in [Exhibit 2](#). All outputs 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 officers to confirm factual accuracy.

10. We will provide an independent auditor's report to NHS NSS, the Auditor General for Scotland and the Scottish Parliament 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.

11. 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.

12. 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. NHS NSS management are required to submit their audited financial statements to meet the Scottish Government's consolidation timetable. The Scottish Government has confirmed a revised administrative deadline of 30 September 2021 for submission of audited 2020/21 NHS financial statements, due to the continuing impact of the Covid-19 pandemic. The planned audit timescales are within the Scottish Government's revised administrative deadline.

Exhibit 2

2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	30 April 2021	Agreed by correspondence
Management Report	31 May 2021	18 June 2021
Service Audit Assurance Letter	31 May 2021	18 June 2021
Independent Auditor's Report	31 August 2021	18 August 2021
Annual Audit Report	31 August 2021	18 August 2021

Source: Audit Scotland

Audit fee

13. The proposed audit fee for the 2020/21 audit of NHS NSS is £191,550 (2019/20 £186,000). In determining the audit fee we have taken account of the risk exposure of NHS NSS, 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 31 May.

14. 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 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 report and 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 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

19. 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 NSS and the associated risks
- assessing the key systems of internal control, and establishing the impact of any identified weaknesses
- identifying major transaction streams, balances and areas of estimation and understanding how NHS NSS 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.

20. 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 2021 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.

Statutory other information in the annual report and accounts

21. We also review and report on statutory other information published within the annual report and accounts including the performance report and accountability report, including the corporate governance report and remuneration report 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.

22. We also review the content of the annual report and accounts 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 NSS 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 normalised projected gross expenditure for the year ended 31 March 2021 based on financial monitoring reports and adjusted for the Covid-19 pandemic impact on expenditure.	£9.7 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 50% of planning materiality.	£4.8 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 (rounded).	£100,000

Source: Audit Scotland

Timetable

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

Exhibit 4

Annual report and accounts timetable

 Key stage	 Date
Working paper checklist	7 May 2021
Submission of unaudited annual report and accounts with complete working papers package	31 May 2021
Receipt of updated annual accounts for agreement of early audit changes	29 July 2021
Issue of draft annual audit report for clearance	2 August 2021
Latest date for final clearance meeting with Director of Finance	6 August 2021
Agreement of audited unsigned annual report and accounts	9 August 2021
Issue of annual audit report, letter of representation and proposed independent auditor's report	(ARC 18 August 2021)
Independent auditor's report signed	31 August 2021

Source: Audit Scotland

Internal audit

26. Internal audit is provided by KPMG LLP. As part of our planning process we carry out an annual assessment of the internal audit function and concluded that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (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, and recommended that this is carried out. An external review of KPMG's PSIAS compliance is underway but has not concluded yet. We will report in our 2020/21 Annual Audit Report on progress against our recommendation.

Using the work of internal audit

27. 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 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.

28. From our initial review of internal audit plans we plan to place formal reliance on internal audit work on Financial controls - deep dive review (procurement). In respect of our wider dimension audit work, we will take account of the other areas of internal audit's work.

Audit dimensions

29. 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

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) and longer term (longer than 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, 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.

31. Some SBUs have been unable to deliver the planned Cash Release Efficiency Savings (CRES) initiatives due to the impact of the Covid-19 pandemic. NHS NSS forecasts that it will achieve its CRES targets through non-recurring savings; however, this is not a sustainable approach and focus should be on the achievement of recurring savings.

32. NHS NSS's financial plan shows an annual deficit in revenue from 2021/22 (£4.4m) to 2023/24 (£13m). This is based on rolling forward the projected outturn for each SBU for 2020/21 and comparing it to likely funding levels. There is a risk to NHS NSS's financial sustainability if there is no change to funding levels and recurring savings initiatives are not identified and implemented.

Financial management

33. 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 NSS 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. We will focus on assessing the risk of fraud in relation to procurement and the effectiveness of NHS NSS's arrangements for addressing this risk.

Governance and transparency

34. 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 NSS 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 the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

35. NHS NSS is developing its new website. During this process some information previously published on the website is not as easily accessible to members of the public. It is important that the public have access to up to date information to ensure transparency and accountability. Examples of key documentation includes Standing Orders, Standing Financial Instructions, Board papers and registers of interest. We will review NHS NSS's arrangements and timescales for publishing information on the new website.

Value for money

36. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether NHS NSS can demonstrate:

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

Best Value

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

Independence and objectivity

38. 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.

39. The engagement lead (i.e. appointed auditor) for NHS NSS is Carole Grant, Audit Director. Auditing and ethical standards require the appointed auditor Carole Grant 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 NSS.

Quality control

40. International Standard on Quality Control 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.

41. 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.

42. 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

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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

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