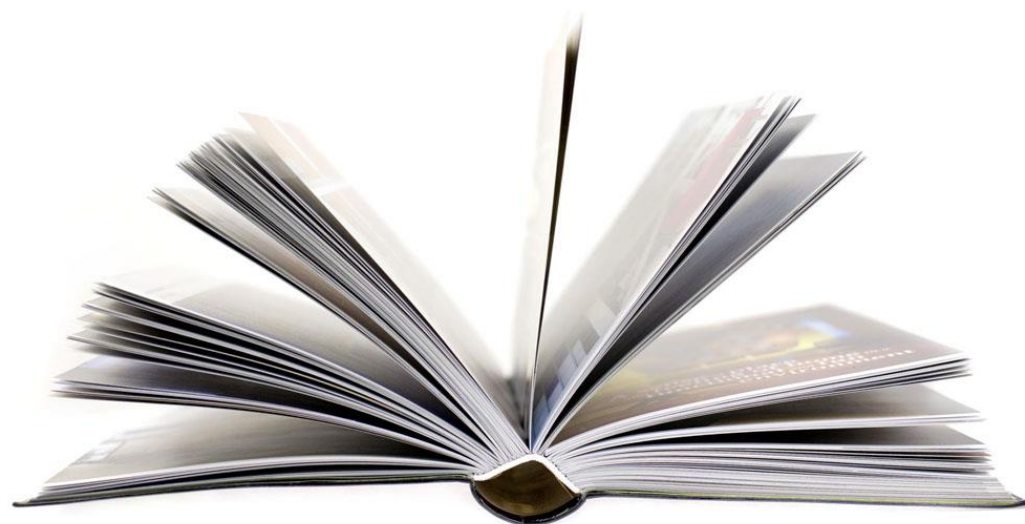


NHS Education for Scotland
**Final Report to the Audit
Committee on the 2013/14
Audit**



12 June 2014

the
Distinctive
audit

Audit Committee
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5 June 2014

Dear Sirs

We have pleasure in setting out in this document our final report to the Audit Committee of NHS Education for Scotland (NES) for the year ended 31 March 2014, for discussion at the meeting scheduled for 12 June 2014. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2014.

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 the dilapidation provision to which we draw your attention in our report and which you should consider carefully.
- 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 £4.2m** (2013: £4.2m).
- Our work to date 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 observations 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).
- **Outstanding items**
 - Receipt of final version of the financial statements.
 - Finalisation of remuneration report work.
 - Finalisation of quality control procedures.

Introduction

Introduction

Scope, nature and extent of audit

Our overall responsibility as external auditor of the Board is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The special accountabilities that attach to the conduct of public business, and the use of public money, means that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and use of resources in accordance with the principles of Best Value and 'value for money'.

Our core audit work as defined by Audit Scotland comprises:

- Providing the Independent Auditor's Report on the financial statements (including any assurance statement on consolidation templates and summary financial information)
- Providing the annual report on the audit to those charged with governance:
- Providing reports to management, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code (including auditors' involvement in NFI); and
- Undertaking work required by Audit Scotland, including: providing information for the NHS financial performance report and NHS current issues report for the Auditor General; a review of elements of Best Value in Boards and feedback on local responses to national performance audit reports in Boards.

In addition to this annual report, we have completed and reported the following matters to those charged with governance (the Audit Committee) of the Board):

Planning Report;
and

Progress reported
to each Audit
Committee
meeting.

The key issues from these outputs are summarised in this report.

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 involved the highest level of impact on the financial statements.

		Acceptable range														
Office rationalisation	Less prudent														More prudent	Leases have been agreed to legal documentation and rent-free period has been recalculated with no issues noted. The dilapidations provision has been assessed and is considered to be on the prudent end of the reasonable range.
Core revenue resource limits																We have confirmed that NES has performed within the limits set by the Scottish Government.
Pension scheme																The NMC&AE Defined benefit pensions scheme accounted for based on a series of actuarial assumptions supported by actuarial valuation. Assumptions reasonable but prudent within the reasonable range.
Completeness of income																Income recognised agrees to the final allocation per the Scottish Government.
Management Override of Controls																We have noted no issues with journal entries and other adjustments made in the preparation of the financial statements.

Significant audit risks (continued)

Office rationalisation

Background

- Rationalisation of estate with move from three offices within Edinburgh to one central location and also the colocation of the two Glasgow offices.
- 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.

Dilapidation Provision	Total £000
Opening Balance - 1 April 2013	768
Arising during the year	330
At 31 March 2014	1,098

Deloitte response

1. The movement of £330k in the dilapidations provision has been reviewed and 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 prior year, however, the landlords are still to commence dilapidation cost negotiations.
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	422,537	423,878	1,341
Revenue resource limit - non core	1,488	1,489	1
Capital resource limit	2,212	2,212	0
Cash requirement	428,098	429,000	902

Deloitte response

- The final underspend position was driven by activity levels and management focus on tight cost control. See page 19 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 25 April 2014 and we have agreed the cash draw down to the bank statements.
- We have confirmed, via the year end funding statement from, that 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 Scottish Government and is 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 £5.1m and benefit obligations of £4m leaving a net £1.1m funded surplus at year end (2013 surplus was £0.4m).

	2014	2013	Movement
Pension increase rate	3.5%	2.7%	0.8%
Discount rate	4.35%	4.1%	0.25%
Inflation assumption	2.5%	1.7%	0.8%
Return on assets			
Equities & property	4.9%	4.3%	0.6%
Bonds	4.3%	4.1%	0.2%
Gilts and annuities	3.4%	2.8%	0.6%
Cash	0.5%	2.8%	-2.3%

Deloitte response

- We have obtained third party confirmation of the underlying asset values and have reviewed the actuarial valuation as at 31 March 2014.
- After liaising with our in-house actuary, we can confirm that the pension accounting and assumptions are reasonable but at the prudent end of the reasonable range due to a low expected return on equities assumption of 4.9%. We can confirm 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 2014 and note that they are held to be prudent within a reasonable range (2012/13 optimistic within a reasonable range).

Significant audit risks (continued)

We have no significant findings in respect of the below risks

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 25 April 2014 which has been agreed to the amount recognised by NES.
- We have also agreed the core funding to bank payments received.

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.

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)

Strategic report

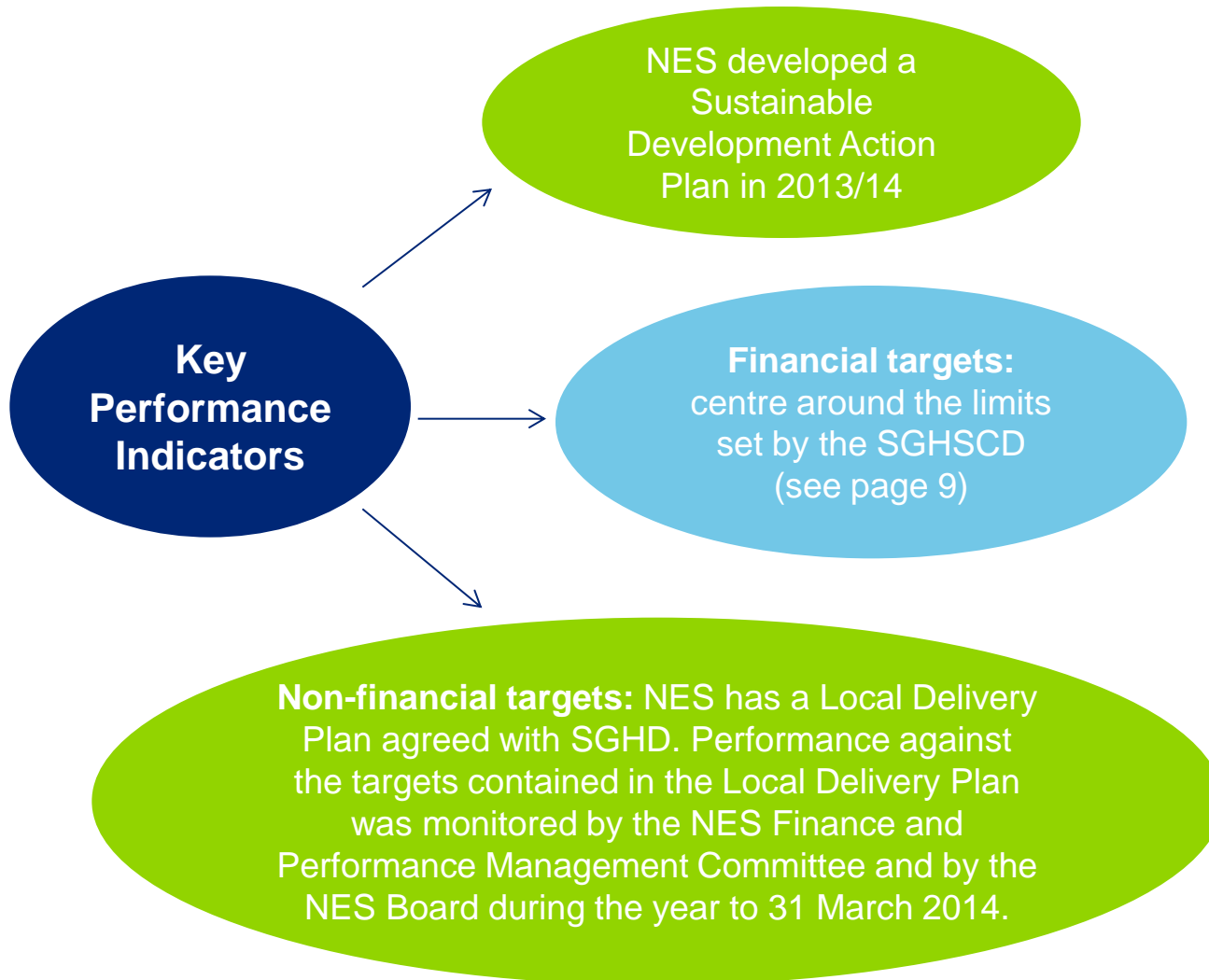
This is a new requirement in current year, and has been given appropriate prominence as the first item within the financial statements.



The Strategic Report has been prepared in line with issued guidance.

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

Background

There have been a number of changes to the remuneration report requirements in the year in line with the updated guidance from the technical accounting group at NHS Scotland.

The main changes have been noted below:

- The value of pension benefits accrued during the year is now to be calculated as the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual;
- The table format is simpler in the current year with a separate pension table beneath the remuneration table;
- The directors' gross salary as well as total remuneration is disclosed in the current year report.

NES Position

The disclosure changes noted above have caused significant variances within the prior year remuneration report, particularly in relation to those individuals who have moved from being part-time NES employees to full time during the period. The figures are misleading in some cases. As such, NES have set out a clear explanation of remuneration in a note to ensure the information disclosed is transparent for the reader.

We are currently awaiting the final disclosures for review to ensure that they are in accordance with TAG guidance and have been implemented correctly within the current year financial statements.

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

Median pay

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:	2013/14	2012/13
Highest earning Director's Total Remuneration Band (£'000)	185-190	180-185
Median Total Remuneration (£'000)	44.0	43.1
Ratio	4.26	4.24

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 increase in the ratio is primarily related to the movement in the remuneration of the highest paid director.

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 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 judgemental areas:

Dilapidations provision – see Section 2

Pensions provision – see Section 2

Annual leave and flexi leave accrual – We have reviewed the calculation, which is in line with prior year

Agenda for change accrual – breakdown obtained and accrual traced to supporting employment documentation, recalculated and agreed

Best value, use of resources and
performance

Best value, use of resources and performance

Financial performance and outlook

NES originally budgeted for a financial surplus of £0.5 million for the year to 31 March 2014. This was increased to £1.5 million following identified slippage on Central Quay project and agreed by SGHD. The final outturn was a surplus against the core revenue resource limit of £1.341million and a small surplus on non-core expenditure, representing a net surplus of £1.342 million.

	2013/14 Recurring £'000	2013/14 Non- Recurring £'000	2013/14 Total £'000	2014/15 Total £'000
Income	423,878	1,489	425,367	422,803
Expenditure	(422,537)	(1,488)	(424,025)	(422,303)
Surplus	1,341	1	1,342	500

NES had a year end underspend of £1,342k. The key variance by Directorates were as follows:

- Medical - £1,053k underspend;
- Dental - £1,152k underspend; and
- Capital Charges and Provisions £1,566k overspend; and
- Finance and Corporate Resources £464k underspend.

The key drivers of these movements are outlined overleaf.

Best value, use of resources and performance (continued)

Financial performance and outlook (continued)

Medical – The main causes of the variance are staff vacancies amounting to £360k; Training Grade vacancies of £265k and £380k under spend on junior doctor study leave.

Dental – The main cause of the Dental directorate under spend is trainee vacancies and subsequent reduction in training grants payable amounting to £817k. Staff vacancies account for £272k of the Dental directorate under spend.

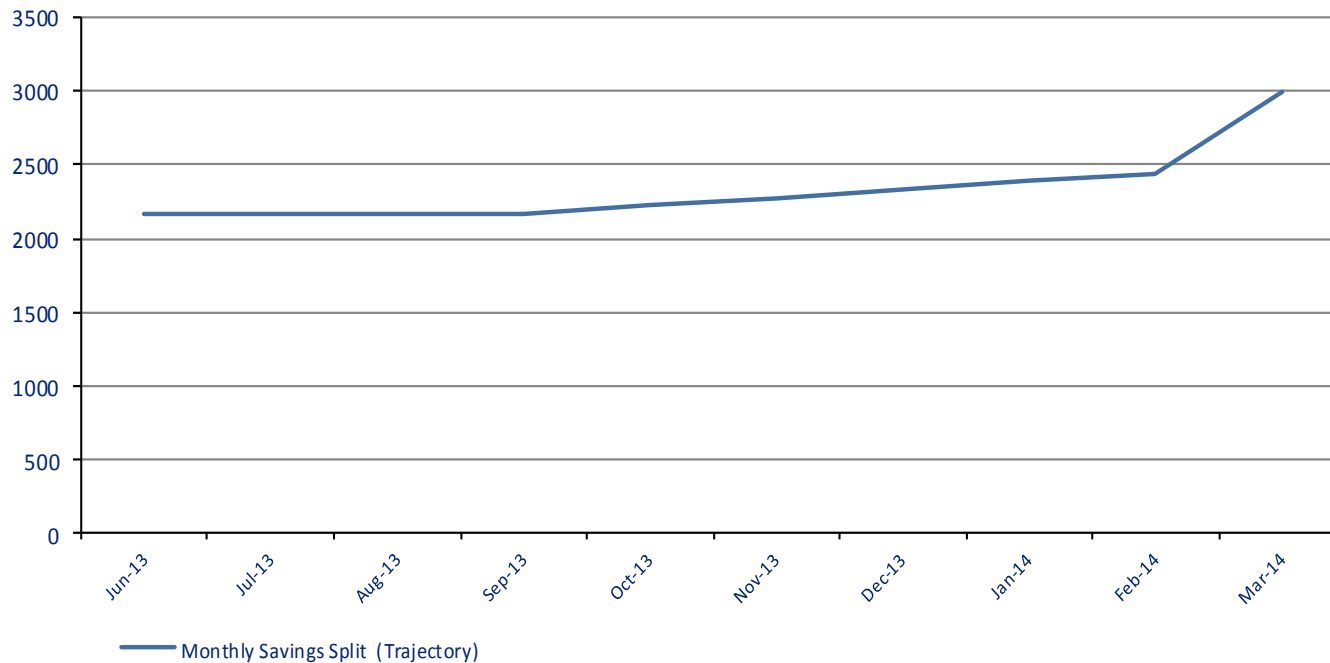
Capital Charges and Provisions – The variance on Capital Charges & Provisions is mainly due to how NES manages the corporate provision when slippage arises. Funding is transferred from this line when new initiatives are approved rather than transferring funding from other budgets. The amount of funding approved from slippage and transferred to other budgets this year is £1.5 million.

Finance and Corporate Resources - The primary factor in the Finance & Corporate Resources variance was the slippage on the Central Quay project.

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. Voluntary Severance - £0.6 million
2. Edinburgh Property Rationalisation - £0.5 million
3. Identified Directorate Efficiencies - £1.1 million
4. Additional Directorate targets - £0.8 million

Points 1 – 3 above were recognised at the beginning of the year hence the profile of the savings.

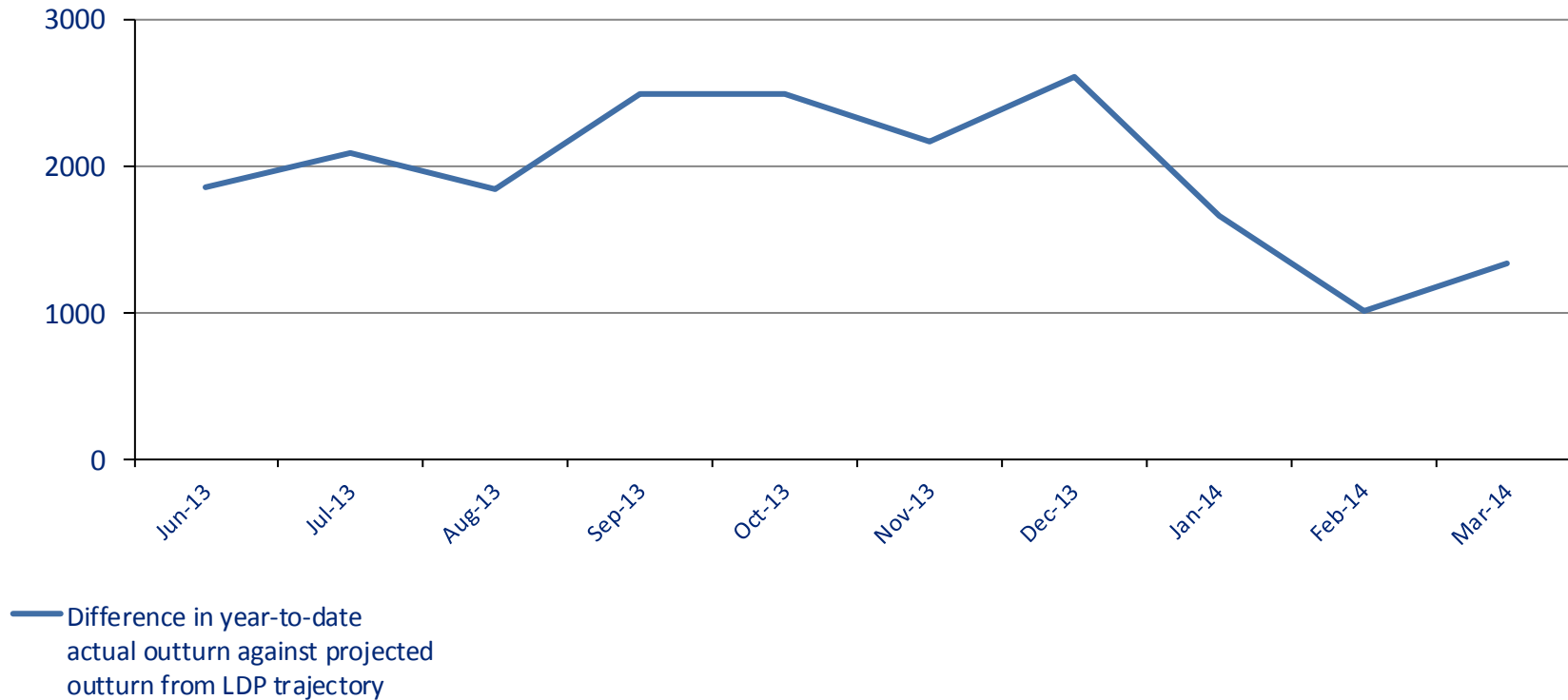
Remaining savings were allocated evenly over the year

Outlook

In 2014-15 NES are planning to balance their budget while managing a reduction on their RRL of £2.5 million in savings to be returned to SGHSCD. NES plan to offset part of the full budget uplift against the savings; have continued the voluntary severance scheme and have undertaken a series of transformation projects (Medical & Procurement) that have released both pay and non pay resource.

Best value, use of resources and performance (continued)

Financial performance and outlook – MMR return movements



The NES LDP agreed with SGHSCD for 2013/14 was based on a planned underspend for the year of £0.5m. In consultation and with the approval of SGHSCD NES increased this to £1.5m early in the year when slippage on the Central Quay project became apparent. The actual outturn was £1.342m.

Best value, use of resources and performance (continued)

Other issues work – change readiness

Background

- There is a significant transformation programme currently underway within NES which will impact on processes, roles, system and organisation. For this scale of change to be accepted by the wider organisation and business benefits fully realised, it is vital that a comprehensive change readiness framework is in place.

Deloitte Response

- We have discussed the potential for NES to adopt a formal and comprehensive change readiness framework.
- The framework would measure NES readiness for change in terms of what the organisation should do, can they do it, will they do it and can they keep it going.
- Based on our experience of best practice transformation programmes, this is a prerequisite for business acceptance and maximising the delivery of planned benefits.
- NES have agreed to consider this approach for significant transformation projects going forward including the new digital project.



Best value, use of resources and performance (continued)

National Fraud Initiative

All boards and special boards except Mental Welfare Commission are participating in the NFI 2013/14, and were required to submit data in December 2013. As at 31 May 2014, no frauds have been identified in either the 2010/11 or 2012/13 exercises

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

Payroll Liaison Officer continues to take the lead for payroll matches.

Deloitte were not required to perform any further work on NFI in the current year. This will be undertaken as part of the 2014/15 year end audit.

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	<p>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 reasonable.</p> <p>We have obtained the calculations and recalculated these with no issues noted.</p>
Core revenue resource limits	<p>Monthly monitoring is performed against SGHSCD financial targets.</p> <p>We have reviewed the financial monitoring reports during 2013/14 confirming that this is monitored and reviewed on a regular basis.</p>
Defined benefit pension obligation	<p>An actuarial report is received by NES and the corresponding figures and actuarial assumptions are included within the disclosures of the annual accounts.</p> <p>We have obtained the March 2014 actuarial report and agreed the actuarial assumptions and disclosures to the annual accounts.</p>

Risk management and internal control (continued)

Key controls over significant risks (continued)

Significant Risk	Control
Management override of controls	<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 2013/14 confirming that they are monitored and reviewed on a regular basis.</p>
Revenue recognition – completeness of income	<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 2014 allocation letter has been reflected in the annual accounts.</p>

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 12/13	Results of 13/14 follow up	Status
Supplier statement reconciliations	For 2013/14, NES should formally contact the top ten suppliers to ensure supplier statement reconciliations are obtained for these.	NES obtained and reconciled supplier statements for the top 30 suppliers in 2013/14.	

No new internal control observations have been raised as a result of current year work.

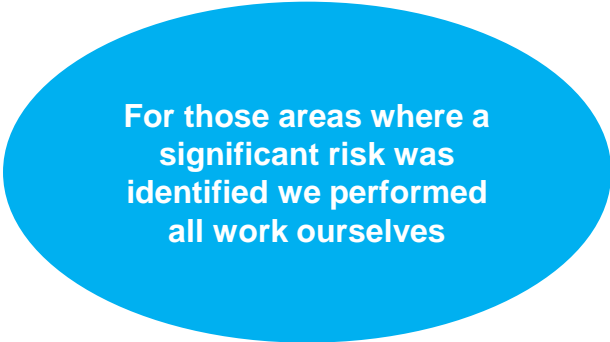
Key
Issue fully addressed and resolved
Issue addressed with some further improvements required
Issue not appropriately addressed

Internal audit and control

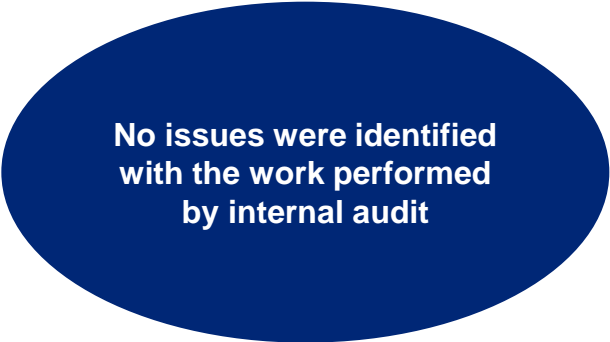
Our reliance on the work of internal was in line with plan

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



No issues were identified with the work performed by internal audit

Responsibility statement

Responsibility statement

What we report

Our report is designed to help the Audit Committee and the Accounting Officer and Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report;
- Our internal control observations; and
- Other insights we have identified from our audit.

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan dated 16 January 2014 and the supplementary “Briefing on audit matters” circulated to you.

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the board.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP
Chartered Accountants
Edinburgh
5 June 2014

Appendices

Appendix 1 - Audit adjustments

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 to date in the course of our audit work.

Appendix 2 - 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 £67,600 (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.
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There were no non audit services fees charged in relation to Deloitte in the period from 1 April 2013 to 31 March 2014.

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

Appendix 3: Fraud considerations

Characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.
- We are aware that management has the following processes in place in relation to the prevention and detection of fraud:
 - There is a Fraud Policy in place which is communicated to all staff
 - The Standing Financial Instructions provide a framework for NHS Education for Scotland's system of internal control, which are seen by management as the key element of preventing fraud
 - Routine checks and monitoring are carried out by management to ensure that procedures are being followed. Both Internal and External Audit are seen as having an important role to play.
 - An Annual Return is submitted to the Scottish Government of all suspected and actual frauds.

Responsibilities

Your responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities

- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in Section 2 above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

Appropriate arrangements are in place for maintaining standards of conduct and the prevention and detection of corruption.

Appendix 4 - Action Plan

Our recommendations for improvement

- ★ *We followed up on our prior year recommendations which have all been appropriately addressed by NES*
- ★ *We recommend that NES continue to focus on improving the accuracy of monthly monitoring return projections*
- ★ *We have no further action points for NES in the current year.*

Appendix 5 Representation letter

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

Our Ref: NES/2014

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 2014 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 2014 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. We understand and have fulfilled our 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.*

Appendix 5 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.

Appendix 5 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.

Appendix 5 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. We confirm that we have appropriately discharged our 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 6: Future developments

Information on NHS developments



NHS Briefings

We regularly publish NHS Briefings designed to disseminate our insights on topical issues within the NHS in general. They focus on current issues facing the sector and ask questions to help readers assess if the issue is being appropriately addressed at their Board.

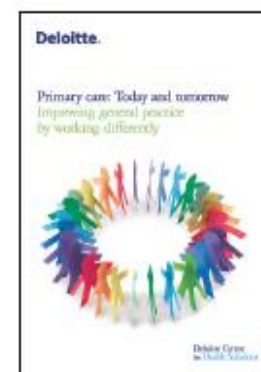
Briefings have covered a range of topics including Effective Boards, the Evolving Role of Governors, Narrative Reporting, Quality Accounts requirements, Human Resources, Mergers & Acquisitions in the NHS, Transforming Community Services, and the challenges of Monitor's Quality Governance framework.

Deloitte UK Centre for 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.

Recent studies include "Impact of European Austerity on Pharmaceutical policy and pricing", "Telecare and Telehealth", "Primary Care: Today and Tomorrow" and "Healthcare for the Homeless". The Centre's blog is at <http://blogs.deloitte.co.uk/health/> and upcoming studies include:

- The economic case for improving diagnostics in the UK
- Measuring the return from (pharma) innovation - is R&D earning its investment?
- Health and social care needs of the frail and elderly
- End of life care



Appendix 6: Future developments (continued)

Additional information on current and future technical developments

Stay tuned online: Internet-based corporate reporting updates

The Deloitte UK Technical Team run a series of internet-based financial reporting updates, aimed at helping finance teams keep up to speed with IFRS, UK GAAP and other reporting issues.

Each update lasts no more than one hour, and sessions are held three times a year, at the end of March, July and November. Recordings of past sessions are available via www.deloitte.co.uk/audit.

Our range of publications

Our iGAAP books are available to our clients electronically and in hard copy. These include our major manuals providing comprehensive, practical guidance; 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 and ukGAAP alerts are issued whenever a new exposure draft or standard is issued.

Audit 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. Alternatively, you can subscribe to our podcasts via iTunes – just search for Deloitte IFRS.

IASPlus

The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the Internet about international financial reporting. It is aimed at accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. The site, which is totally free of charge, has a broad array of resources about the International Accounting Standards Board, International Financial Reporting Standards, and international accounting and auditing in general. It includes:

- Summaries of all IASB standards and interpretations;
- Background on all IASB and IFRIC agenda projects plus summaries of all IASB and IFRIC meetings;
- Comparisons of IFRSs and various local GAAPs;
- Updates on national accounting standards development in around 80 countries and regions throughout the world; and
- Free e-learning modules for each IAS and IFRS – made available at no charge in the public interest.

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>

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