

NHS National Services Scotland

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

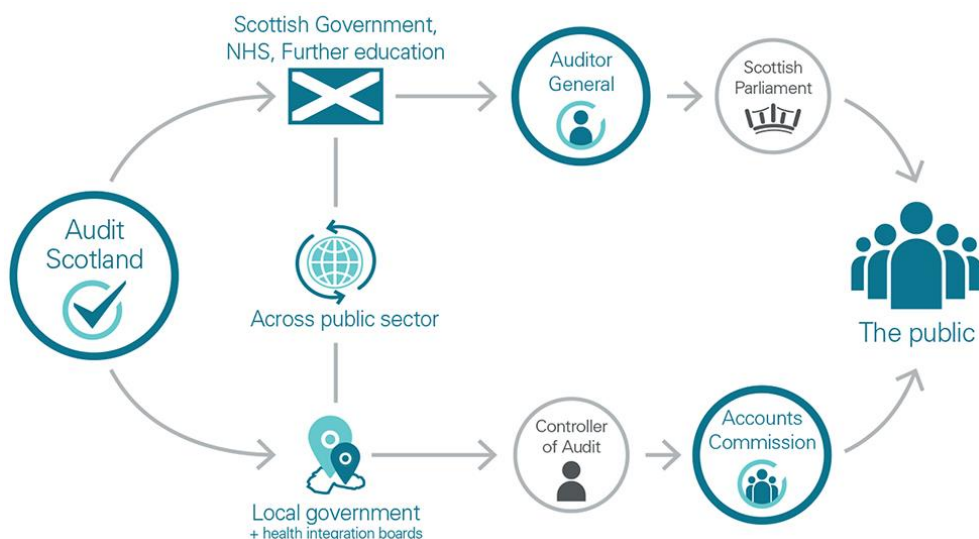
Prepared for the Board of NHS National Services Scotland

February 2017

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 and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for NHS National Services Scotland (NHS NSS). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1</p> <p>Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2</p> <p>Risk of fraud over income</p> <p>ISA 240 requires the auditor to presume that there are risks of fraud in revenue recognition. NHS National Services Scotland receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, we have planned audit</p>	<p>Effective budget monitoring by management.</p> <p>Internal audit and service audit coverage of internal controls.</p> <p>Regular monitoring of national fraud reports.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Review of contracts and agreement to actual spend.</p>

Audit Risk	Management assurance	Planned audit work
procedures in response to the assessed risk.		
<p>3</p> <p>Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	Effective budget monitoring by management.	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Focused substantive testing of key areas.</p> <p>Review of accounting policies to ensure these are reasonable.</p>
<p>4</p> <p>Valuation of the Scottish National Blood Transfusion Service (SNBTS) National Centre</p> <p>We are required to confirm that assets are recorded at their true value in the balance sheet. There is a risk of subjectivity in respect of the valuation of the SNBTS project, charges/additional costs borne by the contractor may lead to the actual value of the project being different from the amount included in the accounts.</p>	Valuations of non current assets provided by qualified valuer.	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Focused substantive testing (agreement to valuation certificates).</p>
<p>5</p> <p>Electronic Employee Support System (eESS)</p> <p>Manual interventions are currently required between the HR and Payroll functions as there is no automatic interface between these elements within the eESS system. Manual processes increase the risk of error or fraud.</p>	Internal and service audit review of payroll.	<p>Focused testing on leavers, starters and changes.</p> <p>We plan to place prior year reliance on Internal Audit's 2015/16 audit work on Payroll.</p>
Wider dimension risks		
<p>6</p> <p>Financial sustainability</p> <p>NHS National Services Scotland reported in 2015/16 that delivering a balanced budget together with increased efficiency savings is a significant challenge and it is unlikely to be able to maintain its current services at the same levels in the same ways in a sustainable manner.</p>	<p>Agreement of financial plans and on-going discussions with Scottish Government.</p> <p>Effective budget monitoring by management.</p> <p>Regular reporting to the Board.</p>	Review of medium to long term financial planning in support of Local Delivery Plan.
<p>7</p> <p>Funding of major projects</p> <p>In the face of a tight e-health budget, there are some</p>	On-going discussions with Scottish Government and other health boards.	Monitor funding position and progress through review of relevant Board

Audit Risk	Management assurance	Planned audit work
	<p>challenges around the affordability of the replacement for the Community Health Index (CHI) and Child Health Systems. The replacement project requires additional funding from the Scottish Government and commitment to financial support from other health boards. The current system runs on old hardware and needs to be replaced as it is difficult and expensive to maintain.</p>	<p>Regular reporting to the Board and relevant committee on financial position.</p> <p>and Committee papers.</p>
<p>8</p>	<p>Financial management</p> <p>The most recent financial monitoring reports forecast a breakeven position for 2016/17; however NHS National Services Scotland like other health boards faces a range of financial challenges. Until the year end, it is not possible to conclude that financial targets will be met.</p>	<p>Effective budgetary control by management.</p> <p>Agreement of financial plan with Scottish Government.</p> <p>Monitor any updates to the financial plan.</p> <p>Review financial monitoring reports to the Performance and Finance Committee.</p> <p>Focused testing of transactions to confirm expenditure and income has been accounted for in the correct financial year.</p>
<p>9</p>	<p>Governance and transparency and value for money</p> <p>The Electronic Employee Support System (eESS) is a national system, but implementation problems mean it is only used by a small number of health boards (NHS National Services Scotland and NHS Forth Valley). It is unclear whether eESS will be rolled out to other health boards in future.</p>	<p>Contingency planning for anticipated future development.</p> <p>Review how the implementation problems experienced with the introduction of eESS are being addressed/ have been resolved.</p> <p>Review plans for the roll-out of eESS to other health boards, or any alternative plans.</p> <p>Review extent of eESS licensing costs incurred by health boards which do not use eESS.</p>

Reporting arrangements

3. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

4. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

5. We will provide an independent auditor's report to NHS National Services Scotland, Scottish Parliament and the Auditor General for Scotland summarising the results of the audit of the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end i.e. 31 December. NHS National Services Scotland is required to submit their audited financial statements by 30 June to meet the consolidation timetable.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Review of Internal Audit Management Letter	29 November 2016	8 December 2016
Interim Management Report	16 March 2017	29 March 2017
Service Audit Assurance Letter	31 May 2017	22 June 2017
Annual Audit Report including ISA 260 requirements	30 June 2017	22 June 2017
Signed Independent Auditor's Report	30 June 2017	N/A
National Fraud Initiative (NFI) questionnaire	30 June 2017	N/A
Role of Boards follow up questionnaire	30 June 2017	N/A

Audit fee

6. The proposed audit fee for the 2016/17 audit of NHS National Services Scotland is £189,370. In determining the audit fee we will take account of the risk exposure of NHS National Services Scotland, 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 financial statements, with a complete working papers package on 1 May 2017.

7. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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 outwith our planned audit activity.

Responsibilities

Audit and Risk Committee and Accountable Officer

8. 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.

9. The audit of the financial statements does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Appointed auditor

10. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

11. Auditors in the public sector give an independent opinion on the financial statements. 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

Financial statements

12. The statutory financial statements audit will be the foundation and source for the majority 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 National Services Scotland and the associated risks which could impact on the financial statements
- considering the key systems of internal control, and establishing how any weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how 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.

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

- whether they give a true and fair view of the financial position of NHS National Services Scotland and its net operating cost as at 31 March 2017 in accordance with the National Health Service (Scotland) Act 1978;
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 FReM; and
- Whether they have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

Materiality

14. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for NHS National Services Scotland are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 based on the month six forecast budget outturn for 2016/17.	£7.0 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.	£3.5 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£70,000



15. We review and report on other information published with the financial statements including the Performance Report and Accountability Report (which incorporates a Governance Statement and Remuneration and Staff Report). Any issue identified will be reported to the Audit and Risk Committee or equivalent.

Timetable

16. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Committee dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited financial statements with complete working papers package	1 May 2017
Latest date for final clearance meeting with Director of Finance	7 June 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	9 June 2017
Submission of Minimum Dataset for NHS Overview report	30 June 2017
Independent auditor's report signed	30 June 2017

Internal audit

17. 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 and as part of our planning process we

carry out an assessment of the internal audit function. Internal audit is provided by KPMG LLP.

Adequacy of Internal Audit

18. Our review concluded that the internal audit service operates in accordance with PSIAS and has sound documentation standards and reporting procedures in place.

Areas of reliance

19. To support our audit opinion on the financial statements we plan to place formal reliance on aspects of the following planned internal audit reviews:

- Accounts receivable
- Treasury management

20. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Strategic planning
- Business continuity planning
- Governance/Board effectiveness
- Efficiency and effectiveness
- Procurement, Commissioning and Facilities.

National Fraud Initiative (NFI)

21. NFI is a data-matching exercise led by Audit Scotland to aid the detection of fraudulent payments. NFI allows public bodies to investigate matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

22. The current data matching exercise collected data in October 2016 and data matches are now available for investigation. We will monitor the Board's participation and progress with the NFI and complete an NFI audit questionnaire which will reflect the activity undertaken by NHS National Services Scotland to June 2017.

Audit dimensions

23. 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



Financial sustainability

24. 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 the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We consider:

- 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 NHS National Services Scotland can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

25. NHS National Services Scotland has reported that it is unlikely to be able to maintain its current services at the same level in the same way in a sustainable manner. We will review the Board's medium to long term financial planning in support of its 5 year Local Delivery Plan and any longer term service planning (see Exhibit 1, no. 6).

26. There are challenges around the affordability of the replacement for the Community Health Index and Child Health Systems (currently run on old hardware which is difficult and expensive to maintain). Contracting for the replacement required additional funding commitments to be obtained by NHS NSS to cover the estimated project costs. We will monitor the project's funding position and progress reported to the Board (see Exhibit 1, no. 7).

27. There were no other significant financial sustainability risks identified by our planning work that we intend to undertake specific work on in 2016/17.

Financial management

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

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

29. Financial monitoring reports for 2016/17 project a year end break even position overall, but highlight that management action is required to address some forecast areas of overspend. Until the year end it is not possible to conclude that the Board's financial targets will be met. We will review financial monitoring reports to the Performance and Finance Committee and monitor any updates to the financial plan (see Exhibit 1, no. 8).

30. There were no other significant financial management risks identified by our planning work that we intend to undertake specific work on in 2016/17.

Governance and transparency

31. 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 consider:

- whether NHS National Services Scotland can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, to, 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.

32. In September 2010 the Auditor General published a report on the Role of Boards. The report highlighted a number of key messages on the role of boards and how they are accountable to the Scottish Government and the Scottish Parliament, board members' skills and expertise and how boards operate.

33. In 2016/17 Audit Scotland will conduct a follow up of the national report on the Role of Boards. We will contribute to the intelligence by conducting a review of local arrangements at NHS National Services Scotland.

34. The Electronic Employee Support System is a national system, but technical problems encountered when it was introduced mean it is only used by a small number of health boards. We will review how the eESS implementation problems have been resolved. We will review plans for the future roll-out of eESS to other health boards, or any alternative plans; this will also include assessment of value for money in the use of eESS (see Exhibit 1, no. 9).

35. There were no other significant governance and transparency risks identified by our planning work that we intend to undertake specific work on in 2016/17.

Value for money

36. Value for money refers to using resources effectively and continually improving services. We consider whether:

- NHS National Services Scotland can provide evidence that it is demonstrating value for money in the use of its resources.

- NHS National Services Scotland can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- NHS National Services Scotland can demonstrate that outcomes are improving.
- There is sufficient focus on improvement and the pace of it.

37. As noted at paragraph 34 above, we will consider value for money in relation to the eESS system. There were no other significant value for money risks identified by our planning work that we intend to undertake specific work on in 2016/17.

Independence and objectivity

38. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

39. The engagement lead for NHS National Services Scotland is Mark Taylor, Assistant Director. Auditing and ethical standards require the appointed auditor Mark Taylor 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 National Services Scotland.

Quality control

40. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

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 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, internal quality reviews and is currently reviewing the arrangements for 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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