

Final Report to the Audit  
Committee and Auditor  
General on the 2012/13  
Audit



13 June 2013

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13 June 2013

Dear Sirs

We have pleasure in setting out in this document our final report to the Audit Committee of NHS Education for Scotland for the year ended 31 March 2013, for discussion at the meeting scheduled for 20 June 2013. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2013.

In summary:

- The major issues, which are summarised in the Executive Summary, have now been addressed and our conclusions are set out in our report.
- There are a number of judgemental areas including dilapidations provision and agenda for change accrual to which we draw your attention in our report which you should consider carefully, and.
- In the absence of unforeseen difficulties, we expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work.

Yours faithfully

Jim Boyle  
Senior Statutory Auditor

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*We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work*

The big picture

# The big picture

Work is substantially complete and no significant issues have arisen

- Our work is **substantially complete** and we remain on track to meet the agreed timetable.
- On satisfactory completion of our outstanding procedures we expect to issue an **unmodified opinion**.
- We have identified **no material issues** and have **no audit adjustments**.
- Our **final materiality was £4.3m** (2012: £4.2m).
- Our work has highlighted **no disclosure deficiencies**
- The financial reporting control environment remains robust and we **have no material control matters** to draw to your attention. Our controls findings have been included within Section 5 of this report.
- There have been no changes to the audit plan set out in the planning audit committee document.
- We did not identify any instances of fraud. See Appendix 3 for details of fraud investigations.
- A copy of the representation letter to be signed on behalf of the board has been included at Appendix 4 of this report.
- We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised. (See Appendix 2 for further detail).
- We placed reliance on the work of the internal auditors in relation to the transfer of information to the National Single Instance system.

# Results of procedures around identified significant risk areas

No significant issues noted around our key areas of audit risk

Significant audit risk	Status
Office rationalisation	
Management override of controls	
Accuracy and completeness of transfer of information to the National Single Instance system (NSI)	
Pension scheme	
Core revenue resource limits	
Revenue recognition – completeness of income	
Severance provision	

<b>Key</b>
No issues arising
Minor misstatement or recommendation identified
Material misstatements or recommendation identified

# Significant audit risks

# Significant audit risks

## Understanding the subjective judgements and estimates

The risk table below illustrates the key audit risks focused upon where Deloitte identified areas which comprised the highest level of impact on the financial statements.

		Acceptable range																
Office rationalisation	Less prudent											✓					Leases have been agreed to legal documentation and rent-free period has been correctly accounted for. Prudent view taken on dilapidations provisions on Thistle House and Lister.	
Revenue Recognition - Completeness of income													✓					Income recognised agrees to the final allocation per the Scottish Government.
Core revenue resource limits														✓				We have confirmed that NES has performed within the limits set by the Scottish Government.
Severance provision																	✓	No severance provision at year end and all exit packages have been agreed to payslips. Prudent view taken on redeployment accrual.
Pension scheme															✓			Defined benefit pensions scheme accounted for based on a series of actuarial assumptions supported by actuarial valuation. Assumptions reasonable but on the optimistic end of the reasonable range.
												More prudent						

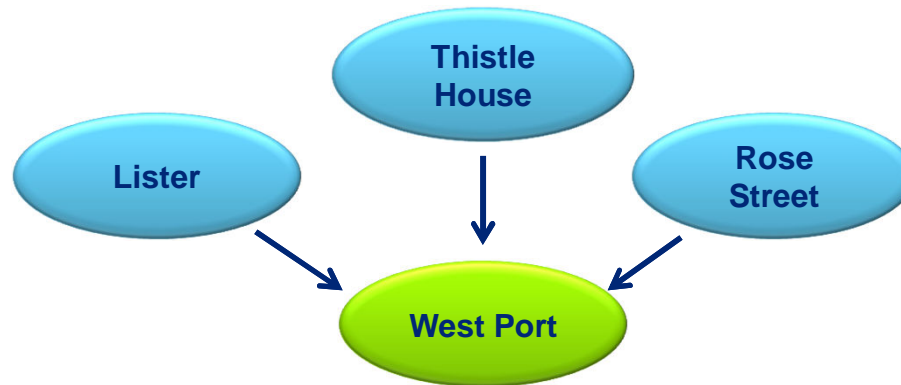


# Significant audit risks (continued)

## Office rationalisation

### Background

- Rationalisation of estate with move from three offices within Edinburgh to one central location
- There are three key risks associated with the move around:
  - 1) completeness of any dilapidations provision;
  - 2) accuracy of any onerous lease calculation; and
  - 3) correct accounting treatment for any lease incentives.



### Deloitte response

1. We have reviewed the movements in the dilapidations provisions in the year and have agreed the release of the provision in relation to Rose Street to signed agreement of final cost. Remaining provisions have been agreed as being a best estimate of expected cost based on there being no change in the condition of the buildings since prior year. Thistle House and Lister were vacated during the year, however the landlords are yet to commence dilapidation cost negotiations. We will revisit this area during the 2013/14 audit.
2. We have reviewed the expiry date of leases and are satisfied that there are no onerous leases as at year end.
3. We have reviewed lease agreements and recalculated the lease incentives included within the lease agreement being the rent free period and the landlord contributions to ensure they have been spread across the life of the lease, with no issues noted.

# Significant audit risks (continued)

## Core revenue resource limit

### Background

- Key financial duty for NES to comply with Revenue Resource Limit, Capital Resource Limit and cash requirement.
- Key focus for management and our audit testing.
- We must provide an opinion on regularity – that expenditure and receipts were incurred or applied in line with guidance.

	Expenditure £000s	Resource Limit £000s	Underspend (overspend) £000s
Revenue resource limit - core	428,836	429,411	575
Revenue resource limit - non core	991	991	0
Capital resource limit	3,238	3,238	0
Cash requirement	430,590	431,000	410

### Deloitte response

- The final underspend position was achieved by managing underspends and requirements for additional expenditure across all budget lines. See page 20 for further details of the key drivers of this position.
- The funding allocation to NES has been confirmed via confirmation from the Scottish Government dated 29 April 2013 and we have agreed the cash draw down to the bank statements.
- We have concluded through the performance of our year end procedures, the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and the expenditure is valid and correctly classified between revenue and capital.
- We confirm that NES has performed within the limits set by the SGHSCD and therefore in compliance with the financial targets in the year.

# Significant audit risks (continued)

## Pension scheme – FPS 1654

### Background

- Significant judgement and complexity around this calculation.
- Risk that the actuarial assumptions are not appropriate and therefore the valuation of the scheme is inaccurate.
- The scheme has net assets of £5.0m and benefit obligations of £4.6m leaving a net £0.4m funded surplus at year end (2012 surplus was £0.7m).

	2013	2012
Pension increase rate	2.7%	3.0%
Discount rate	4.1%	4.9%
Inflation assumption	1.7%	2.0%
<b>Return on assets</b>		
Equities & property	4.3%	4.6%
Bonds	4.1%	4.7%
Gilts, cash and other assets	2.8%	3.1%

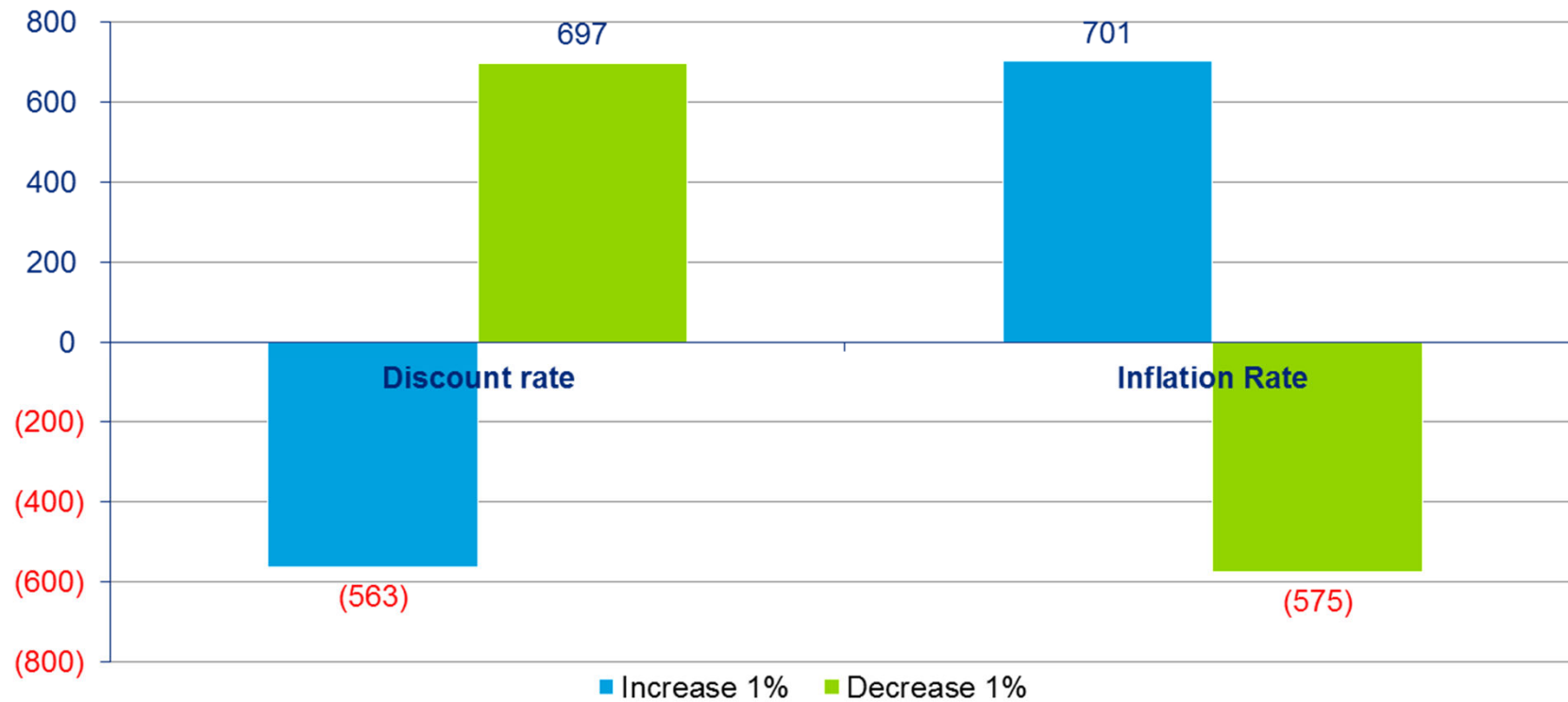
### Deloitte response

- We have obtained third party confirmation of the underlying asset values and have reviewed the actuarial valuation as at 31 March 2013.
- After liaising with our in-house actuary, we can confirm that the pension accounting and assumptions are reasonable but at the optimistic end of the reasonable range, and that the disclosures are in accordance with IAS 19. See overleaf for the impact of changes in the key assumptions
- We assessed assumptions by benchmarking these against the assumptions adopted by other organisations as at 31 March 2013.

# Significant audit risks (continued)

## Pension scheme (continued)

Impact of movement in key assumptions on the total liabilities of the FPS1654 scheme



In addition, increasing / (decreasing) life expectancy projections by one year will increase / (decrease) liabilities by £135,000.

# Significant audit risks (continued)

We have no significant findings in respect of the below risks

## Management override of controls

- No issues noted around journal entries and other adjustments made in the preparation of the financial statements.
- Our review of accounting estimates for bias that could result in material misstatement due to fraud noted no issues.
- Retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.

## Accuracy and completeness and accuracy of transfer of information to NSI

- No issues noted around completeness and accuracy of transfer to NSI.
- Internal Auditors, Scott Moncrieff noted in a report that reconciliations were performed to confirm that opening and closing balances in the new NSI system and the old system agreed.
- Deloitte have placed reliance on this internal audit report.

## Revenue Recognition - Completeness of income

- No issues noted from our review of the treatment of income in the year, which has been accounted for in line with the FReM.
- We have obtained a copy of the year end funding statement received from the Scottish Government dated 29 April 2013 which has been agreed to the amount recognised by NES.
- We have also agreed the core funding to bank payments received.

## Severance provision

- No severance provision recognised in the current year as all payments were settled pre year end.
- Total cost of exit packages in 2012/13 is £720k (2011/12: £812k).
- Deloitte have performed testing around exit packages by agreeing total amount disclosed to pay slips. No issues were noted.
- In addition to the severance provision, there is an Agenda for Change accrual related to staff on the redeployment register – NES have taken a prudent view and fully provided against these amounts.

Comments on your annual report and  
financial statements

# Comments on the front half of your annual report

## The front half meets current regulatory requirements

We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on your response to these areas:

### Directors’ report

*“NHS Board directors are ultimately and collectively responsible as a board for all aspects of the performance of the Board. Therefore, they need to be able to deliver focused strategic leadership and effective scrutiny of the Board’s operations”*

**Assurance framework**  
Membership and remit of each committee disclosed in the Directors’ Report

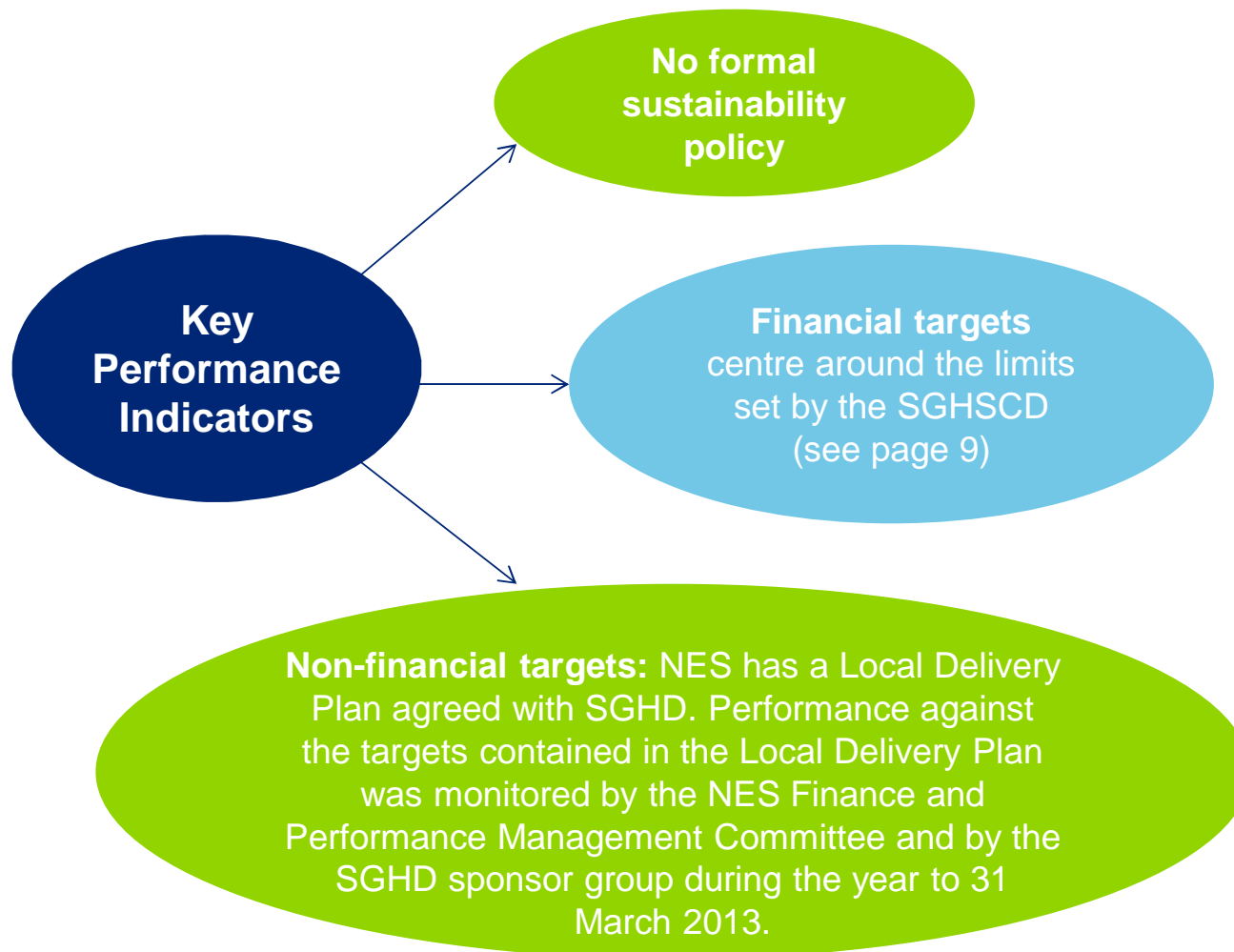
**Going Concern**  
In line with the NHS Board Accounts Manual the Directors’ Report includes relevant disclosures around the basis of preparation

Board and committees met regularly throughout the year

*Disclosures made are in accordance with the FReM and Accounts Manual*

# Comments on the front half of your annual report (continued)

## Operating and financial review



*We have reviewed the disclosures against the requirements and note that consideration is given around both financial performance and non financial targets in line with the guidance.*



# Comments on the front half of your annual report (continued)

## Remuneration report

The remuneration report has been prepared in accordance with the requirements of the FReM, disclosing the remuneration and pension benefits of Executive and Non-Executive Members of the Board.

Hutton disclosures on median pay:	2012/13	2011/12
Highest earning Director's Total Remuneration Band (£'000)	180-185	205-210
Median Total Remuneration (£'000)	43.1	43.1
Ratio	4.24	4.82

We have reviewed the Hutton guidance and performed the following procedures:

- Agreed a breakdown of the gross pay by individual to payroll reports and identified the highest paid director and agreed the midpoint of this into the calculation;
- Selected a sample of employees and checked salary, length of service in the year and hours employed to the payroll system and agreed that these have been adjusted to be reported as full time and annualised in line with the guidance; and
- Checked the calculation to identify the median salary and the ratio.

We are satisfied that the calculation has been performed in line with the guidance and has been appropriately disclosed. The decrease in the ratio is primarily related to the movement in the remuneration of the highest paid director. The remuneration figures used in this calculation do not include Employer pension contributions and are therefore not the same as those shown in the main tables of the remuneration report. Whilst the Medical Director costs are the same in the main tables (205-210) they are different for this calculation as in 2011/12 the Medical Director was not a member of the pension scheme.

# Comments on the front half of your annual report (continued)

## Governance statement

*“An important priority is to ensure that governance statements laid out the organisation’s approach to governance in the context of its business model. Getting this right matters as much as improving the quality of specific explanations”*  
FRC February 2012

The Governance statement has been prepared using the suggested pro-forma issued by the Scottish Government in its circular dated 10 December 2012.

It reports that NES is in compliance with the aspects of the UK Corporate Governance Code which are set out within the guidance as being applicable to NHS Boards.

We have reviewed the systems in place to ensure that there is sufficient evidence available to the Chief Executive to sign the Governance Statement, which includes a formal sign off by each Director and the Chair of each of the main Committees.

The statement notes that there have been no significant control weaknesses or failures to achieve the standards set out in the guidance on governance, risk management and control. This is consistent with our knowledge based on evidence collected in the course of the audit.

# Significant observations on your financial statements

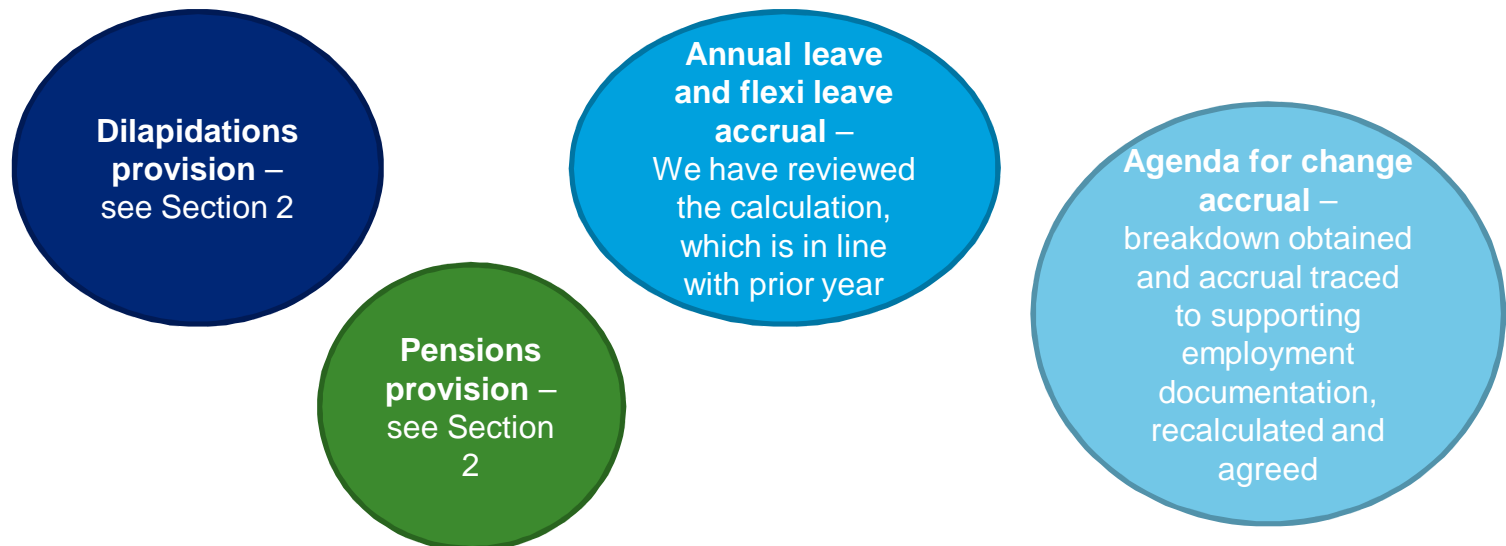
## Critical accounting judgements and key sources of estimation uncertainty

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our comments on the quality and acceptability of the accounting policies and estimates are discussed below.

Critical accounting judgements and key sources of estimation uncertainty identified by management are:

- Dilapidations provision;
- Pensions provision;
- Annual leave and flexi leave accrual; and
- Agenda for change accrual in relation to staff on the redeployment register.

We have assessed the disclosures based upon our review of the accounts and understanding of the organisation and the specific risks we identified as part of our planning process. We have not identified any other critical accounting judgements or key sources of estimation uncertainty that require to be disclosed. We have performed work as follows against each of these areas:



Best value, use of resources and  
performance

# Best value, use of resources and performance

## Financial performance and outlook

NES budgeted for a financial surplus of £1 million for the year to 31 March 2013. The final outturn was a surplus against the core revenue resource limit of £0.575 million and a break-even position on non-core expenditure, representing a **net surplus of £0.575 million**.

	2012/13 Recurring £m	2012/13 Non- Recurring £m	2012/13 Total £m	2013/14 Total £m
Income	400,545	28,866	429,411	423,134
Expenditure	397,774	31,062	428,836	422,634
Surplus	2,771	(2,196)	575	500

NES had a year end underspend of £575k. The key variance by Directorates were as follows:

- GP Medicine - £1.577m underspend;
- West Medical £1.562m underspend;
- Dental £0.930m underspend;
- Capital Charges and Provisions £3.187m overspend; and
- Finance and Corporate Resources £0.500m overspend.

The key drivers of these movements are outlined overleaf.

# Best value, use of resources and performance (continued)

## Financial performance and outlook (continued)

**GP Medicine** – Gp Trainee vacancies are the cause of the variance in GP Medicine. There was on average 7 vacancies at ST1 level; 23 vacancies at ST3 level and 3 Rural fellow vacancies.

**West Medical** – The West Medical variance is mainly due to trainee vacancies. There were 32 ST vacancies in year that resulted in a training grade underspend of £1.3 million. Regional staff vacancies contributed £161k to the variance.

**Dental** – The main cause of the Dental directorate underspend is trainee vacancies and subsequent reduction in training grants payable. This amounted to £1.5 million however NES funded £700k of "Golden Hello" payments from this underspend rather than draw down funding from SGHD.

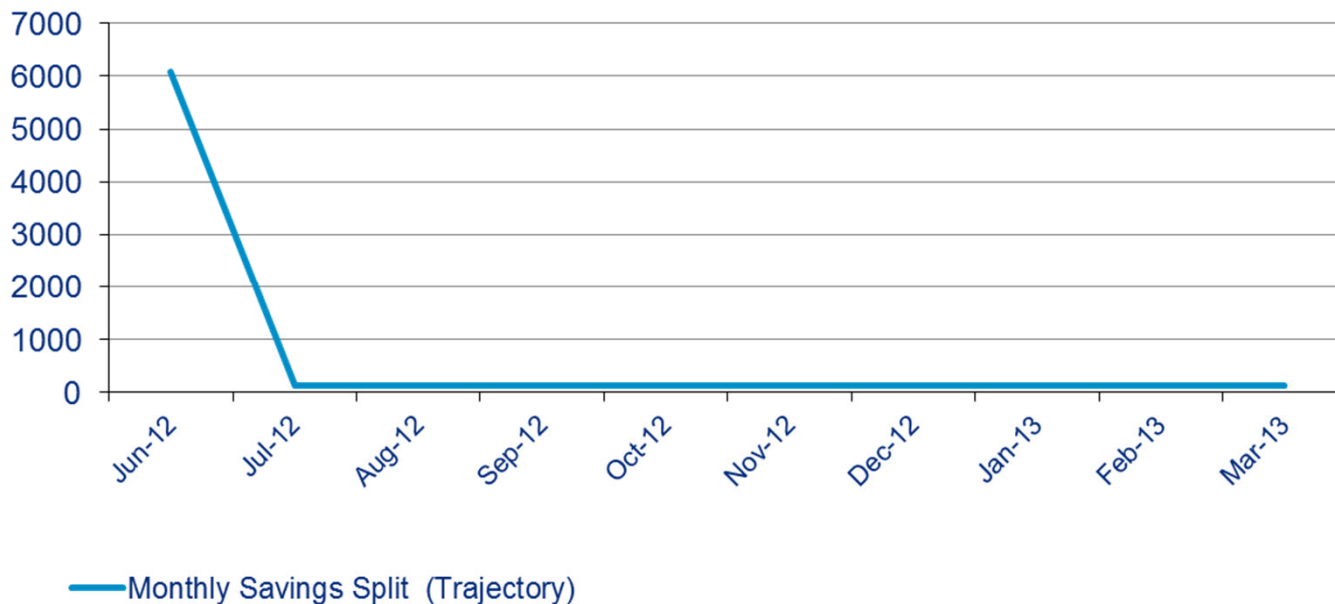
**Capital Charges and Provisions** – The variance on Capital Charges & Provisions is mainly due to how NES manages the corporate provision when slippage arises. Funding is transferred from this line when new initiatives are approved rather than transferring funding from other budgets. The amount of funding approved from slippage and transferred to other budgets this year is £2.3 million. Other factors in the variance are £700k voluntary severance costs and £150k increase to annual leave creditors.

**Finance and Corporate Resources** - The primary factor in the Finance & Corporate Resources variance was the investment in additional IM&T equipment. Total investment was £556k and is offset by underspends in facilities costs.

# Best value, use of resources and performance (continued)

## Financial performance and outlook – savings targets and outlook

### Monthly Savings Split (Trajectory)



The savings target was achieved by:

1. Unutilised uplift to NES allocation - £2.1 million
2. Release of Budget Provisions - £4.0 million
3. Additional Directorate Targets - £1.2 million

Points 1 and 2 above were recognised at the beginning of the year hence the profile of the savings.

Remaining savings were allocated evenly over the year

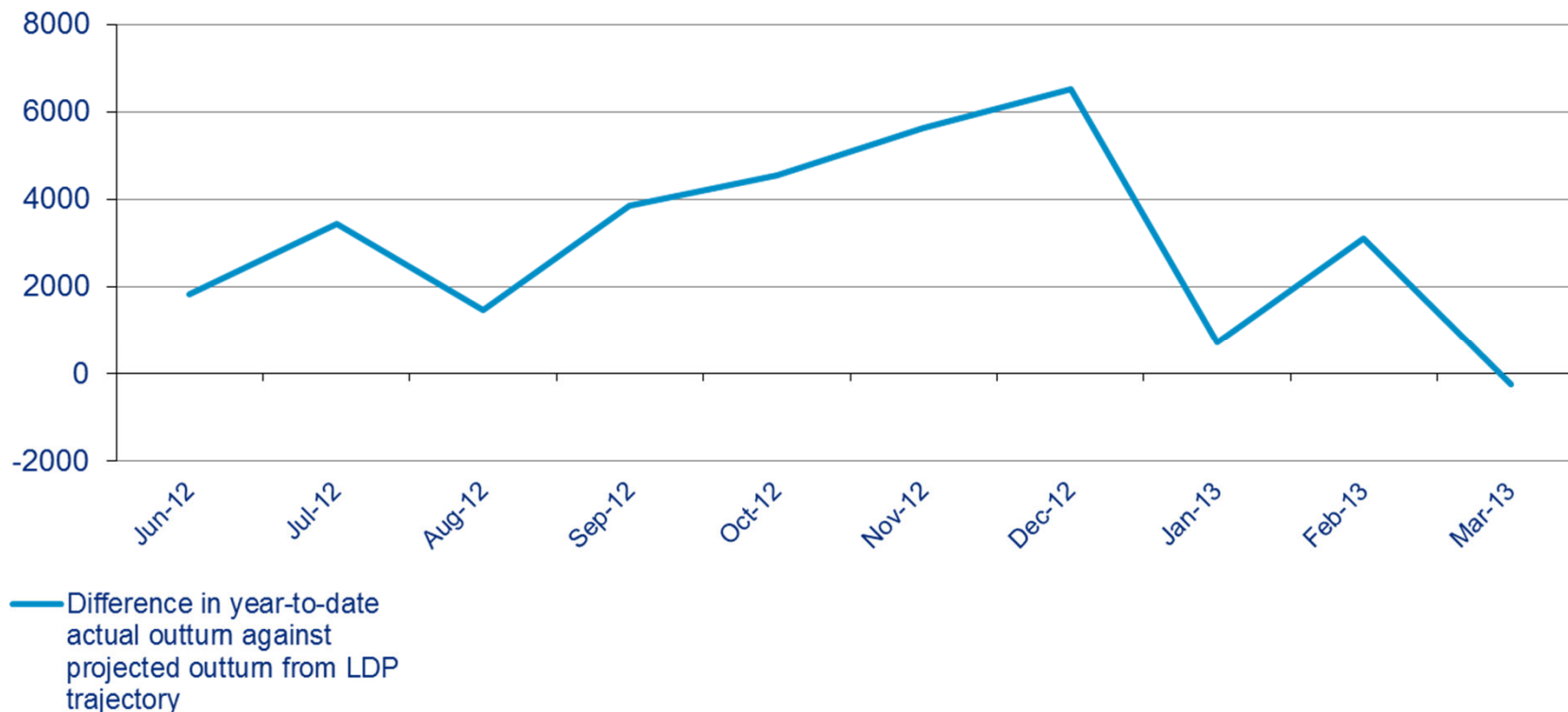
### Outlook

In 2013-14 NES are planning to balance their budget while managing a reduction on their RRL of £3 million in savings to be returned to SGHD. Unlike the previous two years, NES are unable to offset the full budget uplift against the savings since this is required to support the 1% pay award. The additional cost to NES of pay pressures is approximately £3 million which leaves just £0.9 million of their uplift to offset against savings.

NES has been able to achieve a significant proportion of the savings that are required to make through the relocation of three Edinburgh sites to one during 2012-13. NES were also able to operate a voluntary severance scheme for the second year running.

# Best value, use of resources and performance (continued)

## Financial performance and outlook – MMR return movements



The NES LDP agreed with SGHD for 2012/13 was based on a planned underspend for the year of £1m. In consultation and with the approval of SGHD NES overspent against this by approximately £425k to finish the year with an underspend of £575k. The key factors in this were the payment of Pharmacy Assistant Training Grants in March (this was an SGHD initiative) and the purchase of firewall hardware for each of NES sites. The variance is also impacted by the fact that new trainees start in August and therefore NES is not able to quantify the gaps in programmes and associated slippage until September.

There are a number of factors in the profile of the monthly revenue variance. These include inaccurate budget phasing, delays in receiving information from third parties/educational partners to allow expenditure to be accrued and changes to the NES allocation.



# Best value, use of resources and performance (continued)

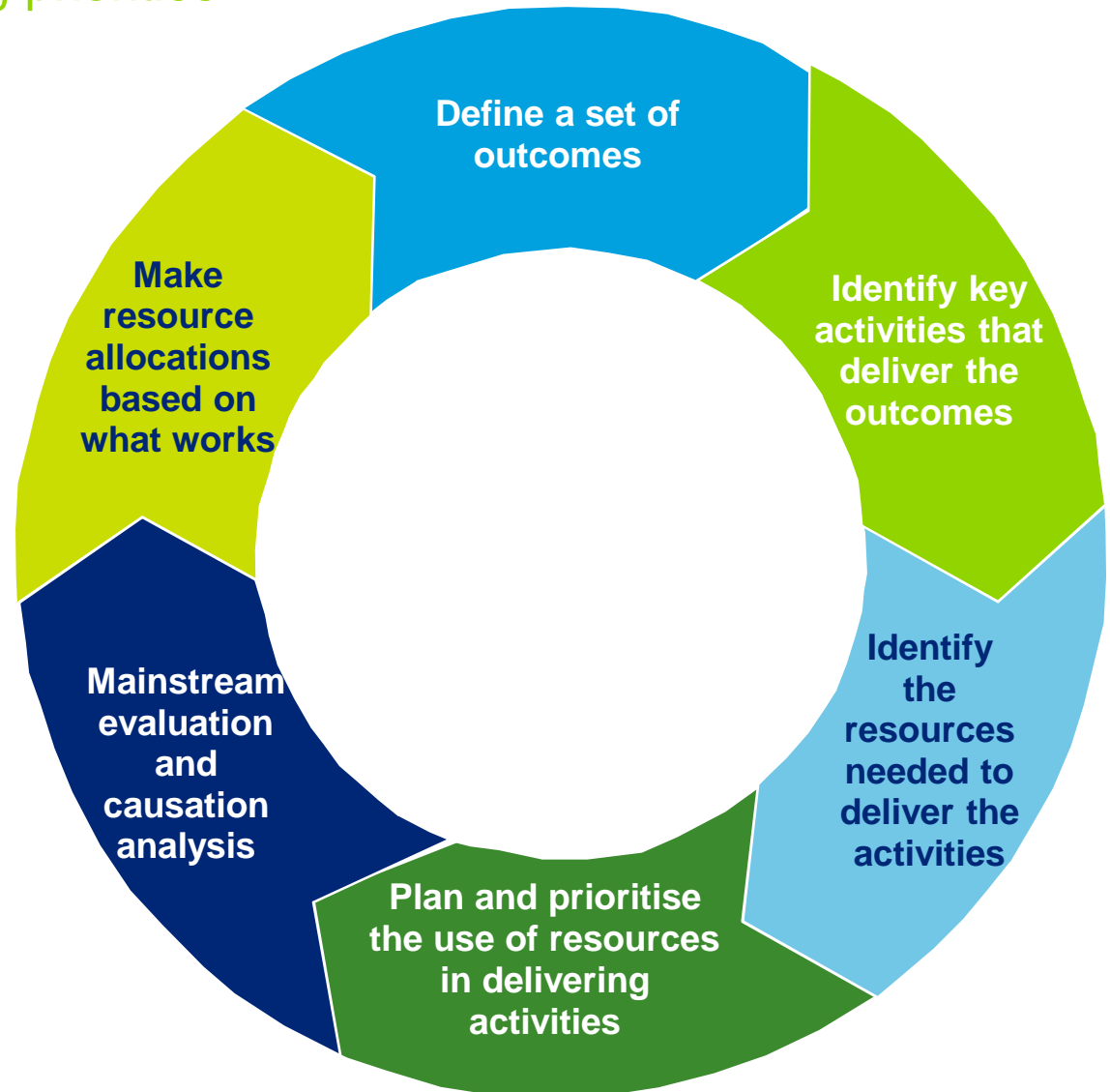
## Other issues work – budget setting priorities

### Background

- Significant budgetary pressures to deliver increasingly challenging savings year on year.
- Assessment of competing priorities and delivery of outcomes is more important than ever in this challenging financial environment.

### Deloitte Response

- We have reviewed the budget setting process applied by NES and have had several discussions with the Director of Finance on the approach used. Best practice makes clear that budgetary allocations should be clearly linked to the outcomes achieved.
- It is clear that NES is increasingly linking budgetary allocations to the outcomes delivered by the spend and that the approach is fit for purpose given the current financial environment.



# Best value, use of resources and performance (continued)

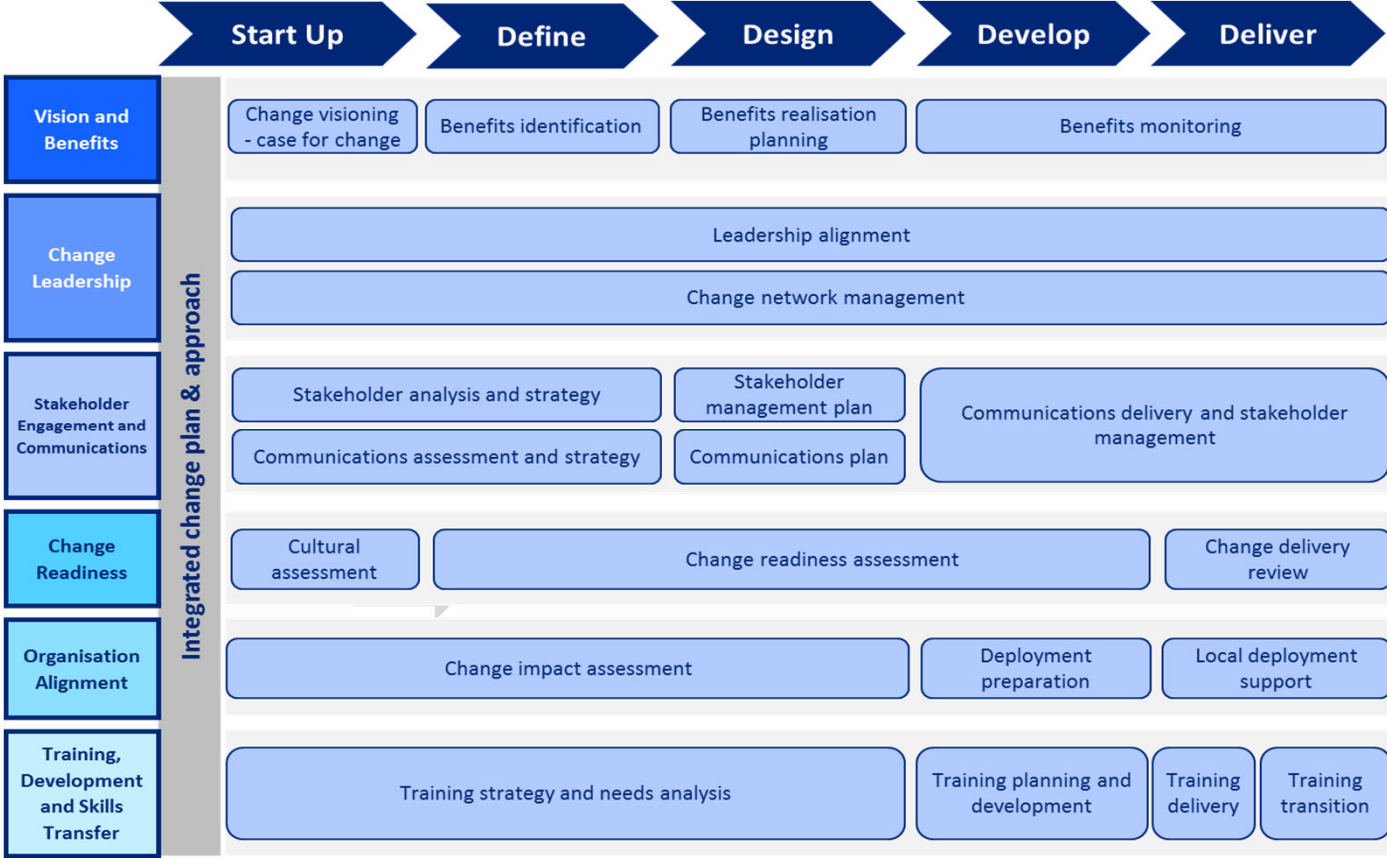
## Other issues work – organisational capacity for change

**Background**

- These significant budgetary pressures and the need to deliver increasingly challenging savings year on year will require significant process, system, role and organisational change within NES.
- An effective change management approach is therefore needed to deliver savings and organisational capacity and readiness for change is therefore a key strategic risk to NES

**Deloitte Response**

- Significant change is underway across NES including procurement, finance and events management supplemented by change within Medicine and Dental.
- Given this scale of change, we have discussed with management the benefits of introducing a NES change management toolkit. A potential template is included herein.



# Best value, use of resources and performance (continued)

## Other issues work – Planning and resource alignment

### Background

- In line with revised Audit Scotland guidance, the completion of a best value toolkit is no longer required for all Special Health Boards.
- Our 2011/12 BV Toolkit review assessed the Board's arrangement for outcome based planning.
- We found that NES applies a number of areas of best practice around planning and resource alignment.
- Some areas were noted for management consideration, which should be considered as more medium to long term actions.

We have followed up the agreed actions from our 2011/12 report and noted that progress is being made in relation to each of the recommendations made.

Annual operational service plans are based on stakeholder priorities

Corporate plan is now structured against strategic objectives and linked to SMART targets

NES currently has a 3 year financial forecast reflecting the significant uncertainties around funding

Process for reviewing outcomes and targets has been repeated for 2013/14 plans

NES will adopt the 'outcome' approach as part of next strategic review in summer of 2013

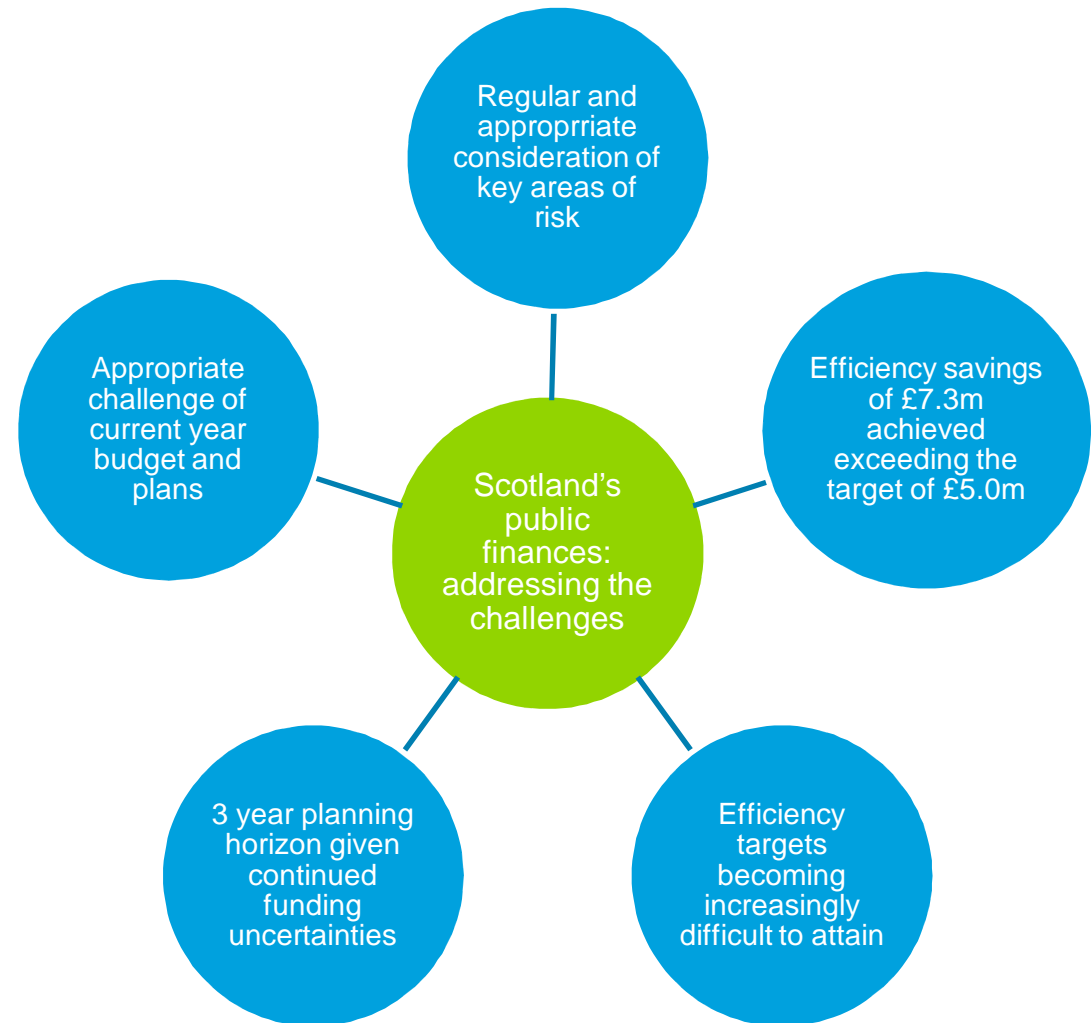
# Best value, use of resources and performance (continued)

## National Performance Reports

We have performed a focused follow up on 'Scotland's public finances: addressing the challenges'.

This work has been completed and our detailed findings from this review were included in a separate report to the Audit Committee with a summary of these detailed herein:

*The Board is responding positively to the challenges of public sector budget constraints and a significant amount of work has been undertaken in order to achieve financial sustainability. Some areas have been highlighted for management consideration in order to enhance the current process.*



# Best value, use of resources and performance (continued)

## National Fraud Initiative

We are required to monitor boards' participation in the NFI exercise during 2012/13.

Head of Financial Services continues to take lead role on creditor matches.

Payroll Liaison Officer taking lead for payroll matches, this is new to 2012/13 process

	Total matches	Total recommended to follow-up	Total processed at 31 May 2013
Payroll	74	4	2
Creditors	1,056	156	4
<b>Total</b>	<b>1,130</b>	<b>160</b>	<b>6</b>

As at 31 May 2013, no frauds have been identified in either the 2010/11 or 2012/13 exercises

- All data was submitted to the NFI in accordance with the deadlines of October 2012, and management now has plans in place to address all of the recommended matches over the period from June to December 2013.
- We recommend that NES look to involve HR in the NFI process to resolve payroll matches and to involve internal audit in monitoring NES's approach to NFI.

# Risk management and internal control

# Risk management and internal control

## Key controls over significant risks

In **Section 2** we discussed the identified significant audit risks. For each of these significant audit risks we have assessed the design and implementation of internal controls in each of those areas, summarised below.

Significant Risk	Control	★
Office rationalisation	The calculations for any lease incentives, dilapidations provisions and onerous leases are prepared by a member of the finance team and then reviewed by the Head of Financial Services to ensure they are correct.	★
Core revenue resource limits	Monthly monitoring is performed against SGHSCD financial targets. We have reviewed the financial monitoring reports during 2012/13 confirming that this is monitored and reviewed on a regular basis.	★
Defined benefit pension obligation	An actuarial report is received by NES and the corresponding figures and actuarial assumptions are included within the disclosures of the annual accounts. We have obtained the March 2013 actuarial report and agreed the actuarial assumptions and disclosures to the annual accounts.	

# Risk management and internal control (continued)

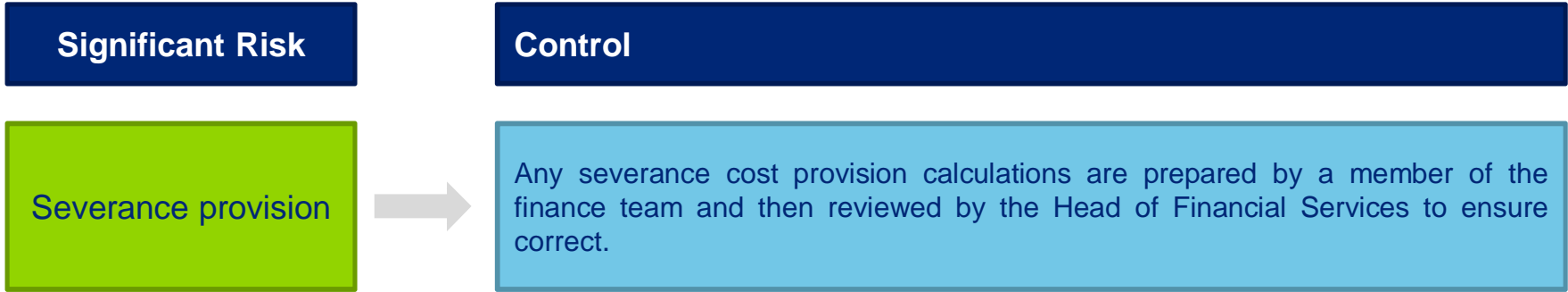
## Key controls over significant risks (continued)

Significant Risk	Control	★
<p>Management override of controls</p>	<p>Controls are in place over financial reporting and closing procedures, recording and processing of journals, segregation of duties and related party transactions prevent the management override of controls. In addition, a detailed review is performed each month on the results through the financial monitoring reports.</p> <p>We have tested a sample of journal entries posted in the year and confirmed the appropriateness of the journals posted including approval. We have also reviewed the financial monitoring reports for 2012/13 confirming that they are monitored and reviewed on a regular basis.</p>	★
<p>Completeness and accuracy of transfer to NSI</p>	<p>In November 2012 Internal Audit performed a review of the Financial ledger and as part of this reviewed reconciliations which were performed as part of the move to confirm opening and closing balances agreed.</p> <p>We have reviewed this internal audit report and have taken reliance from this.</p>	★
<p>Revenue recognition – completeness of income</p>	<p>The resource limit as determined by the Scottish Government is reviewed by the Head of finance to ensure finding is correctly recorded.</p> <p>We have confirmed that the year end 2013 allocation letter has been reflected in the annual accounts.</p>	★



# Risk management and internal control (continued)

## Key controls over significant risks (continued)



No issues noted



Satisfactory – minor observations noted



Requires improvement



Significant improvement required

# Risk management and internal control (continued)

We identified a number of risk management and control observations, which are detailed below:

Description	Recommendation	Management response
<p><b>Sustainability policy</b> No formalised policy currently in place</p>	<p>That a formalised sustainability is developed</p>	<p>Recognising that we face different issues from Territorial NHS Boards we will work with and draw on any experience from other Special Health Boards to create a formalised plan during 2013/14.</p>
<p><b>Budget monitoring</b> There are large variances in outturns against projected outturns throughout the year within the monthly monitoring returns</p>	<p>That an exercise is undertaken to improve the processes around budget phasing to improve the quality of forecasting</p>	<p>We continually work to improve our budget phasing, variance analysis and forecasting and accept that there are still improvements particularly when considering our assumptions in developing the MMR trajectory and in reporting against this. At the same time we face a number of challenges in this area, particularly as the MMR trajectory has to be finalised at an early stage, and before many allocations have been formally approved. In addition, the single biggest challenge we face is in relation to predicting the variance associated with our training grade budgets which is dependent on factors outwith our control. Notwithstanding all of this we will continue to identify ways in which we can improve our processes in this area.</p>

*No significant internal control deficiencies identified.*

## Risk management and internal control (continued)

We performed follow-up work on our prior year risk management and internal control observations. The key results of this work are outlined below:

Area	Issue raised in 11/12	Results of 12/13 follow up	Status
<b>Capital Expenditure Authorisation</b>	Fixed asset additions identified by review of expenditure codes instead of formalised procedures	Formalised procedures now in place	
<b>Management review of Payroll Reports</b>	Monthly payroll variance reports and new starters/leavers reports had no evidence of review by senior management	Finance manager now responsible for signing off on payroll reports	
<b>Supplier statement reconciliations</b>	Year end statements should be requested for all key suppliers	Key suppliers were contacted to obtain statements as at 31/03/2013 with limited success. For 2013/14, NES intend to formally contact the top ten suppliers requesting this.	

### Key

Issue fully addressed and resolved

Issue addressed with some further improvements required

Issue not appropriately addressed

# Internal audit and control

Our reliance on the work of internal was in line with plan

## Liaison with internal audit

The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the work of internal audit and adjusted our audit approach as deemed appropriate. The results of this were:

For those areas where a significant risk was identified we performed all work ourselves

Specific reliance was placed in the work on the transfer of information to the NSI system

No issues were identified with the work performed by internal audit

# Responsibility statement

# Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland, within the Code of audit practice, explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" previously circulated to you and sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to the board and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Board of Directors, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

*Deloitte LLP*

**Deloitte LLP**  
Chartered Accountants  
Edinburgh  
13 June 2013

# Appendix 1: Audit adjustments and disclosure misstatements

# Audit adjustments : Unadjusted misstatements detail

## Uncorrected misstatements

There have been no uncorrected misstatements noted during the process of our audit work.

## Corrected misstatements

There have been no corrected misstatements noted during the process of our audit work.

## Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.



# Appendix 2: Independence and fees

# Independence and fees

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General, we are required to report to you on the matters listed below:

---

## Independence confirmation

We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

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## Fees

The audit fee for the year has been agreed at £67,000 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland.

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## Non-audit services

In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non-audit services or of any apparent breach of that policy.

There were no non audit services fees charged in relation to Deloitte in the period from 1 April 2012 to 31 March 2013.

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## Relationships

We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

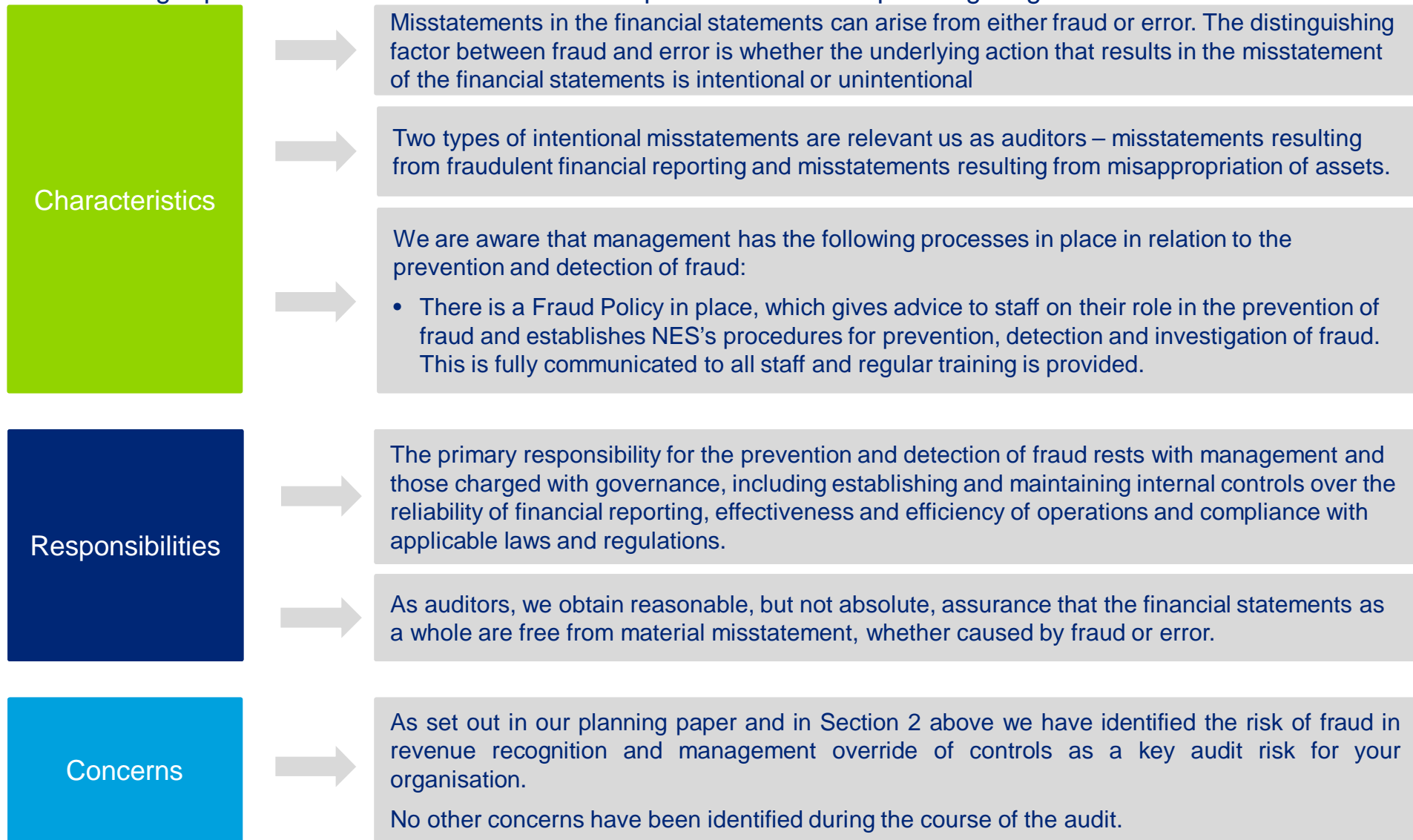
We are not aware of any relationships which are required to be disclosed.

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# Appendix 3: Fraud considerations

# Fraud considerations

The following represents a reminder of the fraud enquiries made at the planning stage of the audit:



# Appendix 4: Representation letter

# Representation letter

Deloitte LLP  
Saltire Court  
20 Castle Terrace  
Edinburgh  
EH1 2DB  
United Kingdom

Our Ref: NHSEd/2013

Date: at time of signing

Dear Sirs

This representation letter is provided in connection with your audit of the annual financial statements (“the financial statements”) of NHS Education for Scotland for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of NHS Education for Scotland as of 31 March 2013 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the directions given by the Auditor General for Scotland (‘the Auditor General’) in accordance with Section 21 of the Public Finance and Accountability (Scotland) Act 2000. We are aware that it is an offence to mislead a Board auditor.

As Accounting Officer and on behalf of the board of directors, I confirm to the best of my knowledge and belief, the following representations.

## Financial statements

1. I understand and have fulfilled my responsibilities for the preparation of the financial statements in accordance with the directions given by Scottish Ministers and the National Health Service (Scotland) Act 1978 which give a true and fair view, as set out in the terms of the audit engagement letter.
2. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.

## Representation letter (continued)

3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 “*Related party disclosures*”.
5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
6. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.
7. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the Board or cease operating as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Board’s ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
8. We have considered the valuation of the Board’s Property, Plant and Equipment, and are not aware of any circumstances indicating volatility in asset values requiring a revaluation in the current year.
9. We confirm that we consider that depreciated historic cost is an appropriate proxy for the fair value of non-property assets, and are not aware of any circumstances that would indicate that these assets require revaluation.

# Representation letter (continued)

## *Information provided*

10. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

11. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

12. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

14. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects NHS Education for Scotland and involves:

- (i) management;
- (ii) employees who have significant roles in internal control; or
- (iii) others where the fraud could have a material effect on the financial statements.

15. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.



## Representation letter (continued)

16. We are not aware of any actual or possible instances of non-compliance with laws and regulations.
17. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
18. No claims in connection with litigation have been or are expected to be received.
19. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
20. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
21. I confirm that I have appropriately discharged my responsibility for the regularity of transactions.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed as Accounting Officer, and on behalf of the Board of Directors

# Appendix 5: Additional resources available to you

# How we keep you up to date: Financial Reporting

## IAS Plus

The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the Internet about international financial reporting for accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. The site is available to browse at any time; alternatively you can subscribe to e-mail alerts and newsletters by going to <http://www.iasplus.com/subscribe.htm>.

## Deloitte UK Centre of Health Solutions

The Deloitte Centre for Health Solutions generates insights and thought leadership based on the key trends, challenges and opportunities within the healthcare and life sciences industry. Working closely with other centres in the Deloitte network, including the US centre in Washington, our team of researchers develop ideas, innovations and insights that encourage collaboration across the health value chain, connecting the public and private sectors; health providers and purchasers and consumers and suppliers. [www.deloitte.com/centerforhealthsolutions](http://www.deloitte.com/centerforhealthsolutions).

## IFRS podcasts

Our leading experts provide you with a short discussion of new IFRS standards and practical insights. These can be accessed via our website, [www.deloitte.co.uk/audit](http://www.deloitte.co.uk/audit). Alternatively, you can subscribe to our podcasts via iTunes – just search for Deloitte IFRS.

## Publications

Our iGAAP books are available to our clients electronically and in hard copy. These include our major manuals providing comprehensive, practical guidance to companies reporting under the relevant GAAP; model annual report and financial statements; and our major text on financial instruments providing in depth support to preparers and auditors in this challenging area. Our range also includes quarterly iGAAP newsletters providing a round up of recent developments. iGAAP alerts are issued whenever a new exposure draft or standard is issued.

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